
FINAL NOTICE

To: **Moorhouse Group Limited**

Reference **308035**

Number:

Address: **Barclay House
2-3 Sir Alfred Owen Way
Caerphilly
Mid Glamorgan
UNITED KINGDOM
CF83 3HU**

Date: **22 April 2015**

1. ACTION

- 1.1. For the reasons given in this notice, the Authority hereby imposes on Moorhouse Group Limited ("Moorhouse") a financial penalty of £159,300.
- 1.2. Moorhouse agreed to settle at an early stage of the Authority's investigation. Moorhouse 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 £227,670.

2. SUMMARY OF REASONS

- 2.1. On the basis of the facts and matters described below, Moorhouse breached Principle 3 (Management and control) in relation to oversight and control of the telephone sales environment between 1 January 2012 and 31 December 2012, and Principle 7 (Communications with clients) in relation to its telephone sales of CV Add-on Products. Moorhouse sells motor and liability-related insurance products to SMEs, which include micro SMEs. Micro SMEs are small businesses that consist of a sole trader or have fewer than 10 employees.
- 2.2. Moorhouse breached Principle 3 (Management and control) by failing to take reasonable care to organise and control its compliance systems and controls responsibly and effectively in relation to the telephone sales environment. In particular it failed to:
- (1) ensure that a consistent and effective QA process was in place. The Quality Monitoring in place in the first three months of the Relevant Period was undertaken by one employee and was limited to reviewing one telephone call per sales agent per week. The Quality Monitoring undertaken for the remainder of the Relevant Period was undertaken by Performance Leaders who had no compliance training and was more focused on sales skills development than on regulatory compliance. Most significantly, Moorhouse did not monitor commercial vehicle sales for two thirds of the Relevant Period;
 - (2) ensure that the Board and senior management gave sufficient attention to compliance issues and took adequate steps to address them including failing to review, challenge and action compliance MI that raised concerns about the sales environment. Such concerns included for example, a Quality Report of January 2012 which stated that the overall Quality Monitoring score recorded was 66% (against a Board expectation of 75%), and a Quality Report of February 2012 which stated that "the closers are still mis-selling Add-ons by only providing a combined premium and not informing the client that they are optional policies"; and
 - (3) identify that customer data was recorded inaccurately by Moorhouse's telephone sales agents, which was then passed onto insurers when cover was arranged, with the potential risk that the customers would be unable

to successfully claim on their policies in the event of a claim. Examples of discrepancies identified included a customer stating that they were at fault in an accident in 2010 but policy documentation stated the customer bore “no blame” for the accident in 2010. In another case, when the customer was asked by the sales agent if he worked solely on private dwelling houses, offices, or shops the customer confirmed during the call that he worked on commercial building sites, but the answer recorded was ‘yes’.

- 2.3. Moorhouse breached Principle 7 (Communications with clients) as it did not pay due regard to the information needs of its customers by failing to disclose appropriate information about the limitations and exclusions of CV Add-on Products prior to the purchase of them. Some of the limitations and exclusions could restrict the ambit of the cover considerably. For example, the Breakdown Add-on policy did not cover breakdowns which would be prevented by routine servicing of the vehicle, or replacing its tyres or windows. The Excess Waiver Add-on policy cover is provided only where the damage exceeds the excess agreed under the core policy.
- 2.4. Without the provision of balanced information, there was a risk that Moorhouse’s customers did not have adequate information to make an informed decision at the time of the sale.
- 2.5. In its Retail Conduct Risk Outlook 2012 released on 13 March 2012 the Authority warned firms that add-ons in general insurance gave rise to emerging risks. Such risks included that firms might incentivise staff to pressure sell or to automatically include the add-on without explaining the cover properly. Despite that warning, Moorhouse did not review its sales processes to ensure compliance with the Authority’s Principles or ensure that it had systems and controls in place to mitigate against such risks.
- 2.6. While the Authority considers the failings to be serious, it recognises that:
 - (1) in response to the Authority’s concerns Moorhouse agreed to suspend sales of add-on insurance products in April 2013 for five months and has made significant improvements to its compliance systems and controls since the Relevant Period; and

(2) there is no evidence of any unsuccessful claims or of any claims being refused as a result of any data discrepancies caused by Moorhouse during the Relevant Period.

