

FSA FOUNDATION COURSE MANUAL

Copyright Jason Lewis 2004 (v1.2/2006)

CONTENTS

Overview

Introduction & Principles of the FSA

Level of Authorities

Reporting Functions

Training Requirements

Data Protection

Anti Money Laundering

Complaints Handling

Public Interest Disclosure Act

Overview

The way we sell insurance products has changed forever!

It has not only impacted on customer facing sales staff, but has had far reaching ramifications on all aspects of our business processes.



However

Diligent implementation will:

Increase our professional standing (customers' perceptions).

Improve standards, controls and quality of sales processes.

Heighten sales staff knowledge, credibility and standards, through skills training.

Increase customer *conversion ratios, retention* and *profitability*.

Introduction to the FSA

Who are the FSA

The Financial Services Authority FSA is an independent organisation set up by government under the Financial Services and Markets Act 2000 **FSMA** to regulate firms that undertake financial services in the UK.

FSMA sets out:

- The framework for regulation
- Which activities (such as giving investment advice and banking) are regulated
- What powers we have to enable us to do our job
- The rights of firms in dealing with us – such as how to appeal against a decision

The FSA seek to be open and transparent in our dealings and to maintain and build confidence in the UK's financial marketplace for the benefit of everyone.



What does it mean to us?

In December 2001 as a direct result of the introduction of the European Insurance Mediation Directive, the Treasury announced extension of the scope of the FSA regulation to include general insurance products, these include;

- Mechanical Breakdown Insurance – *But not Dealer Guarantees or Manufactures Warranties that attract VAT*
- Credit Protection Insurance
- MOT and Tyre Insurance
- Key Insurance
- GAP/VRIP
- Motor / Courtesy Car Insurance – *Sold or free*
- Recovery / Breakdown Insurance

How is the FSA funded?

The FSA is funded purely by levies on the financial businesses they regulate. Fee-payers are grouped into 'fee blocks', each block represents firms that offer broadly similar products and services. The cost of regulating mortgage and general insurance sectors will be borne from the firms within those sectors.

What are the FSA's objectives?

There are four objectives under **FSMA**:

- **Maintain confidence in the UK financial system**
To regulate market infrastructure providers, monitor transactions and carry out market surveillance. Supervise individual firms to ensure they are acting with integrity and treating customers fairly
- **Promote public understanding of the financial system**
Help people become more informed to enable them to manage their finances more efficiently
- **Secure the right level of protection for consumers**
Firms are required to meet standards of honesty and competency. Action will be taken against firms that do not meet the standards
- **Reduce the potential for financial services firms to be used for financial crime**
They will act on money laundering, fraud and dishonesty, and criminal market misconduct such as insider dealing

Goals of the FSA

To maintain efficient, orderly and clean financial and insurance markets and to help the retail consumer achieve a **fair deal**

How do the FSA do this?

The FSA started to regulate the General Insurance market on the **14th January 2005**. The Implementation of these regulations is the responsibility of the **High Street Firms Division**, and they will do so by:

Authorising Firms	Only permitting firms who meet the right standards to carry out activities that are regulated. This 'granting of permission' is referred to as authorising a firm.
Setting the standards	Setting out the standards to be met to become authorised and the standards to be maintained going forward.
Supervising Firms	Supervising firms to ensure standards are met and that risks are managed.
Enforcing Standards	Taking action if firms fail to meet the required standards.
Educating Consumers	Helping consumers understand financial services.
Tackling Financial Crime	Fighting money laundering and reducing market abuse.
Crisis Management	Dealing with the financial consequences following events such as 'September 11'

Regulation and Renrod

Under the regulatory regime a firm has two ways of continuing to sell and or provide advice directly to the customers;

- As a directly authorised firm, or
- As an appointed representative of an authorised firm.

Renrod have become a directly **authorised firm**, this means that we are able to continue selling competitive insurance products from a range of providers.

Should Renrod breach any of the rules the FSA can impose a number of sanctions dependent and proportional to the risk. These may include financial penalties, withdrawal of approval, meaning we no longer continue regulated activities, or even criminal charges and jail sentences.



Will it effect me?

Scope of activities under the regulations will affect anyone who is involved in:

- Introducing, proposing or carrying out work before the conclusion of insurance contracts.
- Concluding such contracts.
- Assisting in the administering and performance of such contracts, particularly in the event of a claim.

