



qatar

FINANCIAL CENTRE
REGULATORY AUTHORITY

The Conduct of Business Regime in the QFC – proposed rules for retail insurance

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Discussion Points

1. Introduction
2. Statutory Framework and Overview
3. Client Classification
4. Financial Promotions
5. Providing Information and Advice to Clients

Introduction

- The rules in relation to conduct of business in or from the QFC are contained in the Conduct of Business (COND) rulebook.
- Today's presentation will focus on draft proposals concerning the conduct of business in relation to retail insurance activities that will significantly amend COND.
- The consultation process is now complete and the draft rules are close to finalisation, subject to approval by the Board of the QFC Regulatory Authority.
- The 'new' COND will build on the current requirements by adding new conduct of business rules specifically designed to apply to insurance activities conducted in relation to all categories of general and long term retail insurance business.
- The rules have a particular emphasis on insurance business, although the proposed regime is intended to be the framework for any regulated activities conducted by firms authorised to do so by the QFCRA.

Statutory Framework and Overview

- The QFC Regulatory Authority has, under Article 24 of the Financial Services Regulations, a statutory obligation to only:

‘authorise Persons to carry on Regulated Activities with or for retail customers in the State after it has put in place measures to ensure appropriate customer protections commensurate with the needs of such customers’

- The proposals contained in the ‘new COND’ are directed to that requirement.
- The proposals have also been developed in the context of our obligations under our Regulatory Objectives (Article 12 of the Financial Services Regulations) and the Principles of Good Regulation (Article 13 of the Financial Services Regulations).

Statutory Framework and Overview – continued

- The proposals include provisions setting out how the QFC Regulatory Authority expects authorised firms to conduct themselves in respect of retail customers. Under the proposed regime, retail customers will have the following expectations in relation to insurance activities:
 - to be treated fairly;
 - to receive advertising material for financial services or products that is appropriate for retail customers and is not misleading;
 - to receive adequate information from firms on the firms themselves, the services they will provide and the products they offer to enable a retail customer to make an informed choice;
 - to have an appropriate “cooling-off” period for investment decisions;

Statutory Framework and Overview – continued

- to have all reasonable claims on policies honoured; and
- to have complaints addressed in a timely manner.
- However those expectations, and the obligations of Authorised Firms, do not mean, for example that a retail customer:
 - will not lose money on the investment;
 - is guaranteed to make money on the investment;
 - is protected from fraud in relation to the investment; or
 - no longer needs to make investment decisions based on an assessment of his or her own position.

Statutory Framework and Overview – continued

- In this presentation we focus on client classification, financial promotions and the information that firms must provide to customers when advising and selling insurance products.
- There are however other important areas where conduct of business rules apply that firms and other interested parties should familiarise themselves with:
 - conflicts, material interests and inducements;
 - customer complaints;
 - investment research and investment recommendations;
 - personal account transactions;
 - dealing and managing;
 - cancellation rights; and
 - claims handling.

Client Classification

- Classification of a client is fundamental to the new retail regime. It is the first thing a firm must establish before undertaking any activity for a client.
- It is fundamental because the regulatory protections in new COND are built in layers according to the vulnerability of the type of client in question. Chapters of new COND are generally arranged in the following way:
 - rules that firms must follow when doing business with clients (usually higher order principles only);
 - rules that firms must follow when doing business with customers of all types: business, commercial and retail; and
 - rules that firms must follow when doing business with retail customers.

Client Classification – continued

What is a retail customer?

- The legal definition is in our rulebooks (please refer to the Glossary in the Interpretation and Application (INAP) rulebook), but as a rule of thumb the following would normally be classified as retail customers:
 - individuals;
 - body corporates with less than US\$ 5 million in called up share capital or net assets;
 - partnerships with less than US\$ 5 million in net assets; or
 - trustees of a trust with less than US\$ 5 million in net assets.

Client Classification – continued

Opting up

- In certain circumstances, a person who may otherwise be classified as a retail customer may be classified as a business customer, in particular if:
 - the individual has at least US\$1 million in liquid assets; and
 - the firm is satisfied, after a careful assessment, that the individual has sufficient knowledge, experience and understanding of the relevant financial market to justify being dealt with by the firm without the benefit of the protections the regulatory system provides to retail customers.

