
FINAL NOTICE

To: Coverall Worldwide Ltd

FRN: 307681

Address: 309 Mill Studio Business Centre
Crane Mead
Ware
Hertfordshire
SG12 9PY

Date: 1 February 2016

ACTION

1. For the reasons given in this notice, the Authority hereby:
 - a) imposes on Coverall Worldwide Ltd ("Coverall") a financial penalty of £36,800; and
 - b) cancels Coverall's Part 4A Permission.
2. Coverall agreed to settle at an early stage of the Authority's investigation. Coverall therefore qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £52,700 on Coverall.
3. Coverall provided verifiable evidence of serious financial hardship. Had it not been for its reduced financial circumstances, the Authority would have imposed a financial penalty of £471,638 (or £330,000 adjusted for a 30% (stage 1) discount) on Coverall.

SUMMARY OF REASONS

4. Coverall is a UK insurance intermediary. The Authority considers that Coverall:
 - a) failed to comply with Principles 1 and 3 during the period 1 December 2010 to 23 September 2013 ("the Relevant Period"); and

- b) failed to comply with Principle 10 during the period from 23 July 2012 to 8 March 2013 ("the Principle 10 Relevant Period").

Breach of Principle 1

5. The Authority considers that Coverall breached Principle 1 during the Relevant Period by recklessly failing to mitigate the risks to potential policyholders arising from the contracts entered into by its appointed representative ("AR"), Aderia UK Limited ("Aderia").
6. During May and June 2013, Aderia entered into ten binding authority agreements ("BAAs"), purportedly authorising various Coverholders to write insurance policies on behalf of a German insurer, Berliner Versicherung Aktiengesellschaft ("Berliner"), including UK solicitors' professional indemnity insurance ("Solicitors' PII") policies. However, Aderia did not have authority from Berliner to enter into those agreements at that time. Coverall knew about this and recognised the risk that Coverholders would sell insurance policies purportedly underwritten by Berliner but by which Berliner was not bound. Despite this, Coverall failed unreasonably to take any steps to mitigate that risk and therefore acted recklessly.

Breach of Principle 3

7. The Authority considers that, during the Relevant Period, Coverall breached Principle 3 by failing to take reasonable care to ensure that it established and implemented adequate controls over the regulated activities of its AR, Aderia, for which it had responsibility.
8. In particular, Coverall did not put in place any formal processes or procedures for Aderia to provide Coverall with management information in respect of its activities and, throughout the Relevant Period, Coverall did not hold formal management meetings with Aderia, nor did it carry out any general or financial appraisals of Aderia.
9. Furthermore, Coverall failed to take reasonable care to ensure that it established adequate controls to mitigate the conduct risks associated with a delegated authority given by Aderia to third parties to sign insurance documents on its behalf.

Breach of Principle 10

10. The Authority considers that, during the Principle 10 Relevant Period, Coverall breached Principle 10 by failing to arrange adequate protection of client money held by Aderia, its AR. Aderia received, held and disbursed premiums in breach of the provisions contained in the Authority's Client Assets Sourcebook (CASS 5).
11. In particular, Coverall did not ensure:
 - a) that a written risk transfer agreement was in place for it to hold money as the agent of Balva Insurance Company AAS ("Balva"), the Latvian insurer underwriting the policies for which the premiums were paid;
 - b) the establishment and maintenance of procedures, either for the payment of client money into Coverall's segregated client bank account as soon as was

practicable, or for Coverall to hold and segregate (with periodic reconciliation) funds equivalent to the client money held by Aderia; and

- c) that client money disbursed by Aderia was only used for the purposes of a transaction for the client or other purpose permitted by CASS 5.

Failure to meet the Threshold Conditions

- 12. The Authority also considers that Coverall has failed to satisfy the Threshold Conditions set out in Part 1 of Schedule 6 to the Act on the basis that it is not a fit and proper person, having regard to all the circumstances.

The seriousness of the misconduct

- 13. Coverall's breach of Principle 3 was particularly serious because it effectively allowed Mr Shay Reches ("Mr Reches"), an individual not approved by the Authority to perform a controlled function, to exercise a significant degree of influence over Aderia's activities which went beyond the scope of the delegated authority granted to him. This increased the risk that Coverall (through Aderia) would cause detriment to consumers.
- 14. A particular risk to consumers arose when Coverall effectively allowed Mr Reches to instruct Aderia to enter binding authority agreements (which purported to bind Berliner) without the requisite authority from Berliner to do so. Approximately 1,300 firms of solicitors were exposed to the significant risk that they would hold themselves out as being covered by business-critical Solicitors' PII provided by Berliner when this was not the case. Without valid Solicitors' PII, those firms would have been unable to practise.
- 15. Further, in failing to ensure that Aderia adequately protected client money it held, including over £13.2 million in UK Solicitors' PII premiums for policies underwritten by Balva, Coverall exposed consumers to the significant risk that funds would not be available to pay claims or refund premiums in the event of Balva's failure, leaving them dependent on compensation from the Financial Services Compensation Scheme ("FSCS"). This risk was increased by Coverall's lack of controls over the regulated activities of Aderia which included effectively allowing Aderia to disburse the premiums - including over £11 million of premiums for policies purportedly underwritten by Balva - for purposes unconnected with the policyholders for whom the funds were held. Balva entered liquidation and consequently, the FSCS has paid £3.8 million in claims and has an estimated future liability of £10 million in respect of UK Solicitors' PII policies.

The Authority's objectives

- 16. The financial penalty of £36,800 and cancellation of Coverall's permission to conduct regulated activities such as insurance mediation supports the Authority's operational objectives of securing an appropriate degree of protection for consumers and protecting the integrity of the UK financial system. It emphasises the need for authorised firms and approved persons in the retail distribution chain to ensure that adequate steps are taken to satisfy themselves that robust and effective arrangements are in place to mitigate the risks to consumers.
- 17. This action recognises that failure by one or more firms to comply with regulatory requirements that safeguard consumers and/or protect market integrity can distort competition. Tackling conduct failures (such as those detailed in this Final

Notice) in order to ensure firms act with integrity, implement appropriate systems and controls, and arrange adequate protection for client assets, therefore supports the Authority's operational objective to promote effective competition in the interests of consumers.

