Some recent developments in the life assurance and savings markets in the U.K.

The study is mainly based upon information obtained during a one week visit to London in May 1998. The programme included visits to different companies and organizations within the financial sector. The visit was organized by Svenska Försäkringsföreningen (the Swedish Insurance Society) in cooperation with the Chartered Insurance Institute in London.

The study consists of contributions from the participants in the group. *Niclas Uddén,* Skandia, compares recent developments in the life and pension market in U.K. and Sweden*. Gunnar Nordholm,* Skandia, focuses on the domestic and international growth of U.K companies in life and pension insurance. *Jacob Kramer,* Skandia, presents and analyzes the significant differences in the use of distribution channels for life products in the U.K. and Sweden. *Niklas Forslund,* Konsumenternas Försäkringsbyrå (Consumers' Insurance Bureau), discusses the differences that exist between the Swedish bureau and the corresponding organization in the U.K. *Marianne Hauge-Granqvist,* Finansinspektionen, describes the merging of different regulatory bodies into one single Financial Services Authority, and she also gives a short summary of the consequences of the "mis-selling scandal" that followed the possibility to opt out of state pension schemes in 1988.

Gruppfoto

From left to right: Niclas Uddén, Marianne Hauge-Granqvist, Jakob Kramer, Niklas Forslund and Gunnar Nordholm

A comparison between the British and Swedish Life and Savings markets in 1998

by **Niclas Uddén,** Skandia

Background

In Sweden we have lately seen generally increased competition in the insurance industry, among other things from international insurance companies subsequent to de-regulation of the Swedish insurance market, but also between the Swedish insurance companies. The fact that insurance brokers have won a strong position in the Swedish market, first during recent years, has also led to big changes. Insurance companies have seen reduced profitability in recent years due to these developments. Changes in corporate orientation have been implemented to increase profitability. Because of that we have seen mergers between insurance companies, analogous to the development in the banking world.

In my opinion the insurance markets are very variable and the market actors have to be more like innovators to survive. This trend is not unique, but today the companies have to change marketing strategy faster than before to be successful. What will happen in the future with the Swedish insurance market? There is no obvious answer, but I will try to illuminate some essential qualities and differences between the English and the Swedish insurance markets, which can indicate a need for innovations.

It is important to try to predict how fast and in what way the market actors will be innovative. In my opinion, the insurance companies previously competed principally by introducing new products, both in England and in Sweden. The selection of products today can easily be copied by the competitors. Instead of competing by introducing new products in the market, it has been more important to compete with effective marketing through new distribution channels with lower expenses. At the same time you can find a competition between insurance and banking companies, both in England and in Sweden. The banks are very big “players“ in this area, but for the sake of simplicity my comments are limited to insurers.

The English market compared with the Swedish market

When comparing the insurance markets in England and Sweden you can find a lot of differences, but you can also find a lot of similarities. First of all these markets show three essential equalities which you can observe. The first is that both markets are non-regulated and the second is that products offered are adapted for respective markets and customers. The third is that in both countries, there is an uncertainty about the national social security system, which makes new products attractive.

In England life and savings products are marketed either by direct marketing or by insurance brokers, as they are called IFAs (Independent Financial Advisors). In addition, the employers pay insurance for the employees, which is another distribution channel. Lately telemarketing and supermarket marketing have become important distribution channels in England.

Swedish insurance companies have almost the same distribution channels as English, but there are some essential differences between them. Insurance brokers in England, the most important distribution channel, have been established on the market much longer than in Sweden. Consequently, English brokers have a stronger position than brokers in Sweden on their respective markets. Today Swedish brokers gaining a stronger position and maybe they will be almost as strong as the English brokers in future. Further, insurance companies in England are more offensive in "selling", for example in offensive telemarketing and another example is that the insurance companies use more "selling inflated" distribution channels like supermarkets, whose competence as insurance sellers still are debated. Neither supermarkets nor similar channels have been successful in the Swedish market, at least not to a great extent, and the question is if they ever will be. Further it seems to be more common to use companies / employer as distribution channels in England than in Sweden. In my opinion the Swedish insurance companies will use that important distribution channel more in the future, even if some of the Swedish companies use their network quite well even today. Swedish insurance companies appear to allocate more resources to IT-development than English insurance companies. This is confirmed when comparing the insurance companies' development expenses in the IT-area. Here you can see that Swedish companies have higher costs than English. In my opinion the Swedish people have a greater general knowledge of IT-issues and use IT-technology more frequently than English people. The availability of IT-technology is higher for Swedish people than for English expressed as a percentage of the population. I suggest that this is the reason why Swedish companies have higher investigation costs in the IT-area than English.

