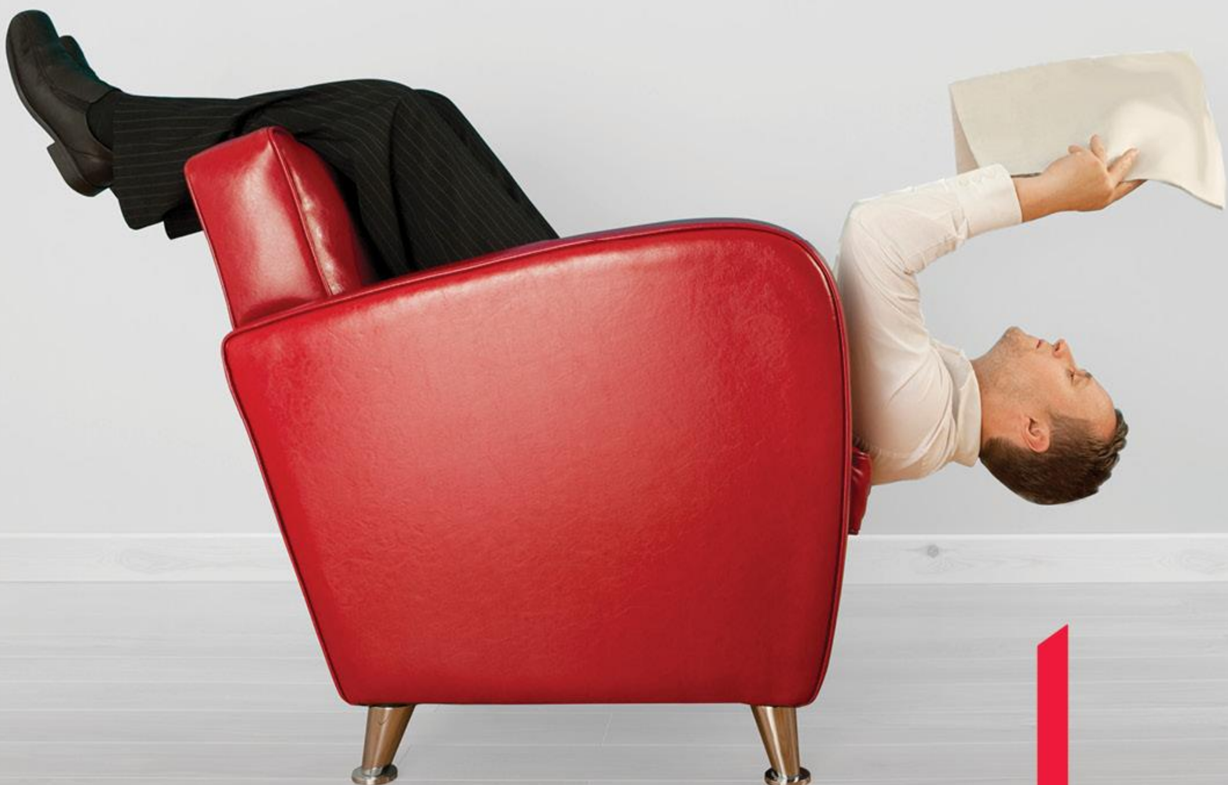
INSURANCE REGULATORY EBULLETIN

ROUND UP OF REGULATORY DEVELOPMENTS IN FEBRUARY 2020



WELCOME TO OUR INSURANCE REGULATORY EBULLETIN

Welcome to this edition of our Insurance Regulatory eBulletin, which aims to keep you updated with significant regulatory developments and their implications across the insurance sector.

February has been a busier month than January on the regulatory front. Topically, the FRC has issued guidance to companies on reporting risks relating to coronavirus and climate change in their financial statements. EIOPA is consulting on elements of its Solvency II 2020 review and IBOR transition. It has also published its final guidelines on outsourcing. Data privacy has been highlighted during the month with the FCA admitting a breach and the FCA and ICO warning FCA firms on the issue of mis-use of personal data. The FCA has also issued its annual Sector Views which will inform its future supervisory priorities. For the insurance sector these highlight the continuing cultural misconduct risk in the sector.

I hope you enjoy reading this latest update. Please do not hesitate to contact myself or your normal BDO contact if you have any concerns over any matter highlighted in this update.

