
FIRST SUPERVISORY NOTICE

To: Ideal Insurance Services Limited

Of: Oak House
High Street
Chorley
Lancashire
PR7 1DW

Date: 10 April 2008

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (“the FSA”) has taken the following action:

1. ACTION

1.1. For the reasons listed below and pursuant to section 45 of the Financial Services and Markets Act 2000 (“the Act”), the FSA has decided to vary the permission granted to you, Ideal Insurance Services Limited, pursuant to Part IV of the Act (“your Permission”) by removing all regulated activities with immediate effect. Accordingly, your Permission no longer includes the following regulated activities (those marked with an asterisk were limited to non-investment insurance contracts):

- (1) agreeing to carry on a regulated activity;
- (2) assisting in the administration and performance of a contract of insurance;
- (3) advising on investments (except on Pension Transfers and Pension Opt Outs)*;
- (4) dealing in investments as agent*;

- (5) arranging (bringing about) deals in investments*; and
 - (6) making arrangements with a view to transactions in investments*.
- 1.2. The FSA has further, pursuant to section 43 of the Act, decided to vary your Permission by including the following requirements, namely that within 14 days you must:
- (1) notify in writing all clients (policyholders, intermediaries and insurers) for your regulated activities that you are no longer permitted by the FSA to carry on regulated activities; and
 - (2) provide the FSA with a copy of the written notification sent pursuant to (1) above, together with a list of all clients to whom such notification has been sent.

2. REASONS FOR ACTION

- 2.1. The FSA has concluded, on the basis of the facts and matters described in further detail in section 4 of this notice, that:
- (1) you have failed to conduct your business with integrity, in breach of Principle 1 of the FSA's Principles for Businesses;
 - (2) you have failed to pay due regard to the interests of your customers and to treat them fairly, in breach of Principle 6 of the FSA's Principles for Businesses;
 - (3) the above breaches are so serious as to demonstrate that you are failing, and will continue to fail, to satisfy the threshold conditions set out in Schedule 6 to the Act (the "Threshold Conditions") in that the FSA is not satisfied that you are a fit and proper person having regard to all the circumstances (Threshold Condition 5 - Suitability); and
 - (4) it is desirable to exercise the power to vary your Permission in order to protect the interests of consumers or potential consumers.
- 2.2. In summary, you have sold policies of insurance and collected premium payments from customers but you have not passed the premiums received from customers to Primary General Insurance Limited, who acts under delegated binding authority for underwriters. Further to the FSA visit to your premises on 8 April 2008, it appears that you have also failed to pass premiums to other intermediaries in a similar manner. In other cases you have also cancelled policies of insurance without instruction from the customer and without advising the customer of your actions and not refunded premiums. This has exposed customers to the risk of not being covered under insurance which they have purchased from you.
- 2.3. The FSA considers that it is necessary, in order to protect consumers and to prevent the risk of your business from being used for the purpose of financial crime, for the variation to take immediate effect.

3. RELEVANT STATUTORY AND REGULATORY PROVISIONS

Statutory provisions

- 3.1. The FSA's regulatory objectives established in section 2(2) of the Act include the reduction of financial crime and the protection of consumers.
- 3.2. By section 45 of the Act, the FSA is authorised:
- (1) to vary an authorised person's permission, where it appears to the FSA that the authorised person is failing to satisfy the Threshold Conditions or that it is desirable to vary the permission in order to protect the interests of consumers or potential consumers;
 - (2) to vary the permission by removing a regulated activity from those for which the permission is given; and
 - (3) to include any provision in the permission as varied that could be included if a fresh permission were being given in response to an application under section 40 of the Act, including the imposition pursuant to section 43 of the Act of such requirements as the FSA considers appropriate.
- 3.3. Section 53(3) of the Act allows such a variation to take effect immediately if the FSA reasonably considers that it is necessary for the variation to take effect immediately.
- 3.4. Section 41 of the Act states that "the threshold conditions", in relation to a regulated activity, means the conditions set out in Schedule 6 to the Act.
- 3.5. Threshold Condition 5 in Schedule 6 states that an authorised person must satisfy the FSA that he is a fit and proper person having regard to all the circumstances, including his connection with any person, the nature of any regulated activity that he carries on or seeks to carry on, and the need to ensure that his affairs are conducted soundly and prudently.

