

# Supervision under N(GI) – Are you ready?

The FSA is now rolling out its early supervision activity in the general insurance market – are you ready? Many firms, brokers and insurers, are expecting visits from the FSA over the coming months. Some are already experiencing initial visits.

So what are the key areas of FSA focus so far?

Within the broker market, visits are being undertaken on a number of key themes:

- Risk assessment – these are focused around the traditional ‘Arrow’ visit style with emphasis upon Governance, Systems & Controls, including risk identification, control and allocation of responsibilities.
- Client money – the FSA views the holding of client money as a higher risk area. The Supervision teams are now undertaking client money themed visits at a range of brokers, particularly in the London Market.
- Management of conflicts – as indicated in its January 2005 guidance note, the FSA has commenced its first round of themed visits looking at the existence of conflicts in the market and the way in which firms address these through the establishment of properly documented policies and the existence of procedures. The experience gained from these ‘management of conflict’ visits will enable the FSA to decide whether there is a need for any further intervention by way of rules or guidance, and may even drive a change in its thinking around the area of inducements in the general insurance sector (its current view being very different from other sectors within the financial services market).

Firms will need to prepare carefully for these FSA visits – this will often be the firm’s first opportunity to demonstrate to its new regulator that the business is appropriately governed and properly managed in a demonstrable way.

Some firms have been surprised at the extent to which the FSA is seeking to see a broad range of the senior management team, each of whom needs to be fully briefed on the FSA regime, its likely approach and focus.



The outcome of these early visits will dictate the way in which the FSA will feel it needs to supervise the firm going forward. Accordingly, getting it right is very important.

Within the insurer sector, themed visits are also taking place around, for example, conduct of business including financial promotions, and related areas such as training and competence.

## The perimeter

The FSA has commenced work around the ‘perimeter’ and is looking at firms that may be carrying out insurance activity without the appropriate authorisation (or Appointed Representative status).

A key feature of this activity for authorised firms is that the FSA will look to see who any such unauthorised entities are trading with, as those firms may be in breach of their own regulatory responsibilities by trading with unauthorised firms.

## Small firms

It is not just the larger firms that are receiving regulatory attention. The small firms division of the FSA is also undertaking supervisory activity, including for example:

- It will be extending its original pre-authorisation sample of requests from firms (looking at how smaller brokers intended to prepare for FSA regulation) towards how they achieved it i.e. further requests for implementation materials from an extended sample of firms, including selected conduct of business documentation;
- It will be carrying out a sample of site visits across the key regions; and
- The small firms section of the FSA's enforcement area is already dealing with a number of N(M&GI) enforcement cases.

Preparation for FSA supervision is key – with the FSA, an approach based on ‘let’s wait for the FSA to tell us what to do’ will not be successful. Firms need to consider their preparedness for FSA supervision now.

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