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EIOPA

RISK DASHBOARD JANUARY 2020

On 29 January, EIOPA published its updated Risk Dashboard based on the third quarter 2019 Solvency II data.

The results show that the risk exposures of the European Union insurance sector remained stable compared to October. Macro and market risks continue at a high level. Despite the recent easing of monetary policy by major central banks, the macroeconomic environment remains subdued and the continuing prolonged low interest rates challenge for the insurance sector. Market risks, while remaining at a high level, show a decreasing trend due to lower implied bond market volatility since October. Credit Default Swaps spreads declined slightly across most bond segments, except sovereign bonds, with credit risks remaining at medium level. Solvency ratios for groups and life undertakings declined across the whole sector in Q3-2019, but profitability and solvency risks still continue at medium level.

2020 REVIEW OF SOLVENCY II: OPPORTUNITIES AND CHALLENGES

On 29 January, EIOPA published a speech by Gabriel Bernardino given at the conference '2020 Solvency II Review: Challenges and opportunities' in Brussels. In the speech, Bernardino noted the 2020 review is an opportunity to:

- Ensure that the regime continues to be fit for purpose by being capable to reflect the evolution of the market conditions
- To fine tune the regime to ensure that it is more proportionate to the scale and complexity of risks insured by different types of insurers and creates better conditions for insurers to develop new sound business models
- To complete the EU regulatory toolbox by introducing a macro prudential dimension and a minimum harmonisation regarding recovery and resolution and insurance guarantee schemes.

Bernardino went on to discuss the evolution of market conditions, proportionality and the long-term nature of business models and completing the regime by acting to stop misuse of freedom of establishment and services and the need for a minimum harmonised framework for insurance guarantee schemes. He noted EIOPA is analysing the feedback received and in March will follow up with a holistic impact assessment. This review may now include a review of the method of calculation of the Solvency II Risk Margin.

EIOPA CONSULTS ON PROPOSALS FOR SOLVENCY II 2020 REVIEW - SUPERVISORY REPORTING AND PUBLIC DISCLOSURE

On 5 February, EIOPA launched a Consultation Paper on proposals for the Solvency II 2020 Review - Review of technical implementation means for the package on Solvency II Supervisory Reporting and Public Disclosure.

The consultation aims to review the technical means in particular within the scope of:

- The governance process for XBRL taxonomies development and publication;
- The business and technical validations, including its definition and documentation, its deactivation process and its tolerance mechanism;
- Taxonomy architecture, EIOPA’s taxonomy tooling and its deliverables; and
- The improvement of the accessibility and reachability of the public disclosure data- including its standardisation as machine readable and promoting the accessibility/reachability of the reports.

Comments are requested by 20 April 2020

EIOPA DISCUSSION PAPER: IBOR TRANSITIONS

On 6 February, EIOPA published a Discussion Paper on the subject of the ongoing changes to the new benchmark rates (IBOR transitions). The paper sets out the potential impact of the IBOR transitions on the definition and the use of the Credit Rate Adjustment currently applied on the EIOPA Risk free rate term structures, and proposes options and a consistent approach for dealing with the new term structures calculated with the new benchmark rates for all currencies.

Comments to this paper must be submitted by 30 April 2020.

MORTGAGE LIFE AND OTHER CREDIT PROTECTION INSURANCE SOLD THROUGH BANKS

On 6 February, EIOPA launched an EU-wide thematic review looking into consumer protection issues with mortgage life and other credit protection insurance sold through banks. EIOPA noted mortgage life and other credit protection insurance, when adequately developed and targeted, can be beneficial for consumers, offering policyholders and their estates protection in the event that they become unable to pay a loan.

However, despite the benefits, national competent authorities have reported issues and risks related to these types of insurance products that may lead to consumer detriment, as reported in EIOPA's 2019 Consumer Trends Report. The risks include unmitigated conflicts of interests, aggressive sales techniques and high commissions.

To explore the issues better, EIOPA is organising a roundtable with external stakeholders that will take place on 5 March 2020. The roundtable will consult and collect input from external stakeholders on:

- Issues and risks with the insurance products within scope;
- Business models used to manufacture and distribute these products and underlying conduct risks, addressing also the different corporate arrangements arising between insurers and banks;
- Potential benefits for consumers, insurers and banks;
- Market practices that could lead to consumer detriment;
- Developments and trends in recent years.