2.7. The Authority therefore imposes a financial penalty on Moorhouse in the amount of £159,300 pursuant to section 206 of the Act.

2.8. This action supports the Authority's operational objective of consumer protection.

3. DEFINITIONS

3.1. The definitions below are used in this Final Notice.

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

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

"CL Product" means commercial liability products (general contracts of insurance against risks of the persons insured incurring liabilities to employees or third parties)

"CV Core Product" means commercial vehicle core products (general contracts of insurance against damage arising out of or in connection with the use of motor vehicles for the purpose of, for example, a courier business)

"CV Add-on Product" means commercial vehicle add-on products (general contracts of insurance for events not covered by the CV Core Product, including breakdown, excess waiver, key care and legal expenses)

"DEPP" means the Decision Procedure and Penalties Manual part of the Authority's Handbook

"MI" means Management Information

"Moorhouse" means Moorhouse Group Limited

“Principle” means one of the Authority’s Principles for Businesses

“Products” means all CL Products, CV Core Products and CV Add-on Products arranged by Moorhouse

“QA” means quality assurance

“Quality Monitoring” means the reviews of telephone calls with consumers conducted by Moorhouse as part of the overall QA processes

“Relevant Period” means 1 January 2012 – 31 December 2012

“Skilled Person” means the person appointed, pursuant to section 166 of the Act, to review Moorhouse’s sales of Products to SME’s during the Relevant Period and to report on its findings

“Skilled Person Report” means the Report dated September 2013 completed by the Skilled Person pursuant to section 166 of the Act

“SME” means small and medium enterprises

“micro SME” means businesses with between 0-9 employees

“the Tribunal” means the Upper Tribunal (Tax and Chancery Chamber)

4. FACTS AND MATTERS

Background

- 4.1. Moorhouse is a general insurance intermediary based in Wales which employs approximately 120 staff and has been authorised since January 2005.
- 4.2. Moorhouse has permission to deal with both retail and commercial customers, but its client base and business model is focused on selling motor and liability-related insurance products to SMEs, including micro SMEs. Although the majority of customers would be classified as commercial, micro SME customers are less likely to be sophisticated customers and many will exhibit similar knowledge and experience to that of a retail customer.

- 4.3. Moorhouse sells general insurance products to its customers predominantly by telephone.
- 4.4. Moorhouse's call centre focused on selling CL Products, CV Core Products and CV Add-on Products to new and existing customers. Sales agents were grouped into eight teams, each of which was under the control of a Performance Leader.
- 4.5. During the Relevant Period the Board at Moorhouse comprised three Board members. Although they only met formally on a quarterly basis they worked in close proximity to each other and would discuss the needs of the business on a daily basis. The senior managers also worked in close proximity and would hold meetings on a monthly basis to consider all risks in the business and review appropriate MI.
- 4.6. Where a CV Core Product is sold by Moorhouse, a variety of CV Add-on Products are also offered to its customers. These include key care, breakdown, excess waiver and legal expenses.
- 4.7. During the Relevant Period, Moorhouse sold 9,777 CL Products, 8,911 CV Core Products and 18,389 CV Add-on Products to new customers by telephone, generating gross revenues of £2,276,701. All policies had a fixed term of one year. Moorhouse derived further revenues through online and mailshot sales and from renewing policies of existing customers.

Skilled Person Report

- 4.8. In April 2013 the Authority conducted a review of a random sample of 12 telephone sales of CV Core Products and related CV Add-on Products by Moorhouse to new customers. Moorhouse appeared to provide customers with inadequate information in relation to CV Add-on Products before completion of sale. The Authority also identified failings suggesting a non-compliant sales environment.
- 4.9. In May 2013 the Authority issued a Requirement for a Skilled Person to review the telephone sales of Products by Moorhouse during the Relevant Period.