Summary

Both the English and the Swedish life and savings markets are equal in the structure and the way insurance companies market their products. In my opinion the trend is that the English and the Swedish insurance markets will become more similar. Especially the Swedish market is changing to be more like a "global market", which makes the markets closer. Perhaps markets will be exactly the same in the future. Differences appear mostly when looking at products offered, which are adapted to respective markets, when the distribution channels are almost the same. It appears that insurance brokers (IFAs) and telemarketing will stay as important distribution channels in the future, both in England and in Sweden.

In my opinion Swedish insurance companies are more international competitive today than before, but of course we are living in a changing world which everyone have to adjust. My hope is that Swedish actors will continue to participate in the development of the global insurance market, especially in IT-development, where Swedish actors are on the forefront. I think that IT-development will be a essential factor in survival for every company in the future. I am sure that the IT-development has just started to change the companies' structure. I think that the IT-development, in the future, will change the insurance markets and the insurance companies much more than anyone believes today.

UK based insurance industry operating in life & pension 1997

by **Gunnar Nordholm**, Skandia

The UK insurance industry goes international

The UK insurance market had a 6 % share of worldwide life assurance business and was ranked fifth in terms of size back in 1995. (Japan and USA hold approximately 30 % each, which puts them in 1st and 2nd place respective). Many of the largest UK-based insurance companies earn a significant proportion of their premium income from overseas markets. On the whole, UK insurers receive more than 20 % of their total long-term premium income from overseas. This trend becomes significant and is expected to continue, as companies increasingly globalize their operations. Overseas premium income to British insurers has grown 50 % since 1992. This was largely due to the mergers and acquisitions activities by UK insurance companies during this period.

France is now the most important EU market for UK insurers, the next largest being the Netherlands.

The UK market

The British market for long-term insurance differs from the Swedish market in many ways. Among the most important differences is its size. As a consequence of a larger market working in a market economy, there are more insurance companies. In 1996, 236 insurance companies were authorized to write long-term insurance business. Nevertheless, there is some concentration. Measured by premium income, the top ten companies accounted for 51 % of the market in 1996, and the top five companies accounted for 36 % of the market.

A comparison with the Swedish market shows that the top ten companies accounted for approximately 95 % and the top five accounted for approximately 70 % respectively.

Current trends in the UK and the Swedish markets

The market for life insurance is split into two distinct types of product; those products in which recurring premiums are paid in over the term of the policy, and those products in which premiums are payable in a single lump sum.

In recent years there has been a considerable change in the relation between these two types of products in the UK market.

In 1992, annual premium business accounted for around 18% of total new premium income. Since then, mainly for macroeconomic reasons, this proportion has fallen each year, to 9% in 1996.

British life insurance products are, like in the Nordic countries, further subdivided into linked and non-linked policies.

The expansion that there is derives on the whole from linked business.

In the UK, the proportion of linked policies is rapidly increasing. Available figures now show that more than 30 % of total individual yearly life premium income comes from linked business. Even here a comparison with the Swedish market shows a similar trend. By the end of 1996, linked products held a share of 44% of total life premium.

Long term trends National and International business

Premiums in absolute figures are difficult to relate to because they do not have relevance in markets other than where they occur. It is more relevant to study trends and refer to the development in yearly differences expressed as percentage change from the previous period.