GUIDELINES ON OUTSOURCING TO CLOUD SERVICE PROVIDERS

On 6 February, EIOPA issued its final report on its consultation on Guidelines on outsourcing to cloud service providers. The guidelines are aimed at providing clarification and transparency to market participants and avoiding potential regulatory arbitrage, and promoting supervisory convergence on the expectations and processes in relation to cloud outsourcing.

The final report sets out the final text of the EIOPA Guidelines, including the feedback statement to the public consultation, the final impact assessment and the resolution of non-confidential comments provided by the stakeholders during the public consultation.

The final EIOPA Guidelines cover the following areas:

- Criteria to distinguish whether cloud services should be considered within the scope of outsourcing;
- Principles and elements of governance of cloud outsourcing including documentation requirements and list of information part of the notification to supervisory authorities;
- Pre-outsourcing analysis, including a set of criteria to be followed to assess whether a cloud outsourcing arrangement relates to an operational function or activity that is critical or important, and principle based instructions on how the risk assessment of the cloud outsourcing and the due diligence on the cloud service providers should be performed;
- Contractual requirements;
- Management of access and audit rights; security of data and systems; sub-outsourcing of critical or important operational functions or activities, monitoring and oversight of cloud outsourcing and exit strategies;

- Principle based instructions for the national supervisory authorities on the supervision of cloud outsourcing arrangements including, where applicable, at group level.

EIOPA SETS OUT STRATEGIES ON CYBER UNDERWRITING AND SUPTECH

On 11 February, EIOPA published its strategies for cyber underwriting and supervisory technology (or SupTech). The strategies reflect EIOPA's strategic priorities and respond to the evolving insurance landscape, in particular related to growth of digital technology.

Cyber underwriting strategy

The objective of EIOPA's Cyber underwriting strategy is to contribute to building a strong, reliable, cyber insurance market. Increased digitalisation and use of big data has led to a growth in the frequency and sophistication of cyber-attacks, which has highlighted the need for a sound cyber insurance market to assist in managing cyber risk.

EIOPA has identified the following conditions which are essential for a resilient cyber insurance market:

- Appropriate cyber underwriting and risk management practices and the corresponding promotion of such practices;
- Adequate assessment and mitigation tools to address potential systemic and extreme risks;
- A mutual understanding between policyholders and insurers of contractual definitions, conditions and terms; and
- An adequate level and quality of data on cyber incidents available at a European level.

EIOPA will also undertake specific actions as part of its own supervisory and regulatory priorities as well as in its capacity as a facilitator and catalyst to provide advice on cyber insurance. The actions include:

- The periodic assessment and supervision of cyber underwriting and risk management;
- Further investigation into the issue of non-affirmative cyber exposures and accumulation of risk;
- Inclusion of scenarios related to cyber risk events and incidents in the stress testing framework; and
- Working with partners to explore and promote the development of a harmonised cyber incident reporting taxonomy.

Technology to deliver innovative and efficient supervisory solutions

Improving the efficiency and effectiveness of the Supervisory Review Process is a strategic priority for EIOPA, by taking advantage of new technological developments and the opportunities they present. EIOPA intends to work closely with national competent authorities to build on the existing use of technology to create innovative and efficient supervisory solutions to support a more effective, flexible and responsive supervisory system.

To support this goal, EIOPA will:

- Implement a platform for the ongoing exchange of knowledge and experience to promote a culture of innovation and initiative between supervisors; and
- Organise and endorse the analysis of potential supervisory tools aimed to address specific issues identified by supervisors and to develop them.

INDEPENDENT ASSESSMENT OF THE ROMANIAN INSURANCE SECTOR

On 19 February, the Financial Supervisory Authority of Romania (ASF) and EIOPA announced their intention to launch an independent assessment of the Romanian insurance sector through a balance sheet review.

A similar exercise was performed on the Romanian insurance market in 2014-2015, with relevant outcomes for both insurance companies and policyholders. While there has been a steady evolution of the sector since this exercise was completed, the Romanian insurance market is characterized by a high level of concentration and maintains, in particular, its dependence on motor third party liability insurance, as well as a rapid growth in credit and suretyship business in some insurers.

An assessment of the assets and liabilities of insurance undertakings, including the level of technical provisions, governance issues, prudential parameters, are part of the assessment. Insurance undertakings will be selected based on their market share and business model, ensuring coverage of around 90% of the Romanian market. The exercise is expected to be launched in the second half of 2020.