4.10. The Skilled Person identified a number of failings in respect of the telephone sales of CV Add-on Products and shortcomings in the control environment for all Products sold by Moorhouse during the Relevant Period. In particular it found:

- (1) there were insufficient details about each Add-on Product being provided to customers in good time prior to their decisions to purchase;
- (2) the QA arrangements in place at Moorhouse during the Relevant Period were ineffective because an independent review function was only in place during the first quarter of 2012, and the Performance Leaders who took over this role did not exhibit sufficient regulatory focus or independence expected from an effective QA process. The Skilled Person was concerned to note that a key element of the business (commercial vehicle sales) was not subject to quality review arrangements for a significant part of the year (2012);
- (3) ten sales of CL Products and CV Core Products were identified where there appeared to be evidence of discrepancies between information provided by the customer during the sales process and data subsequently recorded by Moorhouse and passed on to the insurer when cover was arranged, with the potential risk that the customer would be unable to successfully claim on his/her policy in the event of a claim; and
- (4) there was insufficient priority given to compliance matters in respect of the telephone sales environment including inadequate challenge and oversight by the Board or senior management.

Compliance Systems and Controls

4.11. There were a number of weaknesses in the systems and controls in place at Moorhouse relating to its oversight of the telephone sales environment.

Quality Monitoring

4.12. There was a small compliance function at Moorhouse during the Relevant Period. For the period 1 January 2012 to 31 March 2012, Quality Monitoring was carried out by a member of the compliance function who conducted QA. This consisted of reviewing a sample of the calls made by those sales agents selling CL

Products against a checklist to identify any training needs, to ensure the correct policy cover had been given and that Moorhouse was meeting compliance and quality standards.

- 4.13. The Quality Monitoring was limited to reviewing sales agents' telephone calls, and its aim was to evaluate one call per sales agent per week. It was undertaken by one person. By contrast, the top performing sales agents in commercial vehicles were making on average 25 sales per week, none of which was subject to any QA process.
- 4.14. The results of the Quality Monitoring were added to the QA database and reported in a spreadsheet which was circulated on a monthly basis to senior management. The results of monitoring were provided to the Board quarterly in the Quality Report.
- 4.15. The Compliance Report contained scores relating to Quality Monitoring with a Board expectation of 75% compliant calls.
- 4.16. Moorhouse's Quality Monitoring was limited because:
 - (1) it was only in place for the three month period from 1 January 2012 to 31 March 2012;
 - (2) within that period, it was only undertaken for three weeks during the months of January and February 2012 and for two weeks during the month of March 2012; and
 - (3) it did not include monitoring of sales in the commercial vehicle business.

Quality Monitoring by Performance Leaders

- 4.17. In April 2012, Moorhouse discontinued the Quality Monitoring outlined above. In its place, approximately six Performance Leaders (i.e. sales team leaders) conducted weekly observations of calls made by each sales agent in their respective teams.
- 4.18. Performance Leaders were required to undertake 'live' monitoring of a minimum of two calls a month per agent. By contrast, the top performing sales agents in

commercial vehicles were making on average more than 100 sales per month, none of which was subject to any QA process until 31 August 2012. Observations were captured in a Quality Monitoring summary which was fed back to individual sales agents during monthly appraisals and to the Head of Sales. The primary focus of this process was to improve sales agents' selling skills, not compliance with internal processes or regulatory requirements.

4.19. The Quality Monitoring by Performance Leaders had the following key weaknesses:

- (1) it did not include monitoring of sales in the commercial vehicle business from 1 April 2012 to 31 August 2012;
- (2) it was undertaken by Performance Leaders who had no compliance training, whose role focused primarily on sales agents' performance and did not provide objective independence in the QA process; and
- (3) it was more focused on sales skills development than on regulatory compliance.

4.20. Moorhouse did not have a sufficiently robust QA process in place during the whole of the Relevant Period as it did not operate adequate Quality Monitoring across all types of business, allocate appropriate compliance resources to this task, or adequately escalate the results of what monitoring it did conduct to the Board. Its failure to monitor commercial vehicle sales at all for two thirds of the Relevant Period – from January to August 2012 – is particularly poor.

4.21. As a result, there was inadequate monitoring of whether sales were compliant across the business. This meant that Moorhouse senior management was unaware of the risk that customers were not being given appropriate information as part of the sales process. In particular, the QA process did not pick up instances where data provided by customers was inaccurately captured by Moorhouse's telephone sales agents.

Data discrepancies

4.22. A robust QA process operating across any telephone sales environment should monitor the data input function within the sales team and identify any data

captured inaccurately. At Moorhouse the QA process during the Relevant Period failed to identify that such discrepancies were occurring.

