

For the reader wishing to keep up with events the pages of financial journals will, I am sure, continue to contain the best and worst of the changes wrought over the last few years. The young market-maker of 1987 earning a small fortune and driving a Porsche, the ultimate yuppie, may seem an illusory and transient being. Who knows? Perhaps some of those who started the process of 'deregulation' and liberalization of financial markets were true visionaries. For most of us the pace has been staggering. The objective for us all should be the preservation of standards in order to protect the hard-earned savings or premiums of the millions of policy-holders, unitholders or pension fund members entrusted to our industry.

THE FINANCIAL SERVICES ACT

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THIS paper discusses the Financial Services Act, 1986 (the Act). The Act has major implications for many within the actuarial profession since it regulates many of the areas with which actuaries have traditionally been concerned.

The Act regulates investment business, including life assurance business. Most of the provisions of the Act are to be brought into force by regulation, by one or more 'Designated Agencies'. In practice there is to be one Designated Agency—the Securities and Investments Board (SIB).

Under the Act no one may carry on investment business unless authorized, or exempted. Authorization will normally be obtained by being a member of a Self Regulatory Organization (SRO) or by being registered as a friendly society or by being an insurance company transacting long-term business. Certain institutions such as the Bank of England and Lloyds are classed as exempt. Company representatives who work for companies already authorized are also classed as exempt.

SRO's include LAUTRO (Life Assurance and Unit Trust Regulatory Organization) covering retail marketing by life companies, friendly societies and unit trusts, and FIMBRA (Financial Intermediaries Managers and Brokers Regulatory Association) covering independent intermediaries giving life insurance and unit trust advice.

In order to obtain authorization from the SIB an SRO must show that its rules and regulations are at least as rigorous as those of the SIB. In particular an SRO's rules must include detailed conduct of business rules.

An important feature of the SIB's policy is polarization. This term refers to the fact that under the SIB rules an authorized person giving investment advice must be *either* an independent intermediary *or* a company representative. An

independent intermediary will not be permitted to support a small number of life offices unless he can satisfy the relevant SRO that he is at all times giving best advice; a company representative will be committing a criminal offence if he places business with any company other than his own.

The Act has major implications for financial institutions. Those life companies currently selling through independent intermediaries may have to consider other means of marketing if their products/bonus record are not competitive. Those companies which have paid commission to intermediaries at higher than normal industry levels will have to reconsider their marketing strategy. The different commission rates which will become applicable will result in redesigning/recosting products. Increased product disclosure may result in profit and expense margins coming under increased pressure, possibly offset to some extent by lower overall commission rates. It will be unlikely that any new life office will attempt to enter the intermediary market. Companies which sell through a direct sales force will ensure that they can offer a complete product range since their salesmen will be unable to sell other companies' products.

Insurance brokers, particularly the smaller firms, may decide to become company representatives if they consider the remuneration package offered by a life office is attractive compared with broker earnings (on LAUTRO commission scales). However, independent intermediaries may benefit from introductions from unauthorized firms, for instance accountants or solicitors, which have not established their own independent intermediary operations.

Banks and building societies are particularly affected by polarization and will have to decide whether to act as independent intermediaries or become fully tied.

The paper concludes by noting that whilst the Act represents a long overdue rationalization and overhaul of the U.K. investment regulatory system there will inevitably be additional costs, ultimately to be borne by the consumer.