A steering committee that will include ASF and EIOPA will be responsible for overseeing the exercise, which will be performed by independent consultants /auditors with appropriate professional and international experience, under the coordination and oversight of ASF and EIOPA.

SUPERVISORY STATEMENT ON ULTRA-LOW / NEGATIVE INTEREST RATE ENVIRONMENT

On 20 February, EIOPA published a Supervisory Statement on the impact of the ultra-low/negative interest rate environment. This environment is significantly impacting the insurance sector in the EU, in terms of asset allocation, reinvestment risk, profitability and solvency. It constitutes one of the most important continuing sources of systemic risk for insurers going forward.

The statement is addressed to the supervisory community and the insurance industry. Its aim is to raise awareness and to ensure that the insurance sector continues to be financially resilient. It also seeks to inform consumers and policyholders about supervisory measures and actions taken to protect their interests.

EIOPA encourages national supervisory authorities (NSAs) and undertakings in the EU to continue taking action to mitigate the impact of the ultra-low/negative interest rate environment on the EU insurance sector. In the short-term, EIOPA recommends that:

- NSAs should intensify the monitoring and supervision of insurers identified as facing greater exposure to the low interest rate environment;
- NSAs should engage into a dialogue with undertakings to explore actions they could take to improve their financial resilience;
- Within the context of improving financial resilience and in particular sound capital planning, undertakings should exercise caution in distributing dividends and NSAs should consider whether it is necessary to restrict the distribution of dividends;
- NSAs and undertakings should pay special attention on pre-emptive recovery and resolution planning to reduce the likelihood and impact of insurance failures; and
- NSAs should broaden the analysis of the low interest rate environment and also consider the potential build-up of systemic risk.

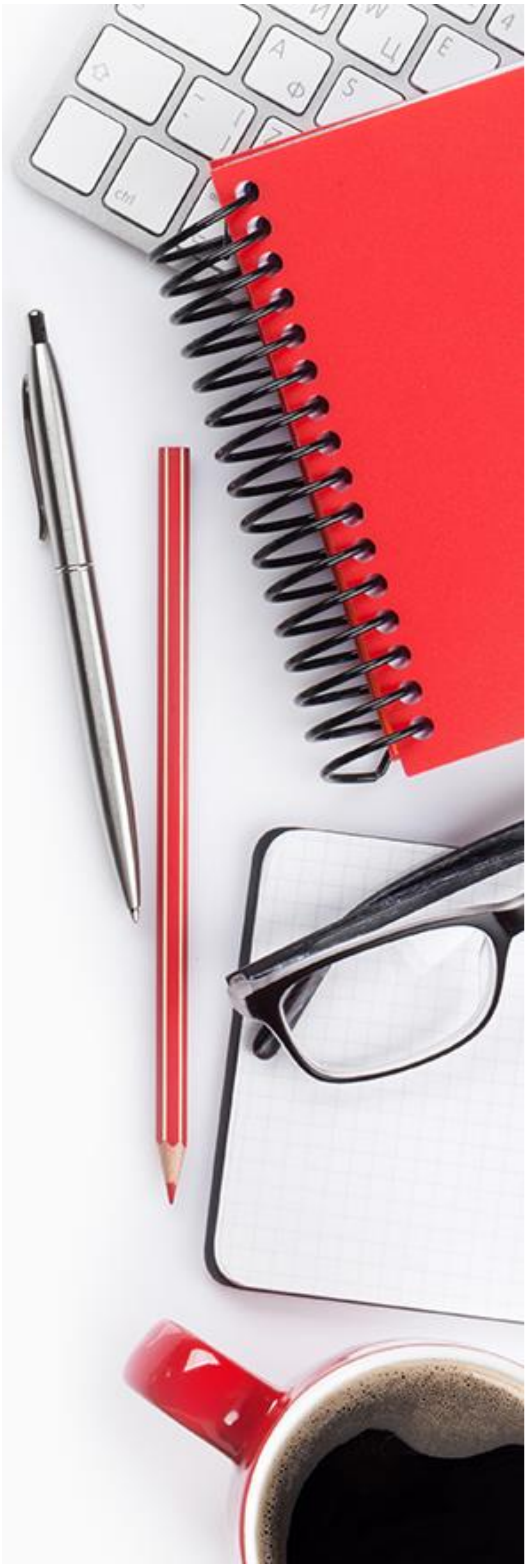
In the medium- to long-term, NSAs should identify whether there are any tools or powers missing in their current toolkit. Where a gap is identified, NSAs should request the missing powers.