Financial Promotions

- A financial promotion is a communication in any medium whose purpose or effect is to:
 - promote or advertise specified products or any regulated activity; or
 - invite or induce any person to:
 - enter into an agreement with any person in relation to a specified product; or
 - engage in any regulated activity.

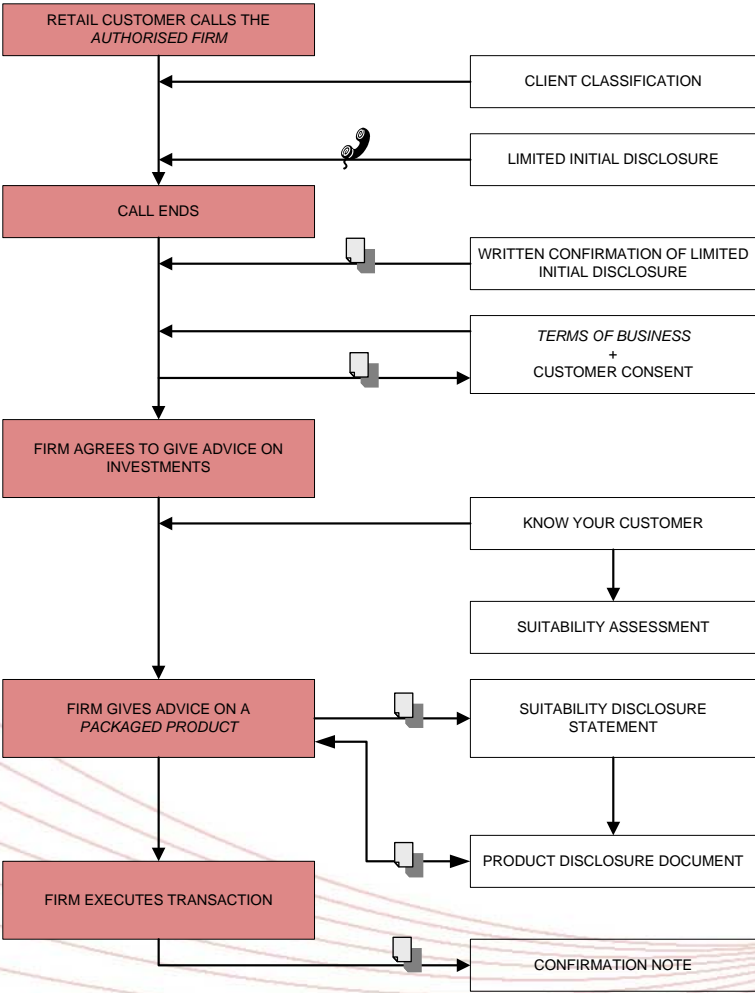
Financial Promotions – continued

- The new requirements proposed in relation to financial promotions aimed at retail customers include:
 - senior management sign-off that the financial promotion complies with the requirements in new COND;
 - high level principles regarding the presentation of financial promotions (e.g. not to disguise important warnings or statements);
 - requirements to use fair comparisons, objective past performance indicators and realistic projections;
 - rules regarding financial promotions containing direct offers, particularly the disclosure information they must contain; and
 - rules limiting when cold calls can be made and placing restrictions on entering into binding contracts from a cold call.