Available figures for the fiscal year of 1997 for the UK market shows that total Individual & Pension Business rose by 7 %.

For the UK owned insurance industry on the whole it is interesting to note that sales of new life and pension policies on a worldwide basis (excluding collective investment schemes) in 1997 rose 12,4 % on 1996, the largest increase ever.

The importance of international life-operations in UK-owned insurance companies

UK owned insurance companies generating the largest overseas life net premium income

In order of precedence, by premium volume	*%Growth in overseas premium between 1992-1996*
1. Prudential	59 %
2. Commercial Union	120 %
3. Royal & Sun Alliance	n/a*
4. Standard Life	3 %
5. Norwich Union	-2 %
6. Legal & General	51 %
7. Eagle Star	51 %
8. Guardian Royal Exchange	n/a
9. Clerical Medical	213 %

*Royal and Sun Alliance merger took effect during 1996.

For many companies the international growth rates exceeds their domestic growth rates.

The importance of overseas life business to UK companies can be grasped from the following table.

Overseas life earnings as a percentage of total life premium income 1996

1. Prudential	43 %
2 Commercial Union	79 %
3. Royal & Sun Alliance	38 %*
4. Standard Life	19 %
5. Norwich Union	26 %
6. Legal & General	19 %
7. Eagle Star	52 %
8. Guardian Royal Exchange	44 %
9. Clerical Medical	21 %

*Royal and Sun Alliance merger took effect during 1996.

Four of the companies analyzed had overseas life premium accounting for more than 40 % of their total life premium income. For most companies, this share has expanded over the period analyzed. (1992 - 1996)

These are no longer to be regarded as domestic insurers but true international companies. Outside UK there are even larger companies that are generating more business from their international operations than they do at home and there is no doubt that this trend will continue. A clear pattern of behaviour in these as well as other international players are beginning to emerge. Instead of expatriating their executives it has become more common to migrate successful ideas on key markets. Employment of talented locals, the use of sophisticated reporting systems and a significant level of autonomy have become key elements of sound operations.

A group of large multinational life insurance companies is naturally a great threat to many locally oriented insurers around the world.

The question of expanding their business in this market is an issue on which McKinsey & Co. has made some research.

Facing the current development: Can these local players survive in tomorrow's even more competitive environment? I believe they can, but only if they remain highly focused on a clearly defined market strategy. But after all, in all business there is a commonly accepted rule of large-scale production.

The UK market volume and present development

First Quarter 1998

The previous trends seem to continue. Demand for new life insurance and pension policies continued to increase, according to figures released in June 1998 by the Association of British Insurers.

As a leading industry representative put it:

> ”The continuing growth in new life and pensions business reflects the importance which consumers place on securing their financial future by saving through life insurance and pension products. Providing value-for-money and flexible products remains a priority for the industry to ensure that it continues to meet the ever-changing long-term financial needs of its customers.”

The interesting point in this statement is that it could have been made by anyone in the life and pensions business anywhere in the western world. (And most likely even in the eastern world as well)

Conclusions

It is necessary for representatives from small countries like Sweden to pick up global trends and to join international networks in relevant fields.

In Sweden we are successful in our aim to serve our multinational clients in their international operations in the Property and Casualty line of business. I believe that time now has come for us in the field of Life and Pension to be as ambitious and skilful as our colleagues in Property and Casualty. It is necessary for us to be well updated with international issues in order to be able to contribute well in our companies´ business development in the field of Life and Pensions.

There are at least four main forces driving the need for global strategies in Life & Pension.

1. The globalization of our clients
2. The movement toward a free market system.
3. Increasing population and the ageing of society.
4. The information revolution.

The UK life insurance market and its products shows no significant differences compared to the Swedish, apart from its size. My talks with representatives from many UK companies indicates that the Swedish life industry seems to be well in pace in terms of product development.

In terms of market development it is clear that the UK insurance companies receive an increasing proportion of their business from international operations.