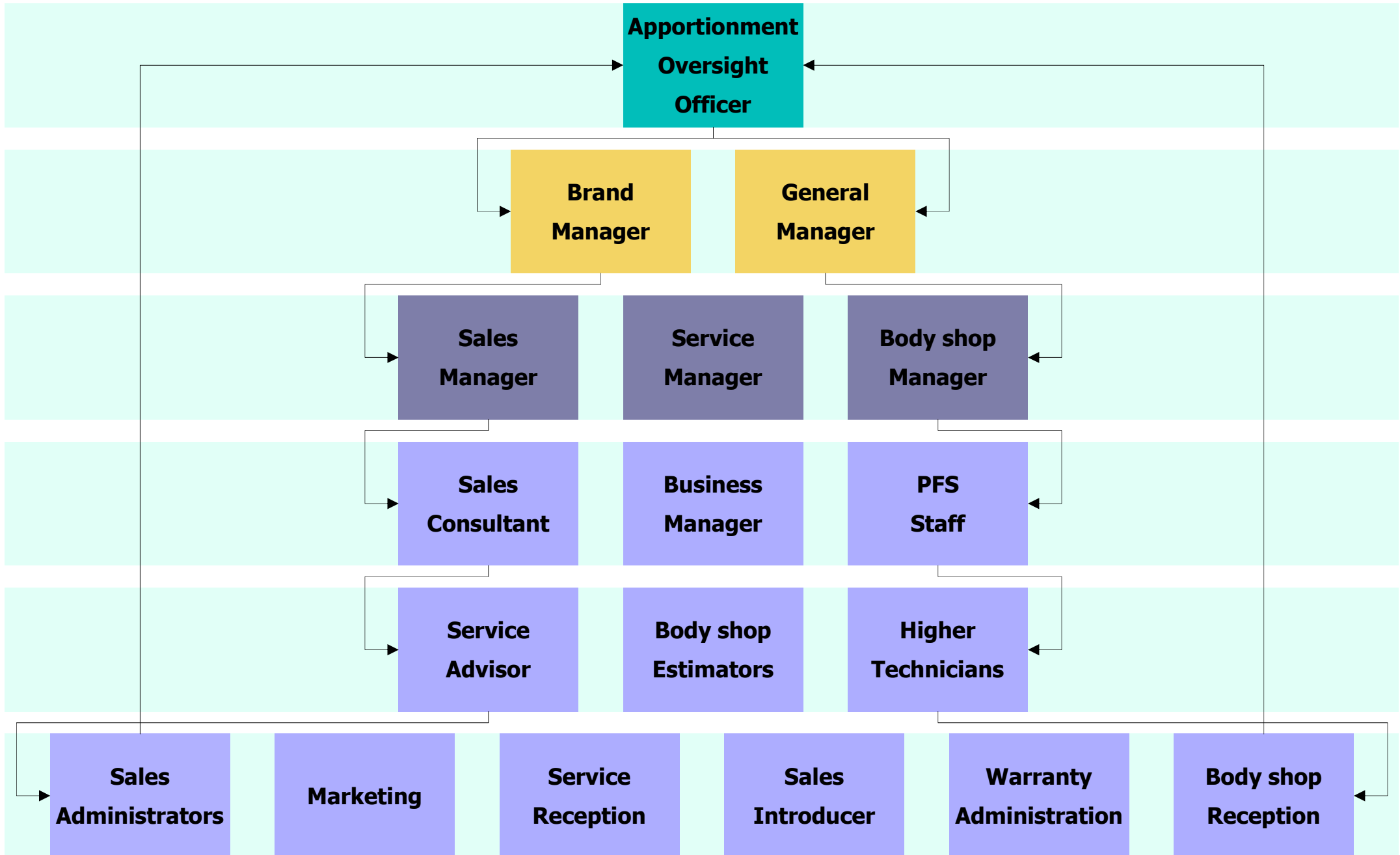
A definitive list of job functions affected by the regulations are included in the Company Organisation Structure together with their specific training requirements.

If you are unsure if you are affected please contact PFS or HR

What do I need to do?

There is no honeymoon period with the FSA, Renrod employees will be expected to comply with the regulations from day one. If you fall under the scope of the act you will be expected to meet a competent standard that is appropriate to your job function. This is the first required standard on your road to competency and until signed off as competent by your supervisor you will no longer be able to continue with any activity which falls within the scope of the FSA. Once competent you are required to maintain that level, undergoing reviews every 6 or 12 months.