DEFINITIONS

18. The definitions below are used in this Final Notice:

"the Act" means the Financial Services and Markets Act 2000;

"Aderia" means Aderia UK Limited, an AR of Coverall and Millburn, now known as II&B UK Limited and previously known as JCM Insurance Brokers Limited and JCM Brokers Ltd;

"AR" means appointed representative;

"the Authority" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

"BAA" means a binding authority agreement, an agreement whereby an insurer (or its MGA) delegates underwriting authority to another party known as the Coverholder (often an insurance broker) which will act on behalf of the insurer to the extent permitted by the agreement, which frames the responsibilities, entitlements and obligations of the parties;

"Balva" means Balva Insurance Company AAS, a Latvian insurer and a Passported Firm;

"Balva MGA Agreement" means the MGA Agreement between Balva and Aderia, which was signed on and effective from 18 August 2011;

"Bar" means Bar Professions Limited (in liquidation) (and its AR, Apro Management Limited), UK based Coverholders;

"Berliner" means Berliner Versicherung Aktiengesellschaft, a German insurer and Passported Firm;

"Berliner MGA Agreement" means the MGA Agreement, which was signed between Berliner and Aderia on 15 July 2013, and which took effect retrospectively from 1 June 2013;

"CASS" means the Authority's Client Assets Sourcebook;

"Coverall" means Coverall Worldwide Ltd, a UK insurance intermediary;

"Coverholder" means a company (often an insurance broker) authorised to enter into contracts of insurance, on behalf of an insurer, in accordance with the terms of a BAA;

"DEPP" means the Authority's Decision Procedure and Penalties Manual;

"EG" means the Authority's Enforcement Guide;

"the First BAA" means the BAA between Aderia and Bar signed on 20 February 2013 governing the marketing and sale of Solicitors' PII policies underwritten by Balva;

"the FCMC" means Financial and Capital Market Commission, the Latvian regulatory authority, also known as Finanšu un Kapitāla Tirgus Komisija (the FKTK);

"the FSCS" means the Financial Services Compensation Scheme;

"the Handbook" means the Authority's Handbook of rules and guidance;

"Mr McIntosh" means Mr Colin J McIntosh;

"MGA" means a Managing General Agent, an insurance intermediary which has contractual authority from one or more insurers to provide underwriting services on their behalf;

"MGA Agreement" means a contractual agreement giving an MGA contractual authority from one or more insurers to provide underwriting services, including negotiating and entering into binding authorities with Coverholders for the sale and fulfilment of policies, on behalf of the insurers;

"Millburn" means Milburn Insurance Company Limited (in administration), a UK insurer;

"Part 4A Permission" means the permission given by the Authority under Part 4A of the Act to carry on certain regulated activities;

"Passported Firm" means a European Economic Area firm exercising its right to conduct activities and services regulated under EU legislation in the UK on the basis of its authorisation in its European Economic Area home state;

"Principal" means an authorised firm which permits its appointed representative(s) to carry on regulated activities under its Part 4A permission given by the Authority under Part 4A of the Act to carry on certain regulated activities;

"Principles" means the Authority's Principles for Businesses;

"Relevant Period" means the period from 1 December 2010 to 23 September 2013, incorporating the Principle 10 Relevant Period;

"Principle 10 Relevant Period" means the period from 23 July 2012 to 8 March 2013;

"Mr Reches" means Mr Shay Jacob Reches, an individual not approved by the Authority under the Act to perform a controlled function;

"the Second BAA" means the BAA between Aderia and Bar signed on 17 May 2013 purportedly governing the marketing and sale of Solicitors' PII policies underwritten by Berliner;

"Solicitors' PII" means professional indemnity insurance provided to solicitors; and

"Threshold Conditions" means the threshold conditions set out in Part 1 of Schedule 6 to the Act.

FACTS AND MATTERS

Background

19. Coverall is a UK insurance intermediary based in Hertfordshire. During the Relevant Period, its business included entering into agreements with underwriters and Coverholders for the marketing of underwriters' insurance products, by Coverholders, to customers.
20. Coverall appointed Aderia as its AR by way of an agreement dated 1 December 2010. Significantly, the AR agreement provided that Coverall was the Principal with regulatory responsibility for Aderia in respect of insurance mediation activities relating to policies underwritten by any insurer other than Coverall's co-Principal, Millburn.
21. Aderia also operated as an MGA for a number of insurers with whom it had signed respective MGA Agreements (including Millburn, Balva and Berliner). The respective MGA Agreements gave Aderia the authority to negotiate and enter into BAAs with Coverholders for the sale and fulfilment of policies on behalf of the respective insurers.
22. Mr McIntosh established Aderia in October 2010 and was its sole shareholder. In early 2011, the ownership structure changed so that, during the majority of the Relevant Period, Mr Reches owned 95% of Aderia and Mr McIntosh owned the remaining 5%. On 23 November 2010, Mr Reches was given a written delegated authority stating that he was permitted to "*sign insurance documents*" on Aderia's behalf.

Mr McIntosh's role and responsibilities

23. Mr McIntosh established Coverall in 2005 and owned 50% of its shares. He was approved by the Authority to perform a number of controlled functions at Coverall, including that of CF1 (Director).
24. Throughout the Relevant Period, Mr McIntosh was in control of the day-to-day running of Coverall and was understood by Coverall to be the approved person at the firm with responsibility for oversight of the activities of Coverall's AR, Aderia:
 - a) from December 2010 to mid-2012, Mr McIntosh had day-to-day responsibility for the running of Aderia and he told the Authority at interview that his involvement in that role represented the extent of Coverall's controls over the regulated activities of Aderia; and
 - b) from around mid-2012, following the expansion of Aderia's business activities, new infrastructure was put in place at Aderia to carry out the day-to-day running of its business. While Mr McIntosh stepped back from the day-to-day running and management of Aderia from this time, this did not change Coverall's regulatory responsibilities for Aderia and Mr McIntosh remained the sole approved person at Coverall with responsibility for oversight of Aderia's activities.

Recklessness regarding BAAs issued without authority

Background

25. In respect of the 2012/2013 Solicitors' PII policy year (1 October 2012 to 30 September 2013), Aderia, as the MGA of Balva, authorised Bar to write Solicitors' PII business on behalf of Balva pursuant to the First BAA. Bar issued policies to approximately 1,300 firms of solicitors.
26. Midway through the 2012/2013 policy year, Balva's operating licence was suspended by its home state regulator (the FCMC) and was subsequently withdrawn. As a consequence, policyholders were exposed to the risk that they may have no valid insurance in place. Without valid Solicitors' PII cover, those firms of solicitors would be unable to practise legitimately.
27. Accordingly, Aderia entered into negotiations with Berliner to act as a replacement insurer for policies underwritten by Balva. Aderia and Berliner had not previously transacted insurance business with each other. Aderia's intention was that it would be appointed as Berliner's MGA and thus be authorised to enter into BAAs with Coverholders for the sale and fulfilment of policies underwritten by Berliner. At that time, prior to its appointment as Berliner's MGA, Aderia was not authorised to bind Berliner to contracts of insurance.
28. However, on 17 May 2013 - despite not having been appointed as Berliner's MGA at that time - Aderia entered into the Second BAA with Bar, purportedly authorising Bar to market and sell Solicitors' PII policies underwritten by Berliner. Aderia did not enter into the Berliner MGA Agreement until 15 July 2013, and thus was not authorised to agree the Second BAA with Bar prior to that date.
29. This created a significant risk that Bar would issue Solicitors' PII policies to customers in respect of cover with Berliner - including replacing and renewing approximately 1,300 existing policies held at that time with Balva - when Berliner had not given Aderia authority to bind it to those policies. Customers would therefore hold themselves out to be covered by business critical Solicitors' PII when that might not be the case.