One reflection out of this little survey:

The globalization of the multinational corporations and its workforce makes a huge challenge for the Swedish Life and Pension industry. Will our clients, present and future, accept present status or will the Swedish insurance industry face new competition from more internationally oriented provides?

Sources:

Interviews as well as articles and brochures supplied by various British suppliers during my visit in London in May 1998.

Distribution channels for life products in the UK and Sweden

by **Jacob Kramer**, Skandia

This paper has been written after visiting the London market on an excursion arranged by the Swedish Insurance Society. It is by no means scientific and it is mainly a summary of my impressions after discussing the distribution channels used by the British life assurance companies.

UK

The distribution of life assurance and pensions in the UK today is dominated by IFA[1]/ brokers. The importance of tied agents and own sales force is declining rapidly in life assurance companies. (See tables 1 and 2.)

Before 1986, distribution channels were characterised by:

- no effective control of distribution or advisors
- no real differentiation between impartial advisors and those representing one provider
- no effective control over quality or suitability of advice
- no need for formal fact finding to be undertaken, to find out if the product sold suited the investor's circumstances.

Table 1. New yearly premiums - total individual life and pension business.

	Independent intermediaries				*Company agents*					*Gross Premiums*
	Banks	*Building societies*	*Brokers*	*Others*	*Banks*	*Building societies*	*Company staff*	*Other tied agents*	*Direct*	*£m*
1993	1,5 %	0,9 %	22,5 %	3,4 %	6,5 %	3,8 %	50,1 %	8,6 %	2,7 %	2,517
1994	1,2 %	0,9 %	25,2 %	2,3 %	12,4 %	4,6 %	42,4 %	7,9 %	3,0 %	2,262
1995	1,2 %	0,8 %	31,0 %	2,1 %	10,0 %	3,2 %	41,9 %	7,2 %	2,6 %	1,996
1996	0,8 %	0,9 %	33,5 %	1,8 %	10,6 %	2,5 %	39,3 %	7,6 %	2,9 %	2,325
1997	0,7 %	0,7 %	39,2 %	1,9 %	11,5 %	1,5 %	33,4 %	8,2 %	2,8 %	2,682

Table 2. New single premiums - total individual life and pension business.

	Independent intermediaries				*Company agents*					*Gross Premiums*
	Banks	*Building societies*	*Brokers*	*Others*	*Banks*	*Building societies*	*Company staff*	*Other tied agents*	*Direct*	*£m*
1993	2,9 %	3,0 %	39,2 %	5,4 %	6,9 %	4,7 %	34,2 %	2,4 %	1,3 %	17,849
1994	2,4 %	2,5 %	44,6 %	3,7 %	12,0 %	6,4 %	24,3 %	2,1 %	1,9 %	15,069
1995	3,1 %	3,1 %	49,5 %	3,4 %	10,8 %	3,8 %	22,8 %	1,4 %	2,0 %	12,589
1996	2,7 %	2,5 %	49,2 %	5,6 %	11,0 %	3,7 %	22,7 %	1,2 %	1,3 %	16,936
1997	3,4 %	2,4 %	52,4 %	2,8 %	11,3 %	2,8 %	22,6 %	1,1 %	1,2 %	18,873

Source: Statistical bulletin March 1998, ISSN 1357-8766

One of the consequences of this situation was the mis-selling of personal pensions between 1988 and 1994. Today the level of competence required of the pension sellers has been raised dramatically and much of the pre-sale and after-sale information/advice to the customer is regulated by law. This has raised the cost of distribution dramatically and that might be one of the reasons why life assurance companies have focused on other ways of distributing their products.

Sweden

Distribution in the business to business market

In Sweden the broker companies have increased their share of the occupational pension market rapidly the latest year. In the beginning none of the Swedish assurance companies were interested in working together with the brokers and they saw them more as competitors than as a distribution channel. As a consequence most assurance companies ignored the brokers. This perspective has changed and today all of the big companies have recruited special personnel to serve the brokers.

The main target group of the brokers is large and very large companies. The smaller companies, and some of the larger companies, are the main target group of the life assurance companies own sales force.