4.23. As part of the review of a sample of telephone sales the Skilled Person identified 10 of 40 telephone sales of CL Products and CV Core Products to new customers where there were discrepancies between information provided by the customer during the telephone sales process, the data subsequently recorded on Moorhouse's broking systems and sent to insurers, and the policy arranged for the customer.

4.24. Examples of discrepancies identified included the following:

(1) In one sales call there were two discrepancies; the most material being that a customer stated during the sales call that they were at fault in an accident in 2010 but policy documentation stated the customer bore "no blame" for the accident in 2010.

(2) a customer said the total wage roll was £80,000 but this was recorded as £50,000; which on discovery would have entitled the insurer to refuse any claim based on work carried out by subcontractors because the policy specifically excluded such claims where the wage roll exceeded £50,000.

(3) in one sales call several discrepancies were found as follows:

a) when the customer was asked by the sales agent if he worked solely on private dwelling houses, offices, or shops the customer confirmed during the call that he worked on commercial building sites, but the system risk details state 'yes' in answer to that question;

b) when asked the number of employees he had the customer stated "four" but this was recorded as "two" by the sales agent; and

c) the employer reference number was incorrectly noted on documentation.

4.25. The Authority reviewed the ten calls and associated documentation which the Skilled Person concluded contained data discrepancies. The Authority concludes that in five of 40 sales (12.5%) of CL Products and CV Core Products customers

faced the potential risk that a claim would be unsuccessful, either in whole or in part, on account of the incorrect information provided to the insurer. However, the Authority notes that there is no evidence of any unsuccessful claims or of any claims being refused as a result of data discrepancies caused by Moorhouse during the Relevant Period.

- 4.26. These findings demonstrate that during the Relevant Period there was on occasion inaccurate recording of data provided by the customer during the sales process which was not adequately identified by the QA process and so could not be escalated to the Board and senior management. This is particularly concerning as a significant proportion of the recording errors (12.5%) concerned material data which could have affected the customer's ability to claim successfully under their insurance cover.

Governance and compliance oversight

- 4.27. During the Relevant Period Moorhouse was unable to demonstrate sufficiently robust governance with regard to compliance issues. Moorhouse did not provide sufficient compliance MI from the QA process to the Board and senior management. While Moorhouse was a small firm the informal nature of its governance arrangements meant there is an insufficient record that the compliance MI that was available was subjected to appropriate consideration, challenge and action by the Board and senior management.

Compliance MI

- 4.28. The Authority expects firms to provide the Board and senior management with the information required to identify, measure and control the risks inherent in its business; in this case the telephone sales environment and to document appropriately the provision of the information to the Board.

- 4.29. The following compliance MI was produced at Moorhouse during the Relevant Period:

- (1) Complaints monthly report - January, February, March 2012;
- (2) Quality Report - January, February, March 2012;

- (3) Quality Monitoring summary (monthly); and
 - (4) Compliance Report - January, March, June, September and December 2012.
- 4.30. The compliance function produced the Compliance Report and provided it to the Managing Director at the end of each month and to the Board quarterly. It consisted of complaints records and potential compliance issues including a TCF MI Scorecard containing both qualitative and quantitative data.
- 4.31. Moorhouse prepared Complaints and Quality Reports on a monthly basis and these were submitted to senior management each month and to the Board on a quarterly basis.
- 4.32. The Quality Report contained the results of the QA process between January-March 2012, described at paragraphs 4.12 – 4.16 above. The findings of the call monitoring carried out by Performance Leaders described at paragraphs 4.17 – 4.20 above were provided in the Quality Monitoring Summary. However, as referred to at paragraphs 4.13 – 4.21 above, Moorhouse did not have a sufficiently independent QA process in place during the Relevant Period to monitor the commercial vehicle aspect of the business.
- 4.33. Although several types of compliance MI were provided to the Board and senior management during the Relevant Period, the MI was inadequate and did not enable them to have sufficiently robust oversight of the risks inherent in its business.

Governance arrangements

- 4.34. Moorhouse is a relatively small general insurance intermediary with a small senior management team and compliance function. There were regular informal discussions between the management team (who were in close proximity to each other) about the operation of the telephone sales environment but such discussions that there were are not evidenced adequately from Moorhouse's records. The Authority expects authorised firms to have effective governance systems which can evidence adequate focus on compliance and the management of risk.