Organisational Structure



Organisational Functions

Apportionment & Oversight Officer

**Training & Competency, Threshold Conditions, Systems & Controls,
Professional Indemnity, Reporting Procedures,
Principles [ICOB]s, Prudential**

Senior Management

Controlling Functions, Supervisions , Ensuring [ICOB]s, T & C, Record keeping

Operations Managers

Supervision, Processes , Customer Handling, Monitoring

Sales/Advisors

**Adaptation of; Sales Processes (routinely), Customer Handling,
Training & Competence, Product Knowledge**

Training Requirements

OPERATIONAL SUPERVISOR

Sales Manager	Regulatory Frame Work
Service Manager	Higher Level Standards
General Manager	Training & Competence
Brand Manager	Dealerweb Functionality
BodyShop Manager*	Supervisory Requirements
* Excludes Sales Level Training	

SALES CONSULTANT

Sales Consultant	Regulatory requirements [ICOBS]
Business Manager	The Sales Process
Platinum Financial Solutions	Identifying Customer Demands & Needs
	Conversion Skills
	Insurance Specific Knowledge
	Consumer Credit Act

Training Requirements

ADVISORY LEVEL

Service Advisor	General Insurance principles & Underwriting
Body Shop Estimators	Claims Procedures
Higher Technicians / RTE	Policy Wordings
	Non Personal Protection General Insurance Overview

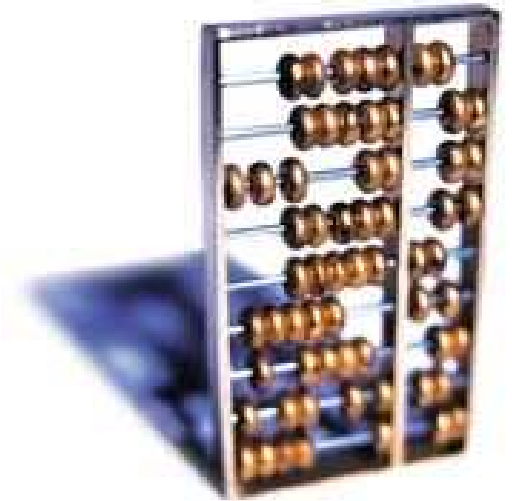
FOUNDATION

Sales Administrators	Introduction & Principles of the FSA
Marketing	Level of Authorities & Reporting Functions
Service Reception	Organisational Structure
Sales Introducers / Hosts	Data Protection
Warranty Administration	Anti Money Laundering
Body Shop Receptionist	Complaints Handling

Money Laundering Regulations

Money Laundering is the process of turning illegal funds that are difficult to spend, into apparently honest money that is readily useable.

Such "dirty money" is often derived from drugs, protection rackets, arms sales, terrorism, tax evasion, insider trading, illegal immigrants, drink and cigarette smuggling, illegal betting, pornography or prostitution. The criminals who make this cash cannot readily use it to buy fine houses, yachts, racehorses, legitimate businesses etc and so need to "clean" or "launder" it into readily useable money. They have to conceal the origin of the funds and keep control of the "new" capital which laundering will bring them.



Money Laundering Regulations

Foreign currency exchanges and banks are the traditional places for depositing "dirty" cash and withdrawing "clean" money. You may recall the proceeds of the Brink's Mat gold robbery that ultimately found their way into a small branch of Barclays in Bedminster, Bristol. Suspicions began to be aroused when people withdrew huge sums of cash and literally took them away in bin liners!

Insurance involves the daily payment of very large amounts in good cheques and criminals are quite capable of using Insurers to "clean" dirty money. They may just find someone to sell them say a vehicle for cash, insure it, burn it and collect a nice clean cheque. For those used to running a protection racket, this is fairly easy stuff!

The tell-tale signs of such a scam might be a new policy with a large Sum Insured, a serious fire early in the life of the policy, an Insured who wants to settle for cash rather than rebuild and puts up no great argument over the details of how much is to be paid. Insurers need to be alert to the possibility of money laundering here.

There are 3 stages to the money laundering process:

1. Placement

This is the first stage. Because crime is often a 'cash-intensive' business e.g. selling drugs on the streets for cash, the criminals have to work this cash into the economy, or financial system, or even get the money out of the country to make it harder for authorities to trace its source.