There are several reasons for this:

Penetration

Brokers/IFAs are relatively new in Sweden compared to the UK and so far have not penetrated the whole market. Smaller companies have not been of any interest to the brokers because the potential revenue has been too small. The increase in the number of broker firms might change this.

Tradition

The insurance industry in Sweden has a relatively high reputation/trust among its customers. Relations between the insurance industry and its customers are relatively long term – especially in the life assurance business.

Information

Small companies are not aware and don't yet understand the value of service from the brokers. Today this scenario is changing rapidly.

Distribution in the private market

Distribution in the private life assurance market is dominated by the sales force of the provider. Traditionally, salespeople took initiative to contact the customer. (Outbound) Today this is changing, mainly due to the banks. The banks have more frequent contact with customers and more information about the customer´s current needs. They use these advantages to sell life assurance products to the customers when the customer visit the bank offices on other business such as loans. (Inbound) The implementation of Internet- and telephone-banking might change this in the future.

Still, in my opinion the distribution net of the banks are superior to the company agents for simple products. Presumably this has been one of the main motives of the mergers between banks and insurance companies in Scandinavia.

Focus and distribution

It is my impression that the different ways of distributing life assurance products in Sweden and the UK is one of the main reasons why the focus of Swedish and British life assurance companies is not similar.

Roughly speaking the British companies are focused on product and distribution while the Swedish companies are focused on product, distribution and customer.

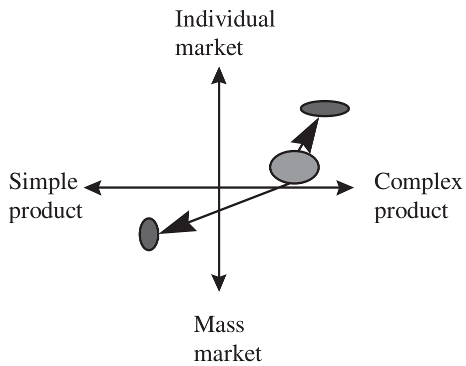
Distribution strategy

Why is this so? The IFAs/brokers are the most important distribution channel in the UK. This means that supporting the brokers is of uppermost importance. In the point of view of some of the life assurance companies, gaining market shares is mainly a question of changing broker provision and create new products in corporation with the large IFA/broker houses. As far as I have understood, it is not uncommon that the large broker houses construct a product with fixed terms and premium and than ”offers” it to the life assurance companies on a ”take it or leave it”-basis. Given the importance of the IFA/brokers as a distribution channel it might be rational for the British life assurance companies to focus on the product and the distribution. The rhetorical question is whether it is wise to limit the focus to the product and distribution channels in the future.

In Sweden the distribution channels are more diverse, and so far most of the life assurance companies are not dependent on any single distribution channel. That might be one of the reasons why Swedish life assurance companies have a major focus on the customer. Many of the life assurance companies have constructed their own ”customer satisfaction”-index or use a branch index made by the Swedish Post. The companies then change behaviour and products according to the demands of the customer and not solely because the demands of the distributor. Still, distributors in Sweden have an important role in product development. Another example of the customer focus comes from one of the big insurance companies who right now makes a test. They have taken 40 000 customers and identified their values. They are then going to divide the customers into two groups. 20 000 of the customers will have service according to their values/preferences and 20 000 will get the ”normal” service. After two years the company is going to analyze which group has the longest duration, highest customer satisfaction, number of policies and so on.

Product strategy

It seems to me that the product strategy of most British life assurance companies is to specialise in relatively few products. I am not sure whether we are seeing the same trend in Sweden. It seems that most life assurance companies in Sweden are trying to make simpler products but still offer a wide range of products.



It seems to me that the Swedish life products are polarising. We are witnessing a change of paradigm from complex products for everyone to a move towards a new situation where different products are offered to different customers depending on the distribution channel and the wealth of the customer.