- 4.35. During the Relevant Period there was a lack of formal record keeping to evidence either discussion, review, or challenge by the Board or senior manager's team of the compliance MI or of any remedial action Moorhouse took in respect of any of the deficiencies identified. Several reports during the Relevant Period raised concerns about the telephone sales environment. For example, the Quality Report of January 2012 stated that the overall Quality Monitoring score recorded was 66% (against a Board expectation of 75%). The Quality Report of February 2012 stated that "the closers are still mis-selling Add-ons by only providing a combined premium and not informing the client that they are optional policies". In the circumstances the FCA finds that Moorhouse did not take adequate steps to ensure that it had documented its discussion, review or challenge of Compliance MI.
- 4.36. At the Board meetings during the Relevant Period where the Compliance Report was submitted the minutes merely record that the "report was distributed to directors prior to the meeting and any action points put in place" with no further indication from the documentary record that the contents of reports were discussed, analysed or acted upon by the Board.
- 4.37. In addition, representatives of the compliance function, while they attended monthly senior management meetings, were not invited to Board meetings to present the Compliance Report or respond to any questions from members of the Board. The Compliance function was, accordingly, not given sufficient opportunity at formal Board meetings to orally raise concerns regarding the telephone sales environment or assist the Board with managing the risks set out in the Compliance Report.
- 4.38. Moorhouse did not take minutes of the monthly senior managers' meetings whose purpose was to consider all risks in the business and review appropriate MI.
- 4.39. As a result of these inadequate governance arrangements, there is little documentary evidence to demonstrate that Moorhouse analysed, at Board or Management level, whether its QA process was effective and covered every aspect of the business. It is apparent that in practice, Moorhouse's QA process was ineffective because there is insufficient evidence to demonstrate that the process identified common issues and trends or identified and mitigated potential risks. It is not documented as to how the Board and senior

management played a part in the management of the risk of potential customer detriment.

- 4.40. The deficient QA process and inadequate oversight of compliance issues at Moorhouse heightened two significant risks in the telephone sales environment. First, there was an increased risk that Moorhouse's customers who were sold CV Add-on Products did not have adequate information to make an informed decision at the time of the sale. Further, Moorhouse did not identify that discrepancies between the customer data taken by its telephone sales agents and the data subsequently sent to insurers were occurring.

Inadequate information prior to purchase

- 4.41. Each of the CV Add-on Products sold by Moorhouse included various limitations and exclusions, some of which restricted the ambit of the cover considerably. For example:

- (1) key care: the policy did not cover keys lost or stolen when not attached to a fob;
- (2) breakdown: the policy did not cover breakdowns which would be prevented by routine servicing of the vehicle, or replacing its tyres or windows;
- (3) excess waiver: cover was provided only where the damage exceeds the excess agreed under the core policy; and
- (4) legal expenses: legal costs to a maximum of £50,000 or £100,000 only if the insurer considers that there are reasonable prospects of success.

- 4.42. The explanation of the sale of add-on products must remain clear, fair and not misleading at each stage of the sales process to ensure customers receive a balanced view of the benefits and limitations of the underlying policies and any CV Add-on Products. Although Moorhouse was not required to provide full disclosure of all the terms and conditions attaching to the CV Add-on Products, it was under an obligation to ensure discussions about the limitations and exclusions of the CV Add-on Products in customer calls it highlighted were balanced and presented a clear and fair summary to its customers.

- 4.43. From the review of a random sample of 60 Products sold by Moorhouse, the Skilled Person observed that in a significant number of cases the customer may have been unable to make an informed decision about CV Add-on Products, because the sales agent provided an insufficient explanation of important product details. In particular, whilst customers were informed of the products' benefits, the details of key product limitations and exclusions were rarely provided.
- 4.44. The Authority's review of a random sample of CV Add-on Products sold by telephone to new customers found that in 15 of 16 sales, the sales agents did not disclose important information about the main limitations and exclusions.
- 4.45. A common theme throughout the calls was that the features and benefits of the CV Add-on Products were read out by Moorhouse's sales agents before quoting the price. The details of important limitations and exclusions were not, however, outlined clearly and fairly. The Authority considers that this does not present a balanced picture of the CV Add-on Product being sold and therefore does not communicate information to customers in a way which is clear, fair and not misleading.