Principles for Businesses

- 3.6. The FSA's Principles for Businesses are a general statement of the fundamental obligations of firms under the regulatory system. They derive their authority from the FSA's rule-making powers as set out in the Act and reflect the FSA's regulatory objectives. The FSA considers that the following Principles are relevant to your conduct:
- (1) Principle 1:
"A firm must conduct its business with integrity".
 - (2) Principle 6:

"A firm must pay due regard to the interests of its customers and treat them fairly".

Guidance on Threshold Conditions

- 3.7. The part of the FSA Handbook entitled Threshold Conditions ("COND") contains guidance on the required standards to meet Threshold Condition 5.
- 3.8. COND 2.5.4 G provides that when determining whether the firm will satisfy and continue to satisfy threshold condition 5, the FSA will have regard to all relevant matters, including whether the firm:
 - (a) conducts, or will conduct, its business with integrity and in compliance with proper standards;
 - (b) has, or will have, a competent and prudent management; and
 - (c) can demonstrate that it conducts, or will conduct, its affairs with the exercise of due skill, care and diligence.

The FSA's policy on exercising its own-initiative power to vary a Part IV permission

- 3.9. The FSA's policy on exercising its power to vary a Part IV permission on its own initiative is set out in Chapter 8 of the Enforcement Guide ("EG").
- 3.10. EG 8.5 states that the FSA will consider varying a firm's Part IV permission in support of its enforcement function in circumstances where it has serious concerns about a firm, or about the way its business is being or has been conducted. EG 8.5 states that an example of such circumstances is where the firm appears not to be a fit and proper person to carry on a regulated activity, because, for instance, it has not conducted its business in compliance with high standards, which may include putting itself at risk of being used for the purposes of financial crime or being otherwise involved in such crime. Another example is where it appears that the interests of consumers are at risk because the firm appears to have breached any of Principles 6 to 10 of the FSA's Principles to such an extent that it is desirable that limitations, restrictions, or prohibitions are placed on the firm's regulated activity.
- 3.11. Paragraph 8.6 of EG states that the FSA may impose a variation of permission so that it takes effect immediately or on a specified date if it reasonably considers it necessary for the variation to take effect immediately (or on the date specified), having regard to the ground on which it is exercising its own-initiative power.
- 3.12. Paragraph 8.7 of EG indicates that the FSA will consider exercising its own initiative power as a matter of urgency where:
 - (1) the information available to it indicates serious concerns about the firm or its business that need to be addressed immediately; and
 - (2) circumstances indicate that it is appropriate to use statutory powers immediately to require and/or prohibit certain actions by the firm in order to ensure the firm addresses these concerns.

- 3.13. Paragraph 8.8 of EG gives examples of situations that will give rise to the serious concerns mentioned in paragraph 8.7. These include: information indicating that a firm's conduct has put it at risk of being used for the purposes of financial crime, or of being otherwise involved in crime; information indicating significant loss, risk of loss or other adverse effects for consumers, where action is necessary to protect their interests; and circumstances suggesting a serious problem within a firm or with a firm's controllers that calls into question the firm's ability to continue to meet the threshold conditions.
- 3.14. EG 8.9 includes, among the factors which will determine whether the urgent exercise of the FSA's own-initiative power is an appropriate response to serious concerns, the extent to which customers' assets appear to be at risk, or the risk that the firm's business may be used or has been used to facilitate financial crime.

4. FACTS AND MATTERS RELIED ON

- 4.1. You became authorised on 14 January 2005 to carry on the following regulated activities (those marked with an asterisk were limited to non-investment insurance contracts):
- (1) agreeing to carry on a regulated activity;
 - (2) assisting in the administration and performance of a contract of insurance;
 - (3) advising on investments (except on Pension Transfers and Pension Opt Outs)*;
 - (4) dealing in investments as agent*;
 - (5) arranging (bringing about) deals in investments*; and
 - (6) making arrangements with a view to transactions in investments*.
- 4.2. From August 2005 you have operated under an agency agreement with Primary General Insurance Limited ("Primary"), the terms of which entitled you to offer insurance business to the offices of Primary or to arrange it through Primary's on-line system. Customers paid premiums to you which were then to be passed to Primary who in turn would pass the monies to underwriters. You have also operated under similar agreements with other intermediaries or insurers. Your customers are small businesses - mainly hotels as well as pubs and other commercial enterprises whose policies generally covered the commercial premises, liability insurances and any personal buildings and contents cover as necessary.
- 4.3. You cancelled policies arranged on behalf of a number of your customers without their instruction to do so and without you notifying them of your actions. This left your customers not only without insurance cover but unaware that they had no such cover.