Coverall's knowledge

30. During May, June and July 2013, Mr Reches continued to negotiate with Berliner in relation to the proposed MGA Agreement. Mr McIntosh, the director at Coverall with responsibility for the oversight of Aderia, had little knowledge of the negotiations, though he told the Authority at interview that he had thought at the time that an agreement would be reached. Mr McIntosh told the Authority at interview that he did not recall ever discussing the matter with Mr Reches and that he was updated only on an informal basis, by Aderia. He was not aware of important potential obstacles to the signing of an MGA Agreement, including the fact Berliner had made the agreement contingent upon investment from Mr Reches.
31. In May 2013, Aderia made Mr McIntosh aware that it was entering into the BAAs with Coverholders, including Bar, for the marketing and sale of policies purportedly underwritten by Berliner. As this time, Mr McIntosh knew that there was no MGA Agreement in force between Aderia and Berliner which would have provided Aderia with the authority to enter into the BAAs. Mr McIntosh was aware of the on-going nature of the problem presented by the lack of a signed MGA

Agreement - he attended an Aderia board meeting on 20 June 2013 at which it was stated that no MGA Agreement had yet been signed on behalf of Aderia. Mr McIntosh, and therefore Coverall, recognised the risk to potential policyholders. Mr McIntosh confirmed to the Authority during interview that he had "concerns" about the arrangements. However, despite the concerns held by its director, Coverall did not contact Bar to prevent it from finalising policies purportedly underwritten by Berliner, nor did it take any steps to ensure that Aderia contacted Bar to prevent it from finalising policies purportedly underwritten by Berliner, or take any steps to ensure that Aderia otherwise mitigated the risk to consumers. This was unreasonable in the circumstances. Mr McIntosh stated during interview that the risk was taken due to the "commercial pressure" that Aderia was under.

The impact of Coverall's recklessness

32. The extent of the risk involved was demonstrated in late May 2013 when, pursuant to the Second BAA, Bar wrote to approximately 1,300 firms of solicitors offering to replace the Solicitors' PII cover previously offered by Balva, with cover to be provided by Berliner for the remainder of the 2012/2013 policy year. Over 900 firms of solicitors accepted the replacement cover on offer, though no agreement was in place at that time to bind Berliner to those policies.
33. Furthermore, the Second BAA provided for an annual premium income limit of £50 million, whereas the Berliner MGA Agreement (signed on 15 July 2013 and which retrospectively authorised Aderia to issue BAAs to Coverholders from 1 June 2013) set an annual premium income limit of €5 million, representing the maximum exposure that Berliner was prepared to underwrite. This disparity represented a significant risk to consumers that Bar, unaware of the terms of the Berliner MGA Agreement, would sell policies to customers pursuant to the Second BAA in volumes over and above what Berliner was prepared to underwrite. In fact, the annual premium income limit of €5 million would have been exhausted by the replacement cover for Balva's Solicitors' PII policies alone; there would have been no capacity available for renewal into the 2013/2014 policy year.
34. Ultimately, the Berliner MGA Agreement was annulled on 23 September 2013. In the event, Solicitors' PII policies underwritten by Balva remained in force until the end of the 2012/2013 policy year and solicitors firms were required to find alternative cover for the 2013/2014 policy year or cease practising.

Other insurance policies

35. In addition to the Second BAA, during May 2013 and June 2013 Aderia entered into a further nine BAAs with various Coverholders purporting to authorise the Coverholders to market and sell other liability insurance policies (such as public, product and employer's liability), underwritten by Berliner. Again, as these BAAs were entered into prior to Aderia's appointment as the MGA of Berliner, Aderia had created a risk that Coverholders would purportedly bind Berliner to contracts of insurance without authority and in volumes which would have significantly exceeded the annual premium income limit of €5 million set by Berliner.
36. Coverall knew that Aderia was entering into BAAs without authority being in place at that time from Berliner and it understood the risks to potential policyholders. However, Coverall acted unreasonably because it did not take any steps to ensure that Aderia mitigated that risk or that it did not enter into BAAs with Coverholders on behalf of Berliner until it had authority to do so under a valid MGA Agreement.

Control over Aderia's regulated activities

37. Throughout the Relevant Period, Coverall had regulatory responsibility for the control and oversight of Aderia's regulated activities.
38. The Authority would have expected Coverall to have taken reasonable care to ensure that it organised and controlled its affairs effectively, with adequate risk management systems in place. This would have included establishing and implementing adequate controls over the regulated activities of its AR - Aderia - for which Coverall was responsible, so as to ensure Aderia met applicable requirements and standards under the regulatory system. The Authority had previously published guidance to the senior management of small firms with ARs, emphasising the importance of assessing the risks posed by an AR and of close and continuous supervision of an AR by its Principal.
39. During the period from December 2010 to mid-2012, Mr McIntosh was responsible for the day-to-day running of Aderia. Aderia's business as an MGA expanded during this period, particularly after its appointment as the MGA of Balva in August 2011. However, Mr McIntosh's involvement in Aderia represented the full extent of Coverall's controls over Aderia's regulated activities during this period. Coverall did not put in place any formal processes or procedures for Aderia to provide Coverall with management information in respect of its activities and Coverall did not ensure that any general or financial appraisals of Aderia were carried out on its behalf. As a result, Coverall had inadequate control over the regulated activities of Aderia for which it was responsible.
40. Aderia's increased business activity included receiving premium funds and handling administrative matters such as arrangements for the payment of Insurance Premium Tax. As a result, a new infrastructure was put in place at Aderia to manage its day-to-day running in mid-2012. Once the new infrastructure was in place, from mid-2012, Mr McIntosh stepped back from the day-to-day running and management of Aderia. However, this did not alter Coverall's continuing regulatory responsibility for Aderia's regulated activities or Mr McIntosh's continuing status as the approved person at Coverall responsible for oversight of Aderia.
41. The new infrastructure at Aderia led to a reduction in the already limited level of oversight that Mr McIntosh, on behalf of Coverall, had over Aderia's activities. Mr McIntosh continued to have access to Aderia's files and had a standing invitation to its meetings. However his now reduced involvement in Aderia continued to represent the full extent of Coverall's controls over Aderia's regulated activities. Mr McIntosh confirmed to the Authority at interview that from mid-2012 Coverall's oversight of Aderia was limited to the one day each week that he personally spent working on Coverall-related matters (including oversight of Aderia), and that no additional time was allocated to oversight of Aderia's activities.
42. Despite Mr McIntosh's reduced involvement in Aderia's business from mid-2012, Coverall still did not take reasonable care in organising its affairs by establishing or maintaining any systems to ensure adequate controls over Aderia's regulated activities for which Coverall was responsible. For example, Coverall still did not require Aderia to provide any, or any additional, formal management information. Moreover, throughout the Relevant Period, no formal management meetings were held between Aderia and Coverall and no general or financial appraisals of Aderia

were carried out by Coverall (despite Mr McIntosh accepting during interview that such appraisals were important).