Improvements

- 4.46. After the Authority's concerns were made known, in May 2013 Moorhouse voluntarily and temporarily ceased selling the CV Add-on Products to new customers, while it undertook a review of its systems and processes and made significant and material enhancements. The improvements introduced included enhanced sales and monitoring processes and governance arrangements including the introduction of new sales scripts and call monitoring procedures together with the appointment of a new Head of Compliance.
- 4.47. As a result of the considerable and material steps taken by Moorhouse in October 2013 the Authority indicated that it was satisfied that Moorhouse had made the enhancements necessary to make its telephone sales environment compliant with the Authority's Principles and Rules.

5. FAILINGS

- 5.1. The regulatory provisions relevant to this Final Notice are referred to in Annex A.

- 5.2. Moorhouse breached Principles 3 (Management and control) and 7 (Communications with clients) of the Authority's Principles for Businesses for the reasons set out below.

Principle 3

- 5.3. Moorhouse breached Principle 3 by failing to take reasonable care to organise and control its compliance systems and controls responsibly and effectively in relation to the telephone sales of all Products. In particular:

- (1) the QA process in place during the Relevant Period was inconsistent and ineffective. For a large part of the Relevant Period there was no check on whether adequate information had been provided to customers purchasing CV Add-on Products. This heightened the risk that customers were not treated fairly;
- (2) the poor QA process meant that Moorhouse did not identify that discrepancies between the customer data taken by Moorhouse's telephone sales agents and the data subsequently sent to insurers were occurring, with the potential risk that that the customer would be unable to successfully claim on his/her policy in the event of a claim; and
- (3) the Board received inadequate MI about the telephone sales environment. When they did receive MI, the Board and senior management gave insufficient attention to compliance issues as they failed to invite Compliance to board meetings.

Principle 7

- 5.4. Moorhouse breached Principle 7 because:

- (1) it did not provide customers with balanced information about its CV Add-on Products throughout the sales process; and
- (2) its sales agents failed to disclose appropriate information about the main limitations and exclusions of CV Add-on Products.

- 5.5. The lack of this information meant that non-sophisticated commercial customers may have been unable to determine whether the products matched their demands and needs.
- 5.6. Consequently Moorhouse's customers did not receive information which was sufficiently clear, fair and not misleading and may have been prevented from making informed decisions prior to purchasing the CV Add-on product.

6. SANCTION

- 6.1. 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.

Step 1: disgorgement

- 6.2. 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.
- 6.3. The Authority has not identified any financial benefit that Moorhouse may have derived directly from its breach.
- 6.4. Step 1 is therefore £0.

Step 2: the seriousness of the breach

- 6.5. 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 products or business area.
- 6.6. The Authority considers that the revenue generated by Moorhouse is indicative of the harm or potential harm caused by its breach. The Authority has therefore determined a figure based on a percentage of Moorhouse's relevant revenue.

Moorhouse's relevant revenue is the revenue derived by Moorhouse from its telephone sales of Products to new customers during the period of the breaches. The period of Moorhouse's breaches was from January 2012 to December 2012. The Authority considers Moorhouse's relevant revenue for this period to be £2,276,701.

- 6.7. In deciding on the percentage of the relevant revenue that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. 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 firms there are the following five levels:

Level 1 – 0%

Level 2 – 5%

Level 3 – 10%

Level 4 – 15%

Level 5 – 20%

- 6.8. 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.

- 6.9. The Authority considers that the following factors are relevant:

Impact of the breach

(1) Moorhouse caused a significant risk of loss to individual customers, in particular to those customers who were subject to a discrepancy between risk data provided by them and risk data upon which Moorhouse quoted and arranged insurance cover and, as a result, may not have been able to successfully claim on their policies. However, the Authority notes that there is no evidence of unsuccessful claims as a result of data discrepancies caused by Moorhouse during the Relevant Period.

(2) The lack of information provided to customers about the key product limitations and exclusions meant customers may have been unable to determine whether the product matched their needs and demands and

may have prevented them from making informed decisions prior to purchasing the CV Add-on product.

- (3) There is no evidence of Moorhouse benefitting from its breaches of Principles 3 and 7.