EIOPA's continuing actions to better understand this risk and support the supervisory response will include publication of opinions, reports and recommendations and the inclusion of low interest rate scenarios in stress tests.

THE RACE FOR A GLOBAL INSURANCE CAPITAL STANDARD

On 20 February, EIOPA Chairman, Gabriel Bernardino, issued a statement acknowledging the importance of a sound capital and supervisory framework for the insurance sector in supporting financial stability. He addressed the work of the International Association of Insurance Supervisors (IAIS) to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative Insurance Capital Standard (ICS).

Amongst other things, Mr Bernardino noted the establishment in November 2019 of the ICS version 2.0., and highlighted EIOPA's objective of the setting up of one single risk-based ICS to promote a level playing field between IAIGs headquartered in different parts of the world.



PRUDENTIAL REGULATION

RESPONSES TO OCCASIONAL CONSULTATION PAPER 25/19 (CHAPTERS 2 AND 3) - PS3/20

On 24 February, PRA published a Policy Statement detailing the final policy for Chapters 2 and 3 of Occasional Consultation Paper 25/19. The PRA has made no changes to the draft policy, as no comments were submitted regarding the chapters.

As part of the publication of this PS, the PRA's Supervisory Statement; Strengthening individual accountability in insurance (SS35/15) has been updated, for minor changes.

This version took effect from Monday 24 February 2020.

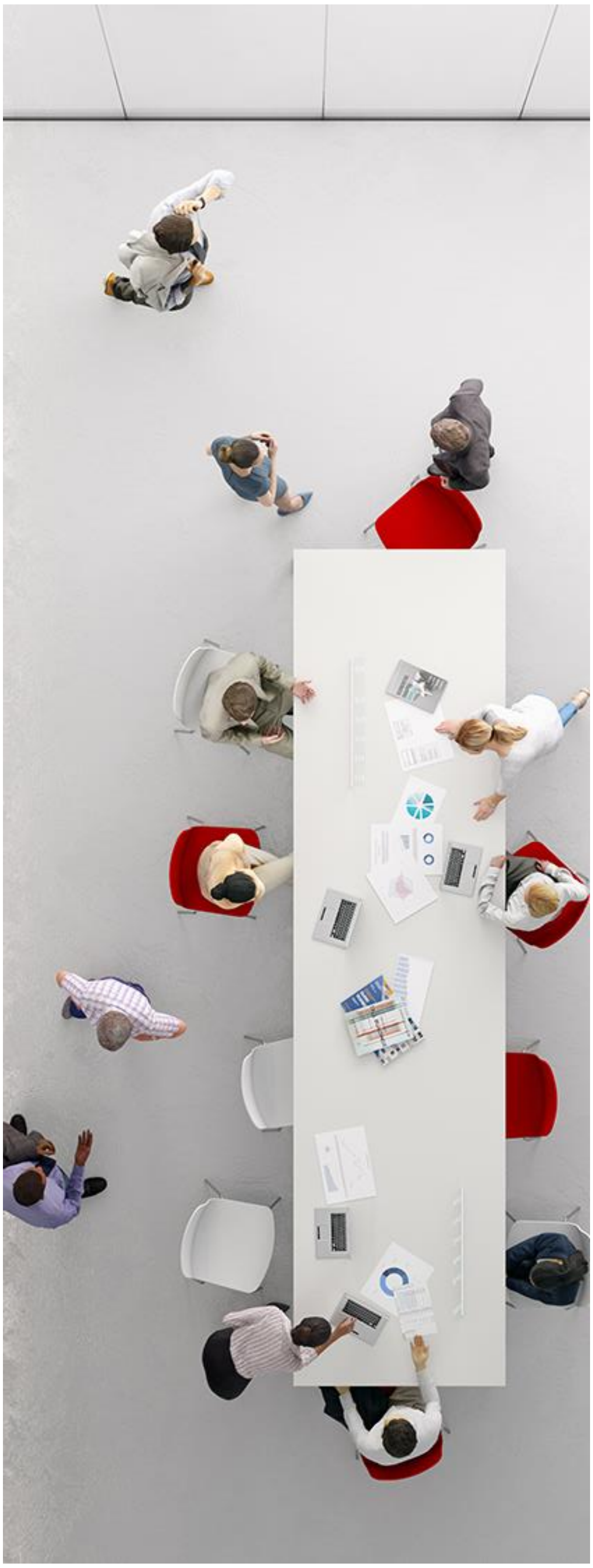
CONSULTATION ON EXPANDING THE DORMANT ASSETS SCHEME

On 21 February, HM Treasury published a consultation on the expansion of dormant assets scheme to include new financial assets.