Delegated authority

43. On 23 November 2010, Mr McIntosh (acting in his capacity as a director of Aderia) authorised Mr Reches to sign insurance documents on behalf of Aderia. Mr Reches was not approved by the Authority to perform a controlled function. Mr McIntosh told the Authority at interview that he intended this delegated authority to be utilised by Mr Reches to “*sign insurance documents*” that Mr McIntosh had already agreed on behalf of Aderia.
44. When Coverall appointed Aderia as its AR on 1 December 2010, it was therefore aware through Mr McIntosh of the existence of the delegated authority. However, Coverall did not take reasonable care to establish any, or any appropriate, processes or controls to ensure that it identified, managed, monitored and controlled the conduct risks associated with Mr Reches’ use of the delegated authority and influence over Aderia’s regulated activities.

Consequences of Coverall’s lack of adequate controls

45. Coverall’s failure to establish and implement adequate processes or controls over Aderia’s regulated activities increased the risk that Coverall (through Aderia) would not treat customers fairly, leading to customers receiving poor outcomes and suffering detriment.
46. Mr Reches was able to exercise a significant degree of influence over Aderia and its regulated activities beyond the scope of his delegated authority. In particular, he was effectively allowed to conduct Aderia’s negotiations with Berliner and Bar. He was also effectively allowed to instruct Aderia to enter into the Second BAA with Bar and a further nine BAAs with other Coverholders in respect of the marketing and sale of insurance policies underwritten by Berliner despite the fact that Aderia was not authorised at that time to bind Berliner to contracts of insurance. Mr Reches negotiated key terms in the Second BAA including the premium limit (see paragraph 33 above) without Aderia’s input. Mr McIntosh told the Authority that he (and therefore Coverall) was not aware of the terms of the Second BAA until after the signing of the subsequent MGA Agreement with Berliner.
47. As referred to in the paragraph above, Mr Reches also controlled Aderia’s negotiation of the subsequent Berliner MGA Agreement. A feature of the negotiations was that Mr Reches was also negotiating to invest in Berliner with a view to acquiring the firm and that Berliner had made the MGA Agreement contingent upon this investment. An annual premium income limit of €5 million was included in the Berliner MGA Agreement. As referred to at paragraph 33 above, this was considerably below the £50 million annual premium income limit Aderia purportedly authorised Bar to write on Berliner’s behalf. Mr McIntosh told the Authority at interview that, he (and therefore Coverall) was not aware of the substance of Mr Reches’ negotiations with Berliner or the terms of the Berliner MGA Agreement and that he did not request any information about the process. Mr McIntosh told the Authority at interview that he did not become aware of the discrepancy until August 2012.

Client Money: failure to comply with CASS 5

48. The Authority would have expected Coverall to have arranged adequate protection, in accordance with CASS 5, for the client monies held by its AR, Aderia. This should have included ensuring that:
- a) Coverall recognised if or when Aderia was holding client money; and
 - b) Aderia, as Coverall's AR, held and distributed client money in accordance with CASS 5.

Aderia holding client money

49. In its role as Balva's MGA, Aderia received premiums in respect of insurance policies underwritten by Balva. In April 2012, Mr McIntosh was instructed to make arrangements for Aderia to begin receiving Solicitors' PII premiums from Bar in respect of policies issued on behalf of Balva for the 2012/2013 policy year. Accordingly, between 23 July 2012 and 8 March 2013 (the Principle 10 Relevant Period), Aderia received over £13 million of premiums from Bar in relation to Solicitors' PII policies underwritten by Balva.
50. The premiums Aderia received were client money (as defined in CASS 5) and, as the Balva MGA Agreement did not provide for a transfer of risk from Aderia to Balva, Coverall was required to hold and segregate equivalent sums in its own client bank accounts (conducting a periodic reconciliation in accordance with CASS 5) or ensure that Aderia paid the premiums into Coverall's segregated client account as soon as was practicable.
51. However, Coverall erroneously believed that risk transfer provisions were in place and that the premiums were not client money. Coverall therefore took no action to segregate equivalent sums in its own accounts or to establish and maintain procedures to ensure that Aderia paid the premiums into Coverall's segregated client account as soon as was practicable. Aderia instead held them together with Aderia's own funds, in breach of CASS 5.5.3 R, 5.5.5 R, 5.5.19 R, 5.5.21 R and 5.5.23 R. Coverall therefore failed to arrange adequate protection for the client monies held by Aderia.
52. The fact that Coverall did not comply with CASS 5 created a risk that, in the event of Balva's insolvency, funds would not be available, from Coverall or Aderia, to pay claims or refund premiums and so policyholders would be reliant on compensation from the FSCS.

Disbursements in breach of CASS 5

53. Coverall also did not ensure that Aderia was protecting client money paid out of Aderia's accounts, as required by CASS 5.5.34 R (subject to CASS 5.5.80 R), which required Coverall (and therefore Aderia) to transfer client money to a third party only for the purpose of the client's transaction being effected through or with that third party (i.e. the insurance cover being provided by Balva to the policyholders). This presented a serious risk to consumers which crystallised, in the circumstances described at paragraph 58 below, when client monies were transferred away from Aderia's accounts, in breach of CASS 5.5.34 R.

Client Money: oversight of Aderia

54. The Authority would have expected that Coverall would take reasonable care to organise and control its affairs effectively, with adequate risk management systems which would have included ensuring that Aderia met the relevant requirements and standards of the regulatory system in relation to client money.
55. However, Mr McIntosh told the Authority at interview that he, as the individual at Coverall with responsibility for the oversight of Aderia, did not establish or implement any approvals process in respect of payments to, or receipts from, Aderia's accounts during the period in which he was the sole individual in day-to-day management of Aderia's activities (from December 2010 to mid-2012). Despite being the sole individual in charge of the day-to-day management of Aderia's activities during that period, Mr McIntosh was not always aware of the source of monies that Aderia received or of the financial arrangements in place relating to Aderia.
56. Although Mr McIntosh stepped back from the day-to-day running of Aderia in mid-2012 – which included relinquishing control of Aderia's bank accounts - this did not remove his or Coverall's responsibility for the oversight of Aderia's regulated activities.
57. However, as with other aspects of the operation of Aderia, the changes in Aderia's infrastructure led to a reduction in the already limited oversight exercised by Coverall over Aderia's holding and distribution of client money.
58. As a result of the lack of adequate controls in place over client money, the premium funds held by Aderia were disbursed from Aderia's bank accounts for purposes unconnected to either the policyholder clients for whom the money was held or Balva's responsibilities to meet and pay any claims due under those policies. These disbursements of client money were in breach of CASS 5.

Consequences of the failure to comply with CASS 5

59. Over £11 million of premiums was disbursed in breach of CASS 5 (approximately £9.8 million to parties other than Balva). Later in 2013, Balva was placed into liquidation. As client money had not been protected in accordance with CASS 5, but had in fact been disbursed, funds were not available to pay claims or refund premiums to Balva's Solicitors' PII policyholders. Policyholders are therefore reliant on recovery from the FSCS, which has classed Balva as being in default and, to date, has paid out over £3.8 million to Balva's Solicitors' PII policyholders. The FSCS estimates further liabilities to Balva's policyholders to be £10 million.