Nature of the breach

- (1) The breaches revealed a systemic weakness in Moorhouse's internal controls for most of the Relevant Period. From January to August 2012, Moorhouse did not monitor sales calls in its commercial vehicle business. Apart from that Moorhouse's controls focused on sales skills and operated in an environment of inadequate MI and governance arrangements.
- (2) As far as Moorhouse's breach of Principle 7 is concerned, the Authority has taken into account that Moorhouse was not under an obligation to explain all contractual terms during telephone calls.

Whether the breaches were deliberate or reckless

- (1) The Authority has not found that Moorhouse acted deliberately or recklessly in the context of the breaches of Principles 3 and 7.

6.10. Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 3 and so the Step 2 figure is 10% of £2,276,701.

6.11. Step 2 is therefore £227,670.

Step 3: mitigating and aggravating factors

6.12. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2 to take into account factors which aggravate or mitigate the breach.

6.13. The Authority considers that the following factors aggravate the breach:

- (1) Moorhouse did not take steps of its own initiative to identify customers who may have suffered detriment and offer them compensation.

(2) In its Retail Conduct Risk Outlook 2012 released on 13 March 2012 the Authority identified add-ons in general insurance as an emerging risk. The Authority warned that firms might incentivise staff to pressure sell or to automatically include the add-on without explaining the cover properly or that it is optional. Despite that warning, which came only two and a half months into the Relevant Period, Moorhouse did not review its sales processes to ensure compliance with the Authority's rules and Principles or ensure that it had systems and controls in place to mitigate the risks associated with the sales of add-on products.

6.14. The Authority considers that the following factor mitigates the breach:

(1) Moorhouse co-operated fully with the Authority's investigation. Moorhouse voluntarily ceased the selling of add-on products while it made enhancements to its systems and processes to the Authority's satisfaction.

6.15. Having taken into account both the aggravating and mitigating factors, the Authority considers that there should be no change to the Step 2 figure.

6.16. Step 3 is therefore £227,670.

Step 4: adjustment for deterrence

6.17. Pursuant to DEPP 6.5A.4G, if the FCA 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.

6.18. The Authority considers that the Step 3 figure of £227,670 represents a sufficient deterrent to Moorhouse and others, and so has not increased the penalty at Step 4.

6.19. Step 4 is therefore £227,670.

Step 5: settlement discount

- 6.20. Pursuant to DEPP 6.5A.5G, if the Authority and 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 stage at which the Authority and the firm reached agreement.
- 6.21. The Authority and Moorhouse reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.
- 6.22. Step 5 is therefore £159,300.

Penalty

- 6.23. The Authority therefore imposes a total financial penalty of £159,300 on Moorhouse for breaching Principles 3 and 7.

7. PROCEDURAL MATTERS

Decision maker

- 7.1. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.
- 7.2. This Final Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time of Payment

- 7.3. The financial penalty must be paid in full by Moorhouse to the Authority no later than 6 May 2015, 14 days from the date of the Final Notice.

If the financial penalty is not paid

- 7.4. If all or any of the financial penalty is outstanding on 7 May 2015 the Authority may recover the outstanding amount as a debt owed by Moorhouse and due to the Authority.

Publicity

- 7.5. 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.
- 7.6. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

- 7.7. For more information concerning this matter generally, contact Rebecca Irving (direct line: 020 7066 1424) at the Authority.

Anthony Monaghan
Head of Department
Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. STATUTORY PROVISIONS

- 1.1. Pursuant to sections 1B and 1C of the Act, one of the Authority's operational objectives is securing an appropriate degree of protection for consumers.
- 1.2. Pursuant to section 206 of the Act, if the Authority considers that an authorised person has contravened a requirement imposed on it by the Act, it may impose on that person a penalty in respect of the contravention of such amount as it considers appropriate.

2. REGULATORY PROVISIONS

- 2.1. In exercising its power to impose a financial penalty, the Authority has had regard to the relevant regulatory provisions published in the Authority's Handbook. The main provisions that the Authority considers relevant are set out below.

Principles for Businesses (Principles)

- 2.2. Principle 3 (Management and controls) states that:

"A firm must take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems".

- 2.3. Principle 7 (Communications with clients) states that:

"A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading".

Decision Procedure and Penalties Manual (DEPP)

- 2.4. 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)

- 2.5. The Enforcement Guide sets out the Authority's approach to taking disciplinary action. The Authority's approach to financial penalties is set out in Chapter 7 of the Enforcement Guide.