

Latest PYV Information for Personal Investment Firms (IFAs)

Additional Capital Resources Requirements Updated 31/12/09

Although this is a matter for interpretation between you and your regulator, we will try to help you understand how any PI policy that we arrange on your behalf may affect your capital resources requirement. The following relates to Personal Investment Firms (IFAs).

Where any part of your excess exceeds £5,000 please see the table in section 13.1.27R at <http://fsahandbook.info/FSA/extra/5317.pdf> which will advise you of your additional capital resources requirement. This position remains unaltered from previous years.

For policies incepting as from 31/12/09, if you have any exclusions for business lines, activities or FSA instigated action then you will be required to hold additional capital resources as per the table in section 13.1.23R (see above link).

As we understand it, the amounts of required additional capital resources from the above are cumulative.

You will need to decide whether you need to hold any additional capital resources above those specified in the above table in respect of the more standard exclusions in your PI policy (including those for insolvency).

For further information, we also refer you to the FSA's November 2009 paper "Review of the Prudential Rules for Personal Investment Firms (PIFS), Feedback to CP08/20 and CP09/20".

Please note that it remains the responsibility of your firm to ensure that it understands and complies with the requirements of the FSA.

Professional Indemnity (PI) Insurance Minimum Limits of Indemnity increased as from 01/03/09.

The FSA's quarterly consultation paper (no. 18), issued in October 2008, contained confirmation that the Insurance Mediation Directive (IMD) requires that PI minimum indemnity limits be adjusted in line with movements of the European Index of Consumer Prices (EICP) once every five years. **These changes affect Insurance Intermediaries, Personal Investment Firms (IFAs) and Mortgage Brokers who conduct insurance mediation activities.**

The sterling equivalent of the current minimum aggregate limit of €1,500,000 will therefore, need to be increased to the sterling equivalent of €1,680,300 for all policies incepting on or after 01/03/2009. If you have an 'Any One Claim' limit, then this must be increased to the sterling equivalent of €1,120,200.

In addition, those buyers with an annual income in excess of £6,000,000 may also be required to carry higher sterling limits by the FSA. PYV can advise you on this.

Please note, these limits need to satisfy this criteria only at the inception of the policy.

FSA regulated buyers of PI should always revisit the terms they are offered at each renewal to ensure that they remain in line with the latest regulatory requirements and business prudence. The introduction of the Markets in Financial Instruments Directive (MiFID) on 1st November 2007 brought with it additional cover requirements for those UK firms that are authorised to either hold client money or 'passport' business into Europe. These involve a complex calculation to carry higher Limits of Indemnity which may alternatively be taken care of by the holding of additional capital adequacy. Please seek advice from your PYV account handler.

Customer Care Forms

We frequently receive requests from clients to ask Insurers to approve Customer Care Forms (CCFs). These forms are not an actual 'Treating Customers Fairly' (TCF) requirement and whilst we acknowledge the feedback that they provide is useful, they have the potential to **prejudice** the indemnity that you are entitled to under your Policy. This is because the questions contained within them may induce claims and therefore breach the terms and conditions of your Policy.

Even if underwriters approve them, in our experience, Insurers can do so in a way which does not amount to an unqualified acceptance of the consequences of using them. In the current economic environment they are likely to present an even greater threat because clients' investments are not likely to perform well and these forms provide an ideal opportunity for them to make a claim or make remarks which could lead to a claim, thereby, exposing your business in an already difficult climate. Significant problems can also arise if you switch Insurers through necessity or choice as a new Insurer is not obliged to honour a commitment entered into by a prior one.

Our advice, therefore, must be that we are not comfortable in endorsing or approving CCFs. The FSA fully understand the situation and have acknowledged the position by comments reported in the Press. We hope this does not create a dilemma for you but we would not be acting responsibly or in your interests if we advised differently.

If this is not acceptable and you wish to discuss the matter further please contact Ian Boscoe or Robert Bass at our office who will be only too glad to help you. We will, of course, support you in every way possible.