FAILINGS

60. The regulatory provisions relevant to this Final Notice are referred to in Annex A.
61. On the basis of the facts and matters described above, the Authority considers that Coverall failed to comply with:
 - a) Principles 1 and 3, during the Relevant Period;
 - b) Principle 10, during the Principle 10 Relevant Period;
 - c) CASS 5.5.3 R, 5.5.5 R, 5.5.19 R, 5.5.21 R, 5.5.23 R and 5.5.34 R; and

- d) the suitability Threshold Condition set out in paragraph 2E of Schedule 6 to the Act.

BREACHES OF PRINCIPLES 1 AND 3

Breach of Principle 1

62. The Authority considers that Coverall failed to act with integrity, in breach of Principle 1, by recklessly failing to mitigate the risks to potential policyholders arising from the contracts entered into by Coverall's AR, Aderia, during the Relevant Period. In particular:
- a) Aderia entered into ten BAAs during May and June 2013, including the Second BAA with Bar on 17 May 2013. These BAAs purportedly authorised Coverholders to sell insurance policies - including Solicitors' PII policies - on behalf of Berliner, without authority, at that time, from Berliner to do so;
 - b) Coverall knew, through its director, Mr McIntosh, that Aderia was entering into the BAAs without having authority, at that time, from Berliner and Coverall recognised the risk that Coverholders would sell insurance policies purportedly underwritten by Berliner but by which Berliner was not bound; and
 - c) despite Coverall's awareness of the risk, Coverall unreasonably failed to ensure that Aderia took any steps, particularly in relation to Bar and Solicitors' PII, to mitigate that risk, and therefore acted recklessly.

Breach of Principle 3

63. The Authority considers that Coverall failed to take reasonable care to organise its affairs effectively by ensuring that it established and implemented adequate controls over the regulated activities of its AR, Aderia, for which it was responsible.
64. In particular, Coverall failed to take reasonable care to establish formal processes and procedures for the provision of management information and it failed to take reasonable care to identify, manage, monitor and control the risks associated with Aderia's delegation of authority, including the risk that the authority would be exceeded.

Breach of Principle 10

65. The Authority considers that Coverall, in breach of Principle 10, failed to arrange adequate protection for clients' assets in relation to the holding of client money by its AR, Aderia. Aderia received, held and disbursed premiums in breach of the provisions contained in CASS 5, specifically the requirements set out in CASS 5.2 and CASS 5.5.
66. In particular, Aderia held and disbursed client money without:
- a) arrangements in place for Aderia to hold money as the agent of Balva pursuant to a written risk transfer agreement;
 - b) the establishment and maintenance of procedures either for the immediate payment of client monies into Coverall's segregated client bank account, or

for Coverall to hold and segregate (with periodic reconciliation) funds equivalent to the client money held by Aderia; or

- c) ensuring that client monies disbursed by Aderia were used only for the purposes of a transaction for the client or other purpose permitted by CASS 5.

The seriousness of the misconduct

- 67. Coverall's failure to establish and implement adequate controls over the regulated activities of Aderia for which it was responsible was exacerbated by its failure to adequately mitigate the conduct risks associated with Aderia's delegation of authority to Mr Reches and his significant influence over Aderia's operations.
- 68. As a result, Coverall effectively allowed Mr Reches to instruct Aderia to enter BAAs (and thus purportedly bind Berliner) without the requisite authority from Berliner to do so. Consequently, approximately 1,300 firms of solicitors were exposed to the significant risk that they would be issued Solicitors' PII policies by Bar, purportedly underwritten by Berliner, when Berliner was not bound to provide such cover. These potential policyholders were therefore at risk of holding themselves out as covered by business-critical Solicitors' PII provided by Berliner when this was not the case. Without valid Solicitors' PII, those firms would have been unable to practise legitimately.
- 69. Coverall's failure to ensure that CASS 5 was complied with meant that client money, including over £13.2 million in Solicitors' PII premiums for policies underwritten by Balva, was not adequately protected. Aderia disbursed approximately £11 million (approximately £9.8 million to parties other than Balva) for purposes unconnected with the policies held by consumers with Balva. This exposed consumers to the significant risk that, in the event of Balva's failure, funds would not be available to pay claims or refund premiums, leaving them dependent on compensation from the FSCS. This risk crystallised when Balva entered liquidation. In respect of Solicitors' PII policies alone, the FSCS has paid £3.8 million in claims and has an estimated future liability of £10 million.

Failure to satisfy the Threshold Conditions

- 70. It appears to the Authority that Coverall is failing to satisfy the suitability Threshold Condition set out in paragraph 2E of schedule 6 to the Act because it no longer satisfies the Authority that it is a fit and proper person having regard to all the circumstances, including:
 - a) its connection with Mr McIntosh, who is considered to be an unfit controller as a result of him failing to act with probity in managing Coverall's affairs;
 - b) its failure to conduct its affairs in an appropriate manner, based on the facts and matters set out above, thereby putting the interests of consumers at risk; and
 - c) its failure to comply with the Authority's requirements.

SANCTION

Financial penalty

71. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.
72. The application of the Authority's penalty policy is set out in Annex B to this Notice in relation to Coverall's breaches of Principles 1, 3 and 10.
73. In determining the financial penalty to be attributed to Coverall's misconduct, the Authority had particular regard to the following matters :
 - a) the need for credible deterrence;
 - b) the nature, seriousness and impact of the breaches;
 - c) the risk of consumer detriment as a result of Coverall's failings;
 - d) the extent to which the breaches were deliberate or reckless; and
 - e) any applicable settlement discount for agreeing to settle at an early stage of the Authority's investigation.
74. The Authority therefore imposes a total financial penalty of £36,800 on Coverall, having received verifiable evidence of serious financial hardship and due to Coverall qualifying for a 30% (stage 1) discount) under the Authority's executive settlement procedures, comprising:
 - a) a penalty of £18,400 relating to Coverall's breaches of Principles 1 and 3; and
 - b) a penalty of £18,400 relating to Coverall's breaches of Principle 10.

Cancellation

75. The Authority's policy on its powers under the Act to cancel a firm's Part 4A Permission is detailed in chapter 8 of the EG. Chapter 8 sets out that, pursuant to the Act, the Authority has the power to cancel a firm's Part 4A permission when it fails to satisfy, or is likely to fail to satisfy, the Threshold Conditions for which the Authority is responsible.
76. Chapter 8 also details the main circumstances in which the Authority will consider cancelling a firm's Part 4A permission, as opposed to varying a firm's Part 4A Permission or imposing requirements. Chapter 8 states that the FCA will consider cancelling a firm's Part 4A Permission where it has very serious concerns about a firm or the way its business is, or has been, conducted.
77. Having considered all the circumstances and the provisions of EG Chapter 8, the Authority has serious concerns about Coverall and the way in which it has conducted its business.