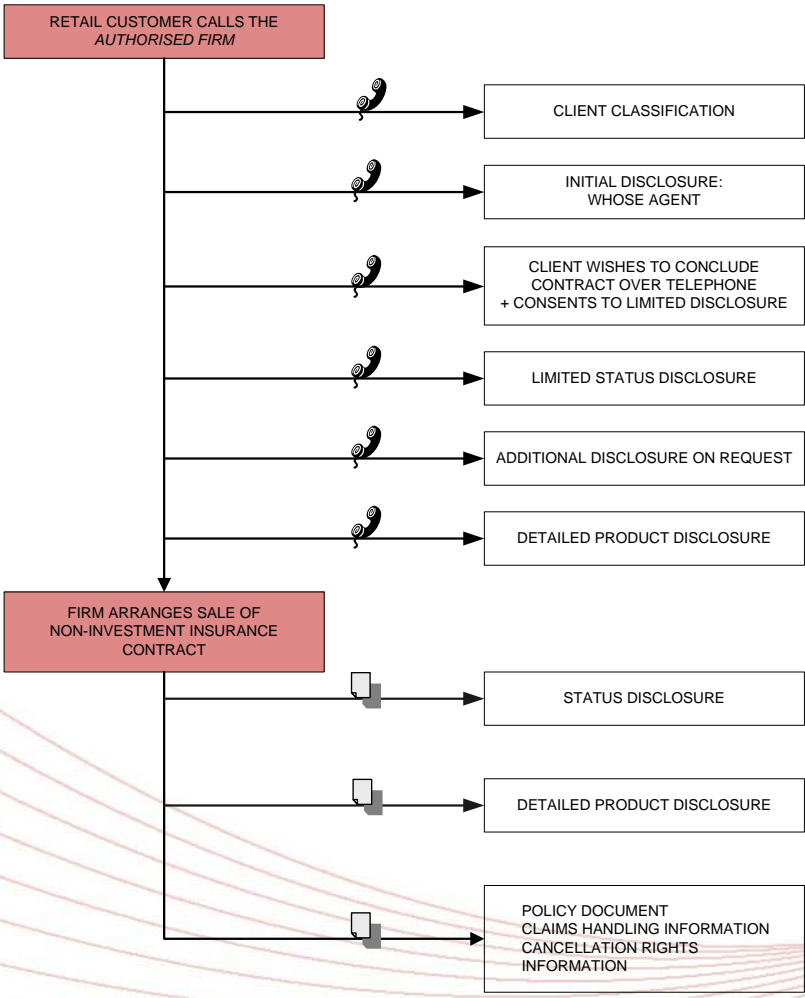
Providing Information and Advice to Clients

- Turning to the conduct of business itself, the proposals aim to:
 - provide adequate retail customer protections through the entire investment process from initial contact to post-contract obligations;
 - to be a disclosure based regime to allow retail customers to make informed choices; and
 - provide suitable flexibility for both firms and customers in relation to when and how information is provided.
- Rather than list the proposals themselves, we will take this opportunity to provide some practical examples of the new requirements.

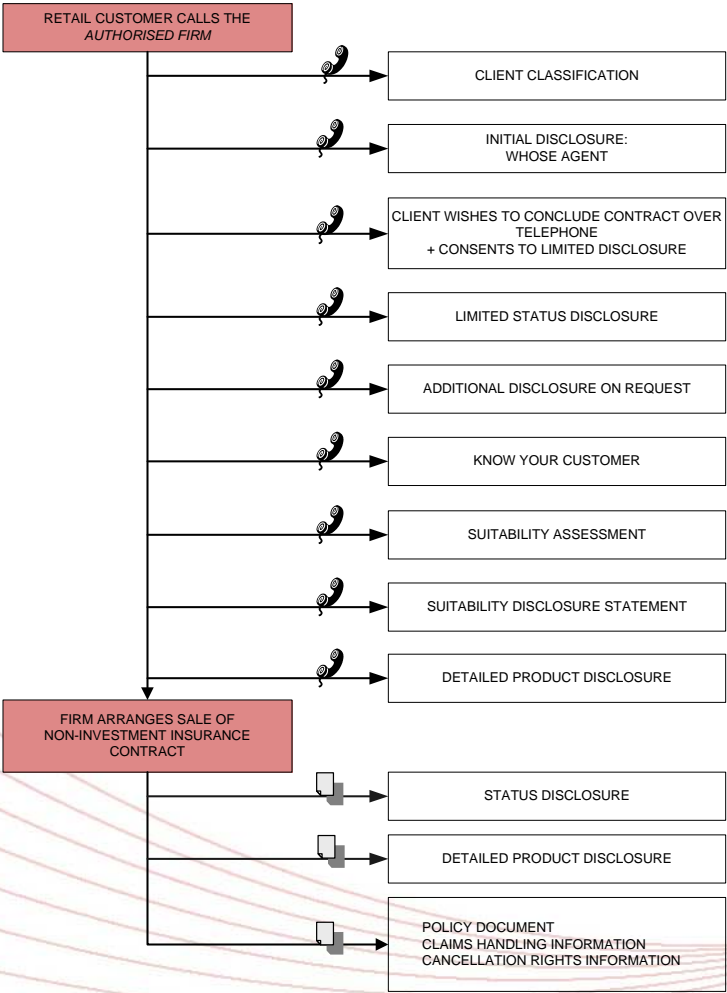
Advice to retail customers — Initial contact by telephone — packaged products