2. Layering

This is where the criminal attempts to conceal the source of the money. This will often involve moving the funds about in complex financial transactions to hide the origins of the cash. This may involve buying stocks and commodities, moving money in and out of offshore banks, or buying items or property that can be insured for large sums.

3. Integration

This is the final stage where the dirty money is then integrated into the system and mixed with the clean assets. Some methods used involve setting up anonymous companies that can then grant themselves loans using the dirty money.

Criminals may also try to threaten or corrupt Insurance Officials into taking on sub-standard business, making claims for large payments or just overlooking doubts.

The public tend to care little for this type of activity, because they believe no one gets hurt, there is no real victim and only faceless, profiteering institutions have to pay. This type of fraud does not sell tabloids either, although drugs in particular wreck lives and cause users to commit many of the crimes that are all too familiar to Insurers as everyday theft claims. Illegal arms sales kill children in third world countries, so this does actually concern any of us with a conscience.

In laundering money or even turning a blind eye to it, those concerned risk heavy criminal sentences of up to 14 years imprisonment. Offences may arise under the Theft Act 1968, the Criminal Justice Act 1988, the Prevention of Terrorism legislation of 1989, the Drug Trafficking Acts of 1986 and 1994 and the Money Laundering Regulations 1993. Scotland has its own legislation.

A person is guilty of a criminal offence if, as a result of something he learns in the course of his work, he does not report a suspicion to a police or customs officer.

So this means YOU! Inactivity means you personally are guilty.

To give such information to the authorities is not a breach of professional confidence. Neither you nor your firm is at risk of any civil action for breach of trust, wrongful disclosure of information or the like.

You are not allowed to deal with suspect funds (e.g. pay a claim) until the suspicions have been reported. In any cases of doubt or possible recriminations, a firm is best advised to consult urgently with their solicitors for some detailed advice applicable to the particular case.

If you warn or tip off a person that you or someone else suspects they are involved in money laundering, you are just as guilty of a crime as if you had not reported the matter to the authorities.

Money Laundering is not something you are likely to encounter very often, but you must always be alert to the risk that it may be going on around you. Do not become guilty by lack of attention.

The FSA are not going to impose a strict Anti-Money Laundering regime on general insurance firms BUT each employee in the industry remains bound to comply with the Acts of Parliament listed earlier.

FSA Summary

The purpose of anti-money laundering controls is to help deter, investigate and prosecute crime (generally, not just financial crimes) and terrorism. This is important to consumers and citizens. Anti-money laundering controls may also help detect fraud, including identity fraud at an early stage this may help prevent consumers suffering financial loss.



There are **five** basic money-laundering offences:

1. Assisting another to retain the benefit of crime
2. Acquiring, possession and use of criminal proceeds,
3. Concealing, or transferring proceeds to avoid prosecution or a confiscation order
(also called Own Funds money laundering).
4. Failure to disclose knowledge or suspicion of money
Laundering,
5. Tipping off.

Customs & Excise have new Money Laundering powers.

The new rules require that any business that deals in goods and accepts payment in cash of over £9,000 (15,000 euro) must register with Customs & Excise. This became law in summer 2003. Fines for not meeting requirements could be up to £5,000. The rules do not apply to services – it is for goods supplied only. If the business accepts only cheques, credit cards etc the need for registration is removed.

Remember:

- People involved in illegal activities such as selling drugs, prostitution, and terrorism carry out money laundering. Money laundering is not a victim-less crime.
- Money laundering is the world's 3rd largest industry. Estimates put the amounts involved at \$590 billion - \$1.5 trillion. That is between 2-5% of the entire world's Gross National Product. It is a huge problem.
- Money launderers do use insurance companies. You can help stop them getting away with it.

Renrod Record Keeping

Renrod ask where evidence of identity has been taken you must obtain:

- A copy of that evidence
- Information on where a copy of the evidence can be obtained
- Where a relationship has formed information must be kept for at least five years post the relationship.

Data Protection Act

The Data Protection Acts 1984 and 1998

Personal data is some types of information that relates to an **identifiable living person**. Such Data must be obtained lawfully, must **not be disclosed** contrary to purpose for which data is held, and must be accurate and current.