78. The Authority considers that Coverall is failing to satisfy the Threshold Conditions, in that the Authority is not satisfied that Coverall is a fit and proper person, having regard to all the circumstances, including:
- a) its connection with Mr McIntosh, whom the Authority considers not to be a fit and proper person as a result of him failing to act with probity in managing Coverall's affairs;
 - b) its failure to conduct its affairs in an appropriate manner, based on the facts and matters set out above, thereby putting the interests of consumers at risk; and
 - c) its failure to comply with the Authority's requirements.
79. In all the circumstances, Coverall's failure to satisfy the Threshold Conditions leads the Authority to have very serious concerns about Coverall and the way its business is, and has been, conducted. Therefore, the Authority cancels Coverall's Part 4A permission.

The Authority's objectives

80. Regulatory action in relation to this matter underlines the need for authorised firms in the retail distribution chain to ensure that adequate steps are taken to satisfy themselves that robust and effective arrangements are in place to mitigate the risks to consumers.
81. This action – comprising the imposition of a financial penalty of £36,800 and cancellation of Coverall's permission to conduct regulated activities such as insurance mediation – in respect of Coverall's misconduct supports the Authority's operational objectives of securing an appropriate degree of protection for consumers and protecting the integrity of the UK financial system.
82. This action recognises that failure by one or more firms to comply with regulatory requirements that safeguard consumers and/or protect market integrity can distort competition. Tackling conduct failures (such as those detailed in this Final Notice) in order to ensure firms act with integrity, implement appropriate systems and controls, and arrange adequate protection for client assets, therefore supports the Authority's operational objective to promote effective competition in the interests of consumers.

PROCEDURAL MATTERS

Decision maker

83. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.
84. This Final Notice is given under, and in accordance with, section 390 of the Act. The following statutory rights are important.

Manner of and time for Payment

85. The financial penalty must be paid in full by Coverall to the Authority by no later than 14 January 2018.

If the financial penalty is not paid

86. If all or any of the financial penalty is outstanding on 15 January 2018, the Authority may recover the outstanding amount as a debt owed by Coverall and due to the Authority.

Publicity

87. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the Authority must publish such information about the matter to which this Notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.
88. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

89. For more information concerning this matter generally, contact Paul Howick at the Authority (direct line: 020 7066 7954 / email: paul.howick@fca.org.uk) of the Enforcement & Market Oversight Division of the Authority.

Bill Sillett

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

RELEVANT STATUTORY PROVISIONS

1. The Authority's strategic objective, set out in section 1B(2) of the Act, is to ensure that the relevant markets function well. The Authority's operational objectives are set out in section 1B(3) of the Act and include the consumer protection and market integrity objectives.
2. Section 206 of the Act provides that the Authority may impose a penalty on an authorised person, of such amount as it considers appropriate, if it considers that it has contravened a relevant requirement imposed by or under the Act.
3. Section 55J of the Act provides that the Authority may exercise its power to cancel the Part 4A permission of an authorised person if it appears to the Authority that such a person is failing, or is likely to fail, to satisfy the Threshold Conditions for which the Authority is responsible, or it is desirable to exercise the power in order to advance one or more of the Authority's operational objectives.
4. Section 55B and Schedule 6 to the Act set out the Threshold Conditions, which are conditions that the Authority must ensure a firm will satisfy, and continue to satisfy, in relation to regulated activities for which it has permission.
5. Paragraph 2E of Schedule 6 to the Act (Threshold Condition 2.5: Suitability) states that the person concerned must satisfy the Authority that it is a fit and proper person having regard to all the circumstances including, amongst other things:
 - a) the person's connection with any person;
 - b) the need to ensure that the person's affairs are conducted in an appropriate manner, having regard in particular to the interests of consumers and the integrity of the UK financial system; and
 - c) whether those managing the person's affairs have adequate skills and experience and have acted and may be expected to act with probity.

RELEVANT REGULATORY PROVISIONS

6. In exercising its powers to impose a financial penalty and to cancel Coverall's Part 4A permission, the Authority has had regard to the relevant regulatory provisions and policy published in the Authority's Handbook. The main provisions that the Authority considers relevant to this case are set out below.

Principles for Businesses

7. The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers set out in the Act. The relevant Principles are:

- a) Principle 1, which provides that "A firm must conduct its business with integrity";
- b) Principle 3, which provides that "A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems"; and
- c) Principle 10, which provides that "A firm must arrange adequate protection for clients' assets when it is responsible for them".

Client Assets sourcebook (CASS)

8. The Client Assets sourcebook in the Authority's Handbook sets out the Authority's requirements in relation to holding client assets and client money.

9. CASS 5.5.3 R states:

A firm must, except to the extent permitted by CASS 5.5, hold client money separate from the firm's money.

10. CASS 5.5.5 R states:

A firm must segregate client money by either:

(1) paying it as soon as is practicable into a client bank account; or

(2) paying it out in accordance with CASS 5.5.80 R.

11. CASS 5.5.19 R states:

A firm must establish and maintain procedures to ensure that client money received by its appointed representatives, field representatives, or other agents of the firm is:

(1) paid into a client bank account of the firm in accordance with CASS 5.5.5 R; or

(2) forwarded to the firm, or in the case of a field representative forwarded to a specified business address of the firm, so as to ensure that the money arrives at the specified business address by the close of the third business day.

12. CASS 5.5.20 G states:

For the purposes of CASS 5.5.19 R, the client money received on business day one should be forwarded to the firm or specified business address of the firm no later than the next business day after receipt (business day two) in order for it to reach that firm or specified business address by the close of the third business day. Procedures requiring the client money to be sent to the firm or the specified business address of the firm by first class post no later than the next business day after receipt would meet the requirements of CASS 5.5.19 R.

13. CASS 5.5.21 R states:

If client money is received in accordance with CASS 5.5.19 R, the firm must ensure that its appointed representatives, field representatives or other agents

keep client money (whether in the form of premiums, claims money or premium refunds) separately identifiable from any other money (including that of the firm) until the client money is paid into a client bank account or sent to the firm.

14. CASS 5.5.23 R states:

- (1) *A firm must, on a regular basis, and at reasonable intervals, ensure that it holds in its client bank account an amount which (in addition to any other amount which it is required by these rules to hold) is not less than the amount which it reasonably estimates to be the aggregate of the amounts held at any time by its appointed representatives, field representatives, and other agents.*
- (2) *A firm must, not later than ten business days following the expiry of each period in (1):*
 - (a) *carry out, in relation to each such representative or agent, a reconciliation of the amount paid by the firm into its client bank account with the amount of client money actually received and held by the representative or other agent; and*
 - (b) *make a corresponding payment into, or withdrawal from, the account.*

15. CASS 5.5.34 R states:

A firm may allow another person, such as another broker to hold or control client money, but only if:

- (1) *the firm transfers the client money for the purpose of a transaction for a client through or with that person; and*
- (2) *in the case of a consumer, that customer has been notified (whether through a client agreement, terms of business, or otherwise in writing) that the client money may be transferred to another person.*

Decision Procedure and Penalties Manual (DEPP)

16. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

Enforcement Guide (EG)

17. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act. Chapter 8 of EG sets out the Authority's approach with respect to the cancellation of a firm's Part 4A permission, pursuant to the Act. If the Authority proposes to exercise the power to cancel a firm's Part 4A permission because it is failing or is likely to fail to satisfy the Threshold Conditions for which the Authority is responsible, the Authority will have regard to the Threshold Conditions detailed in the Handbook (Chapter 2 of COND).