Execution-only transaction by telephone for retail customer — non-investment insurance contract

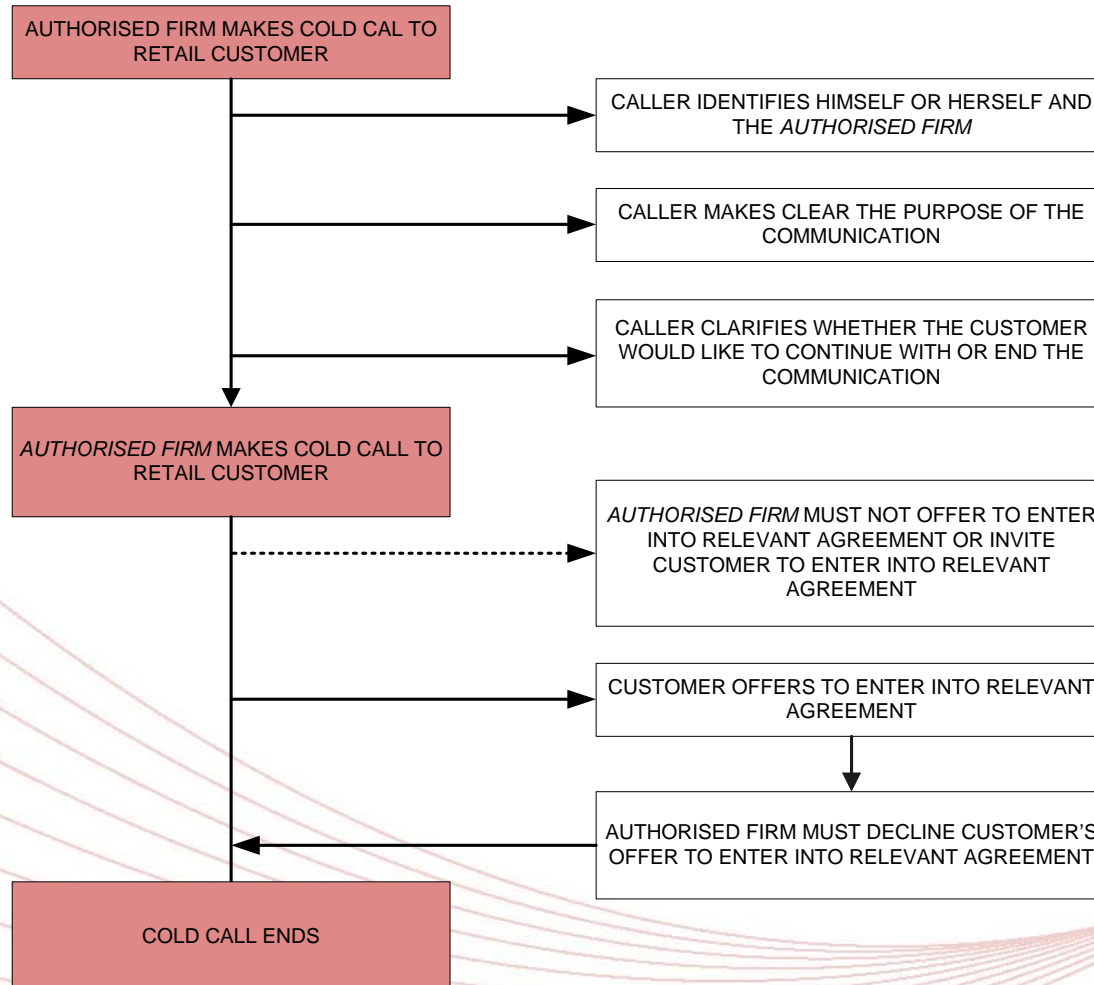


Advice – non-investment insurance contracts



Cold Calls

Note: Cold calls include all unsolicited personal visits, telephone calls or other interactive dialogue.



Cold Calls - continued

- Authorised firm proceeds in accordance with COND on the basis that the cold call is the firm's first contact with the retail customer; or
- Authorised firm gives the retail customer written financial promotion containing an offer or invitation to enter into relevant agreement in accordance with COND.