The public consultation follows on from two industry-led reports, which made a number of recommendations to broaden the current scheme beyond bank and building society accounts to include assets from the insurance and pensions, investment and wealth management, and securities sectors.

The government is looking for comments on the detailed proposals to expand the scheme. HM Treasury is particularly interested in hearing views from potential participants, consumer groups, regulators, and interested individuals.

All comments must be made on or before 16 April 2020.



RISK REPORTING ISSUES

FRC ADVICE TO COMPANIES AND AUDITORS ON CORONAVIRUS RISK DISCLOSURES

On 18 February, the FRC issued guidance for companies in relation to disclosing risks and other reporting consequences as a result of the emergence and spread of Coronavirus (COVID-19).

Companies have legal obligations to disclose principal risks to their businesses, therefore the FRC is advising companies to carefully consider what disclosures they may need to include in their year-end accounts, which will currently particularly affect companies either operating or having close trading associations with China.

The FRC also noted that given the potential for rapid spreading of the virus, the required disclosures will likely change over time as more information about the epidemic emerges. Companies will need to monitor developments and ensure they are providing up-to-date and meaningful disclosures to their shareholders when preparing their year-end report.

FRC ASSESSES COMPANY AND AUDITOR RESPONSES TO CLIMATE CHANGE

On 20 February, the FRC announced it is undertaking a major review of how companies and auditors investigate and report on the impact of climate change. The review will look at how the quality of information can be enhanced to support informed decision-making by investors and other stakeholders. The FRC will monitor how companies and their advisors carry out their responsibilities and advocate for better practice, and will also consider how investors are dealing with the climate challenge in the stewardship of their investments and their response to systemic and market risks when the first reports are submitted under the new Stewardship Code, which will be issued from the beginning of 2021.

DATA PRIVACY

STATEMENT ON DATA PROTECTION AND BREXIT IMPLEMENTATION - WHAT YOU NEED TO DO

On 29 January, the ICO highlighted 'business as usual' for data protection in the Brexit transition period from 31 January to the end of December 2020.

The General Data Protection Regulation (GDPR) will continue to apply, with businesses and organisations that process personal data directed to continue to follow the ICO's existing guidance for advice on data protection obligations.

The ICO has updated its Brexit FAQs to reflect advice regarding the transition period.

FCA AND ICO JOINT STATEMENT WARNING FCA FIRMS AND INSOLVENCY PRACTITIONERS TO BE RESPONSIBLE WHEN DEALING WITH PERSONAL DATA

On 7 February, the ICO issued a joint statement with the FCA, and the Financial Services Compensation Scheme (FSCS).

The statement noted that certain FCA-authorised firms and insolvency practitioners have unlawfully attempted to sell clients' personal data to claims management companies (CMCs). Such actions may constitute a failure to comply with the Data Protection Act 2018, and the General Data Protection Regulation (GDPR). Furthermore, any subsequent direct marketing contact carried out by CMCs may breach the Privacy and Electronic Communications Regulations 2003 (PECR).

Where breaches of the relevant data protection legislation, the CMCOB Claims Management: Conduct of Business sourcebook, or any other relevant parts of the FCA's Handbook are identified, the FCA or the ICO will take appropriate action.

ICO CONSULTATION ON THE DRAFT AI AUDITING FRAMEWORK GUIDANCE FOR ORGANISATIONS

On 19 February, the ICO started a consultation on a draft guidance document for consultation containing best practices for auditing artificial intelligence (AI) applications for data protection compliance. The guidance contains advice on how to understand data protection law in relation to AI and recommendations for organisational and technical measures to mitigate the risks AI poses to individuals. It also provides a solid methodology to audit AI applications and ensure they process personal data fairly.