Threshold Conditions (COND)

18. COND 2.5.4 G and COND 2.5.6 G set out guidance in respect of whether an authorised person satisfies the Threshold Conditions.

ANNEX B

PENALTY ANALYSIS

Imposition of a Financial Penalty

1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of any misconduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

BREACHES OF PRINCIPLES 1 AND 3

Step 1: Disgorgement

2. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive an individual of the financial benefit derived directly from the breach where it is practicable to quantify this. The Authority has not identified any financial benefit that Coverall derived directly from its breaches.
3. Step 1 is therefore £0.

Step 2: the seriousness of the breach

4. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant product or business area.
5. The Authority considers that the relevant revenue generated by Coverall is indicative of the harm or potential harm caused by its breach. The Authority has therefore determined a figure based on a percentage of Coverall's relevant revenue. Coverall's relevant revenue is the revenue derived during the period of the breach. The period of Coverall's breaches of Principles 1 and 3 was from 1 December 2010 to 23 September 2013. During this period Coverall received commission and AR fee payments of £240,500, which the Authority considers to be Coverall's relevant revenue.
6. In deciding on the percentage of the relevant income that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breaches and chooses a percentage between 0% and 40%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on individuals in non-market abuse cases there are the following five levels:

Level 1 - 0%
Level 2 - 5%
Level 3 - 10%
Level 4 - 15%
Level 5 - 20%

7. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly.
8. DEPP 6.5A.2(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factors to be relevant:
 - a) Coverall's failings meant that potential policyholders were exposed to the risk that Bar would issue Solicitors' PII policies purportedly underwritten by Berliner when Berliner was not bound to provide such cover. Potential policyholders were therefore at risk of believing they were covered by business-critical Solicitors' PII provided by Berliner when this was not the case (DEPP 6.5A.2G(6)(c));
 - b) Balva's policyholders were exposed to the significant risk that they would be dependent on compensation from the FSCS in the event of Balva's failure, because Coverall's lack of systems and controls in respect of Aderia (and particularly in relation to the influence of Mr Reches over Aderia's banking arrangements) allowed disbursements of policyholders premiums to be made, including to parties other than Balva, for purposes unconnected with consumers' policies held with Balva. Following Balva entering administration, the FSCS has paid £3.8 million in respect of Solicitors' PII policies and estimates its future liability to be £10 million. Not all policyholders are able to recover funds under the FSCS compensation scheme and those that can recover receive 90% of the sums lost. Although loss to individual consumers has not been identified or quantified at this stage, policyholders have therefore suffered some consumer detriment as a result of Coverall's breaches (DEPP 6.5A.2G(6)(c));
 - c) the breaches revealed serious weaknesses in the firm's procedures and in the management systems or internal controls relating to the firm's oversight of its AR, Aderia, and the activities and influence of Mr Reches (DEPP 6.5A.2G(7)(c));
 - d) Coverall's breaches in respect of oversight of Aderia, and in particular its failure to ensure the actions of Mr Reches were subject to effective control, increased the scope for potential financial crime to be facilitated, occasioned or otherwise occur (DEPP 6.5A.2G(7)(f)); and
 - e) Coverall breached Principle 1 as it failed to act with integrity by recklessly failing to ensure that Aderia took steps to mitigate the risk that Coverholders would sell insurance policies purportedly underwritten by Berliner but which Berliner was not bound by (DEPP 6.5A.2G(7)(g)).
9. The Authority also considers that the following factors are relevant:
 - a) there was the potential for an adverse impact on the Solicitors' PII market and the confidence of consumers in that market was damaged and/or put at risk (DEPP 6.5A.2G(6)(f));
 - b) the breach of Principle 1 was repeated in that Coverall allowed Aderia to enter into 10 BAAs, between May and June 2013, prior to Aderia having authority to do so from Berliner (DEPP 6.5A.2G(7)(b));
 - c) the steps Coverall took to comply with the Authority's rules in respect of oversight of Aderia and ensuring the actions of Mr Reches, again in respect of

Aderia, were subject to effective control were not adequate in the circumstances (DEPP 6.5A.2G(7)(h));

- d) Mr McIntosh (the relevant responsible individual) appreciated at the time that there was a risk that Coverall's inaction could result in a breach and failed adequately to mitigate that risk (DEPP 6.5A.2G(9)(a)); and
 - e) the Authority has not identified evidence to suggest that profits were made or losses avoided as a result of the breach by Coverall, either directly or indirectly (DEPP 6.5A.2G(12)(a)).
10. Taking all of the above factors into account, the Authority considers the seriousness of the breach to be level 4.
11. Step 2 is therefore £36,075 (15% of £240,500).

Step 3: mitigating and aggravating factors

12. Pursuant to DEPP 6.5A.3G(2), at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any amount disgorged at Step 1, to take into account factors which aggravate or mitigate the breach.
13. The Authority considers that the following factor aggravates the breach. The Authority has previously issued guidance to firms regarding a Principal's responsibilities in respect of its ARs. In particular, the Authority issued a factsheet for the senior management of small firms on 1 August 2011 entitled, '*Your responsibility over appointed representatives*'.
14. Having taken into account the above aggravating factor, the Authority considers that the Step 2 figure should be increased by 15%.
15. Step 3 is therefore £41,486.

Step 4: adjustment for deterrence

16. Pursuant to DEPP 6.5A.4G, at Step 4 if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.
17. The Authority considers that the Step 3 figure of £41,486 does not represent a sufficient deterrent to Coverall and other firms with responsibility for ARs, and so has increased the penalty at Step 4. This is because the Authority considers the absolute value of the penalty too small in relation to the breach to meet its objective of credible deterrence (DEPP 6.5B.4G(a)). The Authority has therefore increased the Step 3 figure by a multiple of 4.
18. Step 4 is therefore £165,945.

Serious financial hardship

19. Pursuant to DEPP 6.5D.4G, the Authority will consider reducing the amount of a penalty if a firm will suffer serious financial hardship as a result of having to pay the entire penalty. The Authority has been provided with verifiable evidence as to

Coverall's financial circumstances. Having had regard to the evidence received, and the factors detailed at DEPP 6.5D.4G(2)(a)-(d), the Authority accepts that the payment of a Step 4 penalty of £165,945 would cause Coverall serious financial hardship. The Authority therefore reduces the penalty to £26,350.