British life assurance companies might have problems copying the Swedish approach mainly because the customer is owned by the IFA/broker and they are therefore not ”allowed” to contact the customer in the same degree as the Swedish life assurance companies are. The loyalty of the British customer is mainly with the IFA/broker, in Sweden the customer is more loyal to the insurance company. Or more correctly it is my impression that the Swedish consumer is more aware of which life assurance companies he is doing businesses with, than the British consumer.

Distribution channels in the future

In both countries the role of banks as a distribution channel for life assurance products will change rapidly. (See tables 1 and 2.) In Sweden the three banks, SE-banken, Handelsbanken and Föreningssparbanken already have 60 %[2] of the total new sales of the Unit Link Assurance market and 19 % of the traditional life assurance market. In the UK the market share is around 10 % for all banks but I predict that it will increase.

Another trend is the distribution of life assurance products by Internet and telephone. So far none of these distribution forms have had any big impact on the Swedish life assurance market. In the UK telephone-focused companies like ”Phones direct” have had some success. To which degree they will have any long term success I can’t say.

New players? The rhetorical question is whether there is a need for life assurance companies in the future. If you have a distribution channel to the mass market combined with the right customer database you could outsource claims handling and customer service. Buy a standard IT-system developed by – why not – Microsoft or a reassurance company like SwissRe and start selling life assurance products. In this scenario the supermarkets are a typical winner. Obviously it is not entirely simple, but it is interesting to notice that companies like Marks & Spencer and Ikea are selling insurance products.

Notes

[1] Independent financial adviser.

[2] Latest 12 months. Source: The Swedish Insurance Federation.

Insurance Ombudsman Bureau (UK) v.s. The Consumers’ Insurance Bureau (Sweden)

by **Niklas Forslund**, Konsumenternas Försäkringsbyrå

Introduction

There are differences between the Insurance Ombudsman Bureau in the UK and the Consumers’ Insurance Bureau in Sweden. In this article I would like to bring out the major differences and also discuss the question, whether the Consumers’ Insurance Bureau should strive for the power of the Insurance Ombudsman Bureau.

How can the organizations help you?

The *Insurance Ombudsman Bureau (IOB)*[1] in the UK investigates and gives rulings on disputes (claims, marketing or administration) that policyholders have with their insurers provided that the insurance company is a member of them.[2] They are independent and impartial.[3]

Since they are dealing directly and informally with the policyholders they usually do it more quickly than the courts, and more important without cost. They provide no pre-purchase information because they believe that is the responsibility of the insurance industry.

The *Consumers’ Insurance Bureau (CIB)*[4] in Sweden provides help and guidance in insurance matters to potential and existing policyholders. They are also independent and impartial. More than half of their guidance is pre-purchase information and to help the consumers they make market surveys for the most common consumer insurance products.

How do the organizations deal with the disputes?

The IOB may settle the policyholder's dispute by giving advice or by bringing the two sides together. If this does not resolve the matter, they will make a common sense and fair decision based on the law, good insurance practice, and what is reasonable.

The CIB's main task on the other side is to "help people to help themselves". The consumers are shown how to proceed with complaints of their own. When necessary the CIB attempts to conciliate disputes between policyholders and the insurance companies. This is done in an informal way since the CIB is not empowered to reverse the decision made by the insurance company.

What powers do the organizations have?

The IOB can make awards against the insurer if the policyholder have been unfairly or wrongly treated. They may also turn down the complaint or may agree partly with both parties. When they have made a decision, the policyholder and the insurer will be informed. The policyholder may accept or reject their decision but there is no appeal against it. This does not however affect the right to take legal action. If the decision is wholly or partly in the policyholder's favour and he accepts it, the insurer must pay the policyholder any award made up to £100.000. If the IOB is not able to investigate the policyholder's complaint, they will inform of any other course of action that may be open to them.[5]

The CIB does not make any decisions that are binding upon the company. However, whenever necessary the CIB will inform the consumer of the possibilities of taking the matter to the National Board of Consumer Complaints (NBCC).[6]

Conclusion

From my short comparison I can draw the conclusion that the main difference between the two organisations is that the IOB has the power to make awards against the insurer. They have, as I can see it, a combined role of the CIB and the NBCC, but with the difference that the policyholders are certain that they will obtain redress if the decision is in their favour. The NBCC's decisions are in the form of recommendations to the parties, but the insurers follow their recommendation. The other difference in reality is that the IOB does not provide pre-purchase information, which is of great importance for the CIB and the consumers in Sweden.