The person concerned may have access to the data and may where appropriate have it corrected or erased . It cannot be disclosed to others without consent.



The Act gives eight principles which apply to data users.

The principles are that personal data must be:

- Obtained and processed fairly and lawfully
- Held for specified lawful purposes
- Used or disclosed for no other purposes
- Adequate, relevant and not excessive
- Accurate and current
- Destroyed when no longer needed
- Shown to the person about whom it is written, if they ask to see it. They can have it corrected or erased, BUT a later decision by the Court of Appeal has greatly restricted this right of access.
- kept in the EEA, and not transferred unless there is an adequate level of protection for the rights of the data subject.

FSA on Data Protection

Both financial and insurance underwriting are closely linked with confidentiality, so are claims that require either processing or underwriting.

The FSA require that we respect the confidentiality and security of the information held on our customers. Therefore documents or other information must not be left in customer facing areas unattended, anywhere that it may be easily stolen or taken home.

The 1998 Act requires that we take appropriate technical or organisational measures to prevent the unauthorised or unlawful processing or disclosure of data.

The rules of good information handling

Anyone processing personal data must comply with the eight enforceable principles of good practice.

These require that data must be:

- fairly and lawfully processed;
- processed for limited purposes and not in any manner incompatible with those purposes;
- adequate, relevant and not excessive;
- accurate;
- not kept for longer than is necessary;
- processed in line with the data subject's rights;
- secure;
- not transferred to countries without adequate protection.

Personal data covers both facts and opinions about the individual

Criminal Offences

- **Notification offences**
commissioner must be notified as to the type of processing undertaken, along with any changes
- **Procuring and selling offences**
it is an offence to disclose obtain, sell or advertise personal data without proper authorisation
- **Enforced subject access offence**
you must not request another person to obtain personal data for a specified purpose.
E.g a precondition to employment – medical records before job offer
- **It is an offence to fail to respond to an information notice or to breach an enforcement notice**

Non Sensitive personal data

The Act, which came into force on 1st March 2000, requires that personal data be processed "fairly and lawfully". Personal data will not be considered to be processed fairly unless certain conditions are met. The customer must be told who our data controller is, and the intended use of their data

Processing may only be carried out where one of the following conditions has been met:

- the individual has given his or her consent to the processing;
- the processing is necessary for the performance of a contract with the individual;(I.e arranging finance)
- the processing is required under a legal obligation;
- the processing is necessary to protect the vital interests of the individual;
- the processing is necessary to carry out public functions;
- the processing is necessary in order to pursue the legitimate interests of the data controller or third parties

Renrod, will in most cases, satisfy the first two conditions.

Sensitive personal data

Specific provisions are made for sensitive personal data. This includes: **racial or ethnic origin; political opinions; religious or other beliefs; trade union membership; health; sex life; criminal proceedings or convictions.**

Sensitive data can be processed only under strict conditions, which include:

- having the explicit prior consent of the individual;
- being required by law to process the data for employment purposes;
- needing to process the information to protect the vital interests of the data subject or another;
- dealing with the administration of justice or legal proceedings.

If a customer believes there is a breach of any of the Acts principles of good practice for processing personal data, they can complain to the Information Commissioner who will investigate and if necessary issue an enforcement notice, whilst possibly awarding compensation to that individual.

If a customer requests access to data about them, they must apply in writing and we must reply within a 40 day period. Often companies charge a nominal fee for administration costs.

If the information is not particularly sensitive, all we require is the customer signed authority. If the information is sensitive, it is not only good practice but a mandatory requirement to request a copy of a driving licence or other proofs of identity.

Customer Rights

Under the Data Protection Act an individual has six rights that if requested have to be taken into consideration by Renrod's data controller

- **The right of subject access**
as previously detailed the customer has access to their computer records
- **The right of rectification, blocking, erasure and destruction**
if they are inaccurate or contain inaccurate opinion
- **The right to prevent processing**
data can be stopped if the subject can prove distress (subjective for the data controller)
- **The right to prevent processing for direct marketing**
An individual's absolute right to withdrawal from direct marketing purposes
- **The right to compensation**
- **Rights in relation to automated decision-taking**
the right to prevent a automated/computer decision process being taken without human intervention
I.e a automated credit score of a customer

Complaints

Under the FSA regulations each Authorised Firm is responsible for handling complaints in respect of the regulated activities they carry out and also for reporting these complaints to the FSA on a six monthly basis. In order to prove to the FSA that Renrod can properly carry out these requirements, we have documented our complaints procedure ensuring that it works in compliance with the requirements in practice and that it suits our business operations. This is detailed in the Complaints Log and Manual [**CLAM**] located in every dealership.