Step 5: settlement discount

20. Pursuant to DEPP 6.5A.5G, if the Authority and Coverall, the firm on whom a penalty is to be imposed, agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the state at which the Authority and Coverall reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.
21. The Authority and Coverall reached agreement at Stage 1 and so a 30% discount applies to the financial penalty at Step 4.
22. Step 5 is therefore £18,400.

BREACH OF PRINCIPLE 10

Step 1: disgorgement

23. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this. The Authority has not identified any financial benefit that Coverall derived directly from the breaches.
24. Step 1 is therefore £0.

Step 2: the seriousness of the breach

25. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant product or business area.
26. The Authority considers that the revenue generated by Coverall is not an appropriate indicator of the harm or potential harm caused by the breaches of Principle 10 in this case. In cases involving breaches of Principle 10 relating to client money, the Authority usually considers that an appropriate alternative is to base the Step 2 figure on the daily average client money balances held by the firm over the Relevant Period.
27. However, the Authority considers that the daily average client money balances held by Aderia during the Relevant Period are not an appropriate indicator because 2012/2013 Solicitors' PII premiums remitted to Aderia by Bar were, generally, only held for a short period after receipt before being disbursed on the instructions of Mr Reches. Basing the Step 2 figure on the daily average client money balances, would, therefore, produce a figure which would not appropriately reflect the seriousness of Coverall's misconduct in breaching Principle 10.

28. Therefore the Authority considers that it would be appropriate to derive the Step 2 figure from the total amount of 2012/2013 Solicitors' PII premiums, which were client money, held by Aderia during the Principle 10 Relevant Period.
29. In deciding on the percentage of the client money figure which will form the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage that is appropriate to the relevant fixed level which represents, on a sliding scale of 1 to 5, the seriousness of the breach; the more serious the breach, the higher the level. The percentage levels that the Authority usually applies to cases involving client money is as follows:
- Level 1 - 0%
 - Level 2 - 1%
 - Level 3 - 2%
 - Level 4 - 3%
 - Level 5 - 4%
30. However, in assessing the seriousness level of Coverall's breach, the Authority considers that the following factors also to be relevant. These reflect the impact and nature of the breach and whether it was committed deliberately or recklessly.
- a) as a result of Coverall's breaches of Principle 10, Balva's policyholders were exposed to the significant risk that they would be dependent on compensation from the FSCS in the event of Balva's failure, because Coverall's failure to properly protect client money by ensuring that funds were received, held, segregated and disbursed in accordance with CASS 5 allowed, in particular, disbursements of policyholders premiums to be made, including to parties other than Balva, for purposes unconnected with consumers' policies held with Balva. Following Balva entering administration, the FSCS has paid £3.8 million in respect of Solicitors' PII policies and estimates its future liability to be £10 million. Not all policyholders are able to recover funds under the FSCS compensation scheme and those that can recover receive 90% of the sums lost. Although loss to individual consumers has not been identified or quantified at this stage, policyholders have therefore suffered some consumer detriment as a result of Coverall's breaches (DEPP 6.5A.2G(6)(c));
 - b) the need to pursue claims through the FSCS is likely to have occasioned inconvenience to policyholders whose claims arose at the time at which, or before, Balva went into administration (DEPP 6.5A.2G(6)(e));
 - c) the breach had the potential to have an adverse impact on the Solicitors' PII market and the confidence of consumers in that market (DEPP 6.5A.2G(6)(f));
 - d) the breach took place over a period of approximately 8-9 months (DEPP 6.5A.2G(7)(b));
 - e) the breach revealed serious weaknesses in the firm's systems and controls for monitoring its AR, Aderia (DEPP 6.5A.2G(7)(c));
 - f) Coverall's failure to arrange adequate protection for clients' money in relation to the holding of premiums by Aderia created a significant risk that financial crime would be facilitated, occasioned or otherwise occur (DEPP 6.5A.2G(7)(f));

- g) the Authority does not believe that the breaches were committed deliberately or recklessly (DEPP 6.5A.2G(8));
 - h) the Authority has no evidence to suggest that profits were made or losses avoided as a result of the breach by Coverall, either directly or indirectly (DEPP 6.5A.2G(12)(a)); and
 - i) the breach of Principle 10 was committed negligently (DEPP 6.5A.2G(12)(e)).
31. Taking all of these factors into account, the Authority considers the seriousness of Coverall's breach to be level 3 and so the Step 2 figure is 2% of £ 13,291,041. The figure of £13,291,041 represents the total amount of 2012/2013 Solicitors' PII premiums, which were client money, held by Aderia during the Principle 10 Relevant Period.
32. Step 2 is therefore £265,820.

Step 3: mitigating and aggravating factors

33. Pursuant to DEPP 6.5A.3G(2), at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any amount disgorged at Step 1, to take into account factors which aggravate or mitigate the breach.
34. The Authority considers that the following factor aggravates the breach. The Authority has noted the existence of guidance issued by the Authority to firms regarding a Principal's responsibilities in respect of its ARs; in particular, guidance entitled '*Guide to Client Money for General Insurance Intermediaries*' published in March 2007. This guide was produced to help firms carrying on insurance mediation activities to understand how to hold client money in accordance with CASS 5. It includes sections on the requirements for effective risk transfer arrangements and client money handled by ARs. The Authority considers Coverall's failure to follow this guidance to be an aggravating factor justifying an increase in the penalty of 10%.
35. Having taken into account the above aggravating factors, the Authority considers that the Step 2 figure should be increased by 15%.
36. Step 3 is therefore £305,693.

Step 4: adjustment for deterrence

37. Pursuant to DEPP 6.5A.4G, at Step 4 if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.
38. The Authority considers that the Step 3 figure represents an appropriate deterrent to Coverall and others.
39. The Step 4 figure is therefore £305,693.

Serious financial hardship

40. Pursuant to DEPP 6.5D.4G, the Authority will consider reducing the amount of a penalty if a firm will suffer serious financial hardship as a result of having to pay the entire penalty. The Authority has been provided with verifiable evidence as to Coverall's financial circumstances. Having had regard to the evidence received, and the factors detailed at DEPP 6.5D.4G(2)(a)-(d), the Authority accepts that the payment of a Step 4 penalty of £305,693 would cause Coverall serious financial hardship. The Authority therefore reduces the penalty to £26,350.

Step 5: settlement discount

41. Pursuant to DEPP 6.5A.5G, if the Authority and Coverall, the firm upon whom a penalty is to be imposed, agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the state at which the Authority and Coverall reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.
42. The Authority and Coverall reached agreement at Stage 1 and so a 30% discount applies to the financial penalty at Step 4.
43. The Step 5 figure is therefore £18,400.

Total Financial Penalty

44. The Authority imposes on Coverall a total financial penalty of £36,800 (comprising £18,400 in respect of Coverall's breaches of Principles 1 and 3, and £18,400 in respect of Coverall's breaches of Principle 10).
45. Coverall has provided verifiable evidence of serious financial hardship. Had it not been for its reduced financial circumstances, the Authority would have imposed a financial penalty of £471,638 (or £330,000 adjusted for a 30% (stage 1) discount if settled early).