One can ask the question if the CIB should strive for the power of the IOB or if it should stay in the position as it is today? Of course, I would find it both exiting and thrilling if we would have the power to make awards against the insurer, but at the same time, I am sure the CIB would find itself in a conflict of interest. It would be hard to "help people to help themselves" if I knew that I am the one taking a final decision on the matter later on. Our duty is to help and even more to support policyholders and that I find hard to combine with more power. In other words I find it as a good solution to have a separate instance for the decision-making. Then of course, the question arises, whether the NBCC should have the power of the IOB, but that discussion I will leave for another time.

Notes

1 The IOB was founded in 1981 by a group of major insurance companies. The staff consists of one Ombudsman, one Deputy Om-

budsman, and one personal assistant to the Ombudsmen and about 30 persons in case handling teams. Several people also work as assistants and supporting staff. In 1997 IOB received over 67 500 enquires and of them was only 32 500 enquiries (about 8 500 (26 %) written and 24 000 (74 %) by phone) inside the bureau's terms of reference (see footnote no 5). Their Annual Report and other information can be found on the Internet (www.theiob.org.uk/).

[2] The IOB has today about 220 members, which means that most UK insurers are members of the Bureau. (Annual Report 1997)

[3] A Council made up of people representing a broad range of public and consumer interest, as well as member companies guarantees this.

[4] The CIB started its activities in 1979 and is supervised by a board from the Swedish Consumer Agency, Finansinspektionen and the Swedish Insurers Federation, which is an association set up by the insurance companies. The staff consists of six people, one Head of the Bureau, four advisers and one assistant. In 1997 CIB received over 12 500 enquires (about 1 250 (10 %) written and 11 250 (90 %) by phone). The Bureau also received 5 000 calls to a telephone answering machine where the consumer can order pre-purchase information. All of the Bureau's information can also be found on Internet (www.kofb.se).

[5] Some examples when the Ombudsman cannot investigate a policyholder complaint: The policyholder have not first complained to the insurer and requested a final decision. The approach to the Bureau is more than six month after the date of the final decision letter. The dispute is with an insurance business that is not a member of the bureau. The matter is already the subject of legal proceedings or arbitration. The policy is a commercial one, relating to a company, partnership, or business rather than a private individual, unless the insurer agrees.

[6] Allmänna reklamationsnämnden (ARN) Public Complaint Bureau.

Financial services authority (FSA) – the new regulator in the UK

by **Marianne Hauge-Granqvist**, Finansinspektionen Försäkringsmarknadsavd.

The Labour Government has been the prime mover as to the reformation of the financial regulatory system in the UK. The intention has been to create a strong and effective regulator. With today´s global activities in financial markets it was considered necessary to integrate all supervision and regulation under a single regulator. The Government decision to establish a single regulator for the full range of financial business came into effect on 1 May 1997. The new regulation body will take over the work of nine regulators[1] for the supervision of banking, insurance (including Lloyd´s), investments and securities firms, investment exchanges and clearing houses, building societies and friendly societies.

[1] See appendix

In October 1997 the new regulator Financial Services Authority was launched. In order to implement the integration of the nine regulators and to make clear its authorities/responsibilities new legislation is required. The legislative process will be done in two stages. The first stage, the Bank of England Act, has come into effect on 1 June 1998. The regulation of all financial services will fall under the new single body with full effect from year 2000 when the second stage, the financial regulatory reform bill is to be enacted. There is a lot of work to be done to ensure the single regulator works. The organization of the FSA will gradually be built up during these years.

The ministerial responsibility for the new institution FSA will be the Treasury.