- 4.4. By the beginning of 2008, your account with Primary was £41,700 in debit. Policies had been arranged for some 58 customers but the premiums had not been forwarded by you to Primary. Because of your failure to pay premiums due to Primary, Primary at first suspended and then cancelled its agency agreement with you. Where customers were able to prove that they had paid premiums to you, Primary agreed to honour the contracts of insurance that were in place. Primary then instigated winding up proceedings against you.
- 4.5. Paperwork seen on a visit to your premises on 8 April 2008 indicated that your accounts with other intermediaries were also in debit and payments were overdue, including to East Kent Underwriting Ltd, Commercial Risks UK Ltd, and Beech Underwriting Agencies Ltd. It was also apparent that NIG had recently terminated its agency agreement with you due to a 'poor accounts history' with you.

5. ANALYSIS OF BREACHES

- 5.1. By withholding premium payments and cancelling contracts of insurance without the customer's instruction to do so, you have acted without integrity, in breach of Principle 1.
- 5.2. By disregarding your contractual obligations to other firms, namely by failing to pass on premium payments to underwriters via Primary and other intermediaries, you have acted without integrity, in breach of Principle 1.
- 5.3. By failing to advise customers that you had cancelled policies and by exposing your customers to the risk of not being covered under insurance which they have purchased through you, you have failed to pay due regard to the interests of your customers and treat them fairly, in breach of Principle 6.

6. CONCLUSIONS

- 6.1. The facts and matters described above lead the FSA, having regard to its regulatory objectives, to the following conclusions:
 - (1) the above breaches are so serious as to demonstrate that you are not a fit and proper person to be authorised to conduct regulated activities, having regard to the need to ensure that your affairs are conducted soundly and prudently;
 - (2) you therefore fail to satisfy Threshold Condition 5: Suitability, and the FSA is entitled to vary your Permission to remove all regulated activities and to include the requirements set out at paragraph 1.2 above; and
 - (3) that the variation of your Permission should take immediate effect to address the FSA's concern that otherwise you will continue to issue insurance policies without forwarding premiums or that you will continue to cancel policies without notifying customers.

7. DECISION MAKER

- 7.1 The decision which gave rise to the obligation to give this First Supervisory Notice was made by the Chairman of the Regulatory Decisions Committee.

8. IMPORTANT

- 8.1. This First Supervisory Notice is given to you in accordance with section 53(4) of the Act. The following statutory rights are important.

The Tribunal

- 8.2. You may refer this matter to the Financial Services and Markets Tribunal (“the Tribunal”). Under section 133 of the Act, you have 28 days from the date you were sent this Supervisory Notice to refer the matter to the Tribunal or such other period as specified in the Tribunal Rules or as the Tribunal may allow. A reference to the Tribunal is made by way of a written notice signed by you and filed with a copy of this Notice. The Tribunal’s address is: 15-19 Bedford Avenue, London WC1B 3AS (telephone 020 7612 9700). The detailed procedures for making a reference to the Tribunal are contained in section 133 of the Act and the Tribunal Rules.
- 8.3. You should note that the Tribunal Rules provide that at the same time as filing a reference notice with the Tribunal, you must send a copy of the notice to the FSA. Any copy notice should be sent to Russell Clifton at the FSA, 9th Floor, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Representations

- 8.4. You have the right to make written and oral representations to the FSA (whether or not you refer this matter to the Tribunal). If you wish to make written representations you must do so by 15 May 2008 or such later date as may be permitted by the FSA. Written representations should be made to the Regulatory Decisions Committee and sent to Jane Horncastle, Regulatory Decisions Committee Professional Support Services. The Regulatory Decisions Committee Professional Support Services’ address is: 25 The North Colonnade, Canary Wharf, London E14 5HS. If you wish to make oral representations, you should inform Jane Horncastle on or before 23 April 2008.

Confidentiality and publicity

- 8.5. You should note that this Supervisory Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). You should also note that section 391 of the Act requires the FSA when the Supervisory Notice takes effect, to publish such information about the matter as it considers appropriate.

FSA contacts

- 8.6. If you have any questions regarding the procedures of the Regulatory Decisions Committee, you should contact Jane Horncastle (direct line: 020 7066 3200/fax: 020 7066 3201) or Jackie Noonan of RDC Professional Support Services (direct line: 020 70663074/fax: 020 70661015).

8.7. For more information concerning this matter generally, you should contact Russell Clifton of the FSA (direct line: 020 7066 5304).

Tim Herrington
Chairman, Regulatory Decisions Committee