A complaint is any written or oral expression of dissatisfaction, and may arise in a wide variety of circumstances

FSA on Complaints

The procedures for an eligible complaint must be written down and must cover

- Receiving complaints
- Responding to complaints
- the appropriate investigation of complaints
- Notifying complainants of their right to go to the FOS where relevant

An eligible complaint is a private individual or small firm with an annual turnover of less than £1 million.

Must Do's on Complaints

- Pass unresolved complaint to the Financial Ombudsman Service **FOS** if not resolved within 8 weeks. Company charged £550 per case and is binding on the company but not on the customer
- Complaint Recording – the date and type of complaint needs to be recorded in the dealership CLAM, as should every action taken to resolve the complaint.
- Complaints will be recorded against the Sales Executive and the Dealership for competence issues
- The Dealership is accountable in the case of miss-selling, the insurance company in the event of unclear policy Key Facts
- Publicise the handling procedures
 - in a notice displayed at every dealership stating FOS covered
 - before conclusion of product sale
 - to complainant if not resolved by close of business next day

Renrod Procedure

Customer Contact

Any member of staff who receives a complaint deals with it immediately or passes it to their FSA Supervisor or Senior Manager. In any case a Customer Contact Record [**CCR**] is filled out as soon as possible.

The customer is always contacted by close of business the next working day with a resolution or a progress report including a copy of our complaints procedure and next contact date.

The Supervisor maintains the complaints log and manual [**CLAM**] and up-dates the employees FSA record. It is used to monitor trends so that Renrod can conduct systemic reviews and investigations. An analysis of an individuals/dealerships complaints record forms part of their compliancy review.

Investigation

Complaints are investigated by gathering all necessary information for a decision to be taken and the Insurance Provider is consulted if necessary.

Departmental Supervisors must be informed at least once a week on the progress of the complaint.

If a complaint is not concluded within 7 days the **A&O** Officer must be informed and the FSA complaints process is followed, with a systematic investigation into the previous 12 months deals.

If the employee is found to be negligent or in breach of FSA guidelines this is to be recorded immediately. A change in competence status on their FSA record is flagged, dependent upon severity, risk and impact of the complaint.