The four overall objectives of the FSA are to

- sustain confidence in the UK financial system and markets
- provide effective protection for consumers
- have a role in promoting public understanding of the benefits and risks of financial products
- have a role in monitoring, detecting and preventing financial crime.

The FSA will have statutory objectives covering market confidence, consumer protection, consumer education and financial crime. The number of employees is supposed to be about 2000.

A new single Tribunal will also be established – independent of the FSA – to consider appeals against the exercise of the FSA´s regulatory powers.

Creating a single regulatory body is not easy. The existing supervisors each have their own rules and culture. Bringing together the supervision of banking, building and friendly societies, securities and insurance is considered as a formidable challenge in the UK. The expectations on the FSA are high from the financial industry as well as from consumers and the media.

Appendix

The following nine financial regulatory bodies will be replaced by FSA:

Building Societies Commission (BSC)	Building societies
Friendly Societies Commission (FSC)	Friendly societies
Insurance Directorate (ID) of the Department of Trade and Industry	Insurance
Investment Management Regulatory Organisation (IMRO)	Investment management
Personal Investment Authority (PIA)	Retail investment business
Registry of Friendly Societies (RFS)	Credit unions´ supervision (and the registration and public records of friendly societies and other mutual societies)
Securities and Futures Authority (SFA)	Securities and derivatives business
Securities and Investments Board (SIB)	Investment business (including responsibility for supervising exchanges and clearing houses)
Supervision and Surveillance Division of the Bank of England	Banking supervision (including the wholesale of money market regimes)

Personal pensions – the mis-selling in the UK

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The Social Security Pensions Act, 1975, which came into force in 1978, led to the creation of the State Earnings Related Pension Scheme (SERPS). This system is based on earnings related to the individuals' "best 20 years".

A new Act in 1986 resulted in a new system coming into force in 1988. Its main objectives were to make the system simpler, fairer and more effective. The reforms were based on revalued earnings over the whole working lifetime. The new system was supposed to cover individuals who did not belong to an employer sponsored pension scheme. Besides those persons who changed job frequently those in the old system were not very well protected.

The new product – Personal pension plan – was introduced in July 1988. This new type of product was invented by the Government. A personal pension is a personal fund into which an individual can make payments free of income tax (up to a limit) and from which no money can be drawn before the policyholder's 50th birthday. The employees were given the right to opt out of SERPS or an employer's own scheme, and contribute to a private sector occupational pension or personal pension. People contracting out received a rebate of their National Insurance contributions. The Government encouraged people to contracting out e.g. by providing special contribution to those who opted out of SERPS before 1993.

Some 9 million persons have taken out personal pensions available from banks, building societies, insurance companies and other financial institutions. As a result of these changes a new market opened up for this demand.

Contributions to the scheme are usually made by both employers and employees. These contributions receive tax relief. As the employers did not contribute as much as expected in the personal pensions system (as a result of the rebate) it turned out to be a very bad business for the employees. The insurance industry has been accused of the way in which they were marketing the personal pensions. The media have paid a great deal of attention to the mis-selling. The Government has decided that the investors will be redressed. It has also been decided that the employees shall have the possibility of rejoining the state system SERPS.

In the first phase the new regulator Financial Services Authority (FSA) has defined priority cases i.e. those who have reached retirement age or died. The insurance industry will be responsible for the compensation and the deadline for completion of priority cases is 31 December 1998.

As to the second phase the FSA has in March 1998 decided that the insurance industry shall be responsible for the compensation. The completion of the second phase is supposed to take at least 2 - 3 years.

Total prospective costs are estimated to amount to over £10bn!

Who are then the winners?

The employers and those IFA (Independant Financial Advisers) who have left the industry are the winners while the losers are the life insurance companies, pensioners and IFA, still in business.

The question of fault and responsibility is very delicate politically. The life insurance companies are of the opinion that the responsibility lies with the Government who invented the product and advertised for contracting-out of SERPS. The Government on the other hand holds the insurance industry responsible for the mis-selling by not providing "Best Advice".