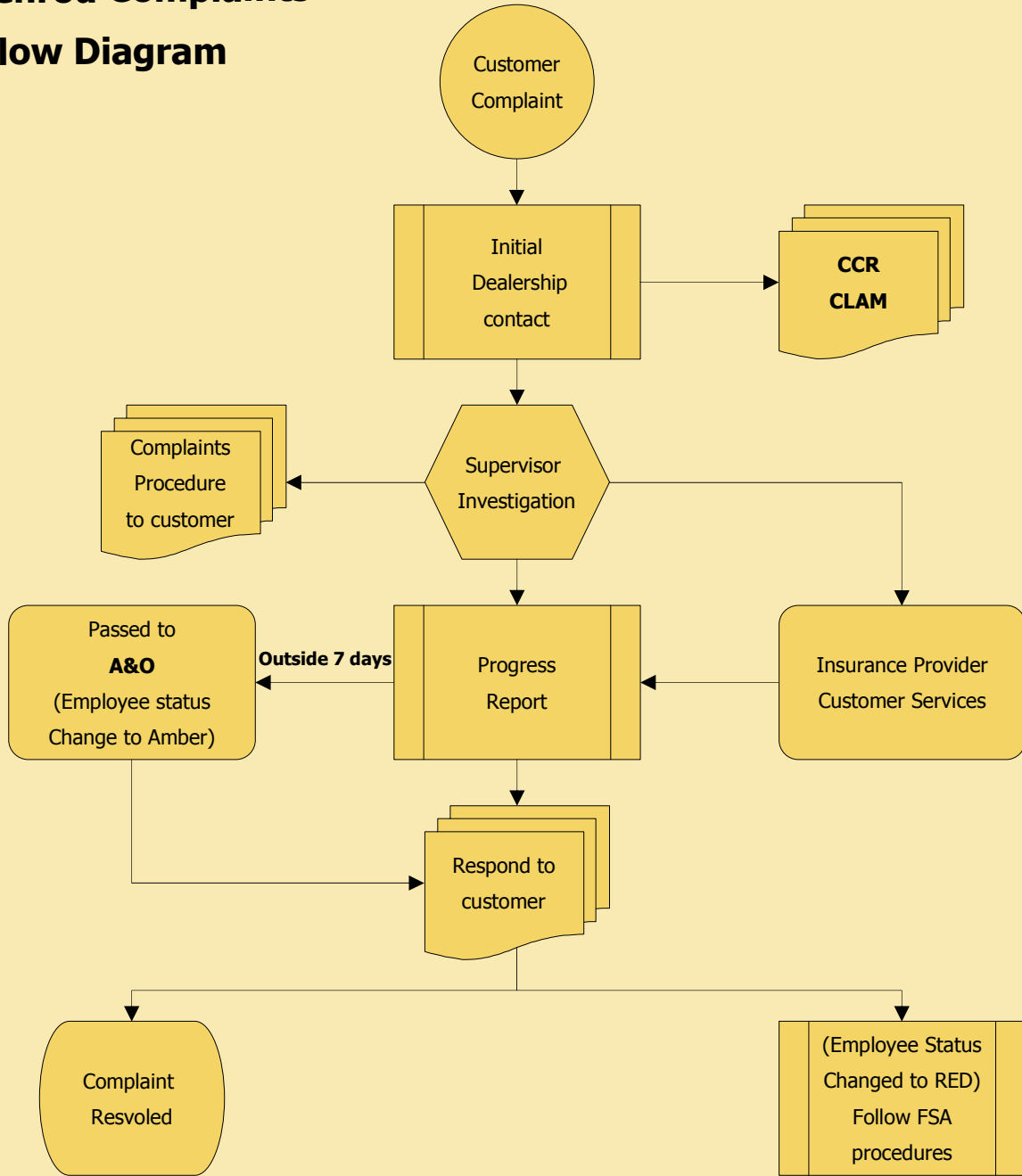
Respond to Customer

The outcome of an investigation and the decision taken is reported to the customer, primarily by a meeting or a phone call. A concise report of the outcome is written to the customer and recorded on the **CCR**, which will include the customer's satisfaction with the response.

Following the resolution of a complaint the FSA Supervisor and the Senior Manager assess the cause of the customer's concern so that action can be taken to prevent any recurrence. This will take the form of an individual investigation and be up-dated upon the employees FSA record and recorded into the **CLAM**.

Renrod Complaints

Flow Diagram



FSA fixed complaint period

	Step 1	Step 2	Step 3
5 days	4 weeks	8 weeks	
Acknowledge complaint within 5 business days of receipt	Send final or holding response	Send final or holding response	FOS involvement

Public Interest Disclosure Act

The Public Disclosure Act 1998 [PIDA] urges companies to encourage staff to internally communicate any concerns arising from breaches of procedure as part of an effective risk management system. Concerns that are made in good faith and in the reasonable belief of the person making them are known as qualifying disclosures. These disclosures should deal with the following:

- Criminal offences
- Failure to comply with legal obligation
- Damage to the environment
- Health and safety
- Miscarriage of justice
- Deliberate concealment of the above



FSA on PIDA

The FSA would regard as a serious matter any evidence that a firm had acted to the detriment of a worker who had made a disclosure about matters which were relevant to the functions of the FSA. Such evidence could call into question the fitness and propriety of the firm or relevant members of staff and as such, if relevant, affect the firm's ability to meet FSA threshold conditions.

The FSA emphasizes that a worker's first port of call should be their employer, however, they will give priority to live concerns or matters of recent history. To this effect they can be contacted on a dedicated telephone number 0207 0669200 or via the internet www.fsa.gov.uk/whistle/.

Renrod PIDA procedures

We have a duty of care to both our customers and employees, subsequently we take malpractice and breaches of governing procedures as serious failures. Renrod ensures employees who raise concerns will be supported and protected from reprisals. False and malicious allegations will be subject to disciplinary actions.

An alternative route to confiding in your line manager maybe contacting Human Resources or the group Apportionment and Oversight Officer, either way the confidentiality of the individual will be respected at all times. Whilst encouraging our managers to adopt a sympathetic approach it is also recognised that employees may wish to discuss issues outside of work.