Aimed at both technology specialists developing AI systems and risk specialists whose organisations use AI systems, this guidance will help in assessing the risks to rights and freedoms that AI can cause; and the appropriate measures you can implement to mitigate them.

The guidance is structured to address accountability and governance of AI as well as fairness and transparency in processing, and security of data, among other things.

This guidance is primarily for data protection officers, general counsel, risk managers and the ICO's own auditors; and also for technology specialists, including machine learning experts, data scientists, software developers and engineers, and cybersecurity and IT risk managers.

The consultation closes on 1 April 2020.

CONDUCT REGULATION

FCA REGULATION ROUND-UP

On 20 February, the FCA published its monthly Regulation round-up. The Hot Topics included: the publishing of the FCA's Sector Views*; the need for firms to update or confirm their Firm Details annually; PS20/01: Mortgage Advice and Selling Standards; and, new requirements to help consumers with pre-existing medical conditions better navigate the travel insurance market*.

This edition included the following articles that are relevant to insurers or insurance intermediaries:

- Insurance companies to submit directory persons data by the 9 March deadline;
- Solo regulated firms to submit directory persons data by the 9 December deadline, certified staff are certified as fit and proper, and to ensure relevant staff are trained on the SM&CR Conduct Rules.

* covered below

NUMBER OF SKILLED PERSONS REPORTS COMMISSIONED IN Q3 2019

On 3 February, the FCA published details of the skilled person reports commissioned in Q3 2019. 10 reports were commissioned across four of the seven different FCA Sectors, None were commissioned in the General Insurance & Protection sector.

SIGNPOSTING TO TRAVEL INSURANCE FOR CONSUMERS WITH MEDICAL CONDITIONS - PS20/3

On 5 February, the FCA published a Policy Statement (PS20/3) arising from its Consultation Paper 19/23, which proposed signposting rules and guidance for firms so that consumers with pre-existing medical conditions (PEMCs) will be better assisted in their search to find affordable travel insurance coverage. The signposting rules should also assist firms to clarify their obligations when providing travel insurance to customers with PEMCs.

The new policy will:

- Require firms to signpost certain consumers with PEMCs to a directory of specialist providers;
- Introduce guidance that firms selling travel insurance policies that exclude PEMCs should tell consumers whether and how these PEMC exclusions can be removed; and
- Introduce guidance for firms reminding them to assess the risk from medical conditions and calculate medical condition premiums using reliable information that is relevant to assessing this risk.

Affected firms are required to include details of the directory on their website within 30 days of becoming aware of the directory going live (expected to be Summer 2020), and the FCA expects them to have implemented all other new requirements by 5 November 2020.

The FCA intends to carry out a review approximately 12-18 months post-implementation to assess whether the rules and guidance are delivering the intended outcomes.

FCA BOARD MINUTES: 12 DECEMBER 2019

On 11 February, the FCA released the minutes of its 12 December 2019 Board Meeting. The meeting, inter alia, discussed the Q2 2019/20 Performance Report, was briefed on the FCA's 2020 Communications Strategy, discussed the proposed structure of the FCA Business Plan for 2020/21, reviewed the preliminary annual plan and budget of the Payment Systems Regulator, and was briefed on the issues being dealt with by the Consumer Hub (the FCA Helpline), noting the increasing intensity of consumer frustration and aggression, and discussed if there might be opportunities for greater transparency around actions being taken toward consumer issues by the FCA.

FCA SECTOR VIEWS

On 18 February, the FCA published its annual Sector Views, which assess the risks and potential harm to consumers across the UK financial services markets. The Sector Views look at the impact of macroeconomic developments and common drivers of change emerging across financial markets. They also outline areas where there may be a negative impact on consumers or the integrity of the financial system in that sector. The report sets out what factors are driving harm, as well as considering how the harm may develop over time.

The overall kinds of harms the FCA is concerned about, included:

- Although the FCA has seen a number of positive corrections in the credit market, its Financial Lives data shows that 7.4 million UK adults are over-indebted and find their financial commitment a burden.
- Pricing practices in insurance still penalise loyal customers – the 'loyalty penalty' in home and motor insurance cost 6 million longstanding consumers an extra £1.2 billion in 2018, and the FCA is finalising remedies following its market study.
- High-risk retail investment products are exposing consumers to more risk than they can absorb – some of the highest risk products are often marketed directly to retail consumers with poor communication of the risks involved and implications that the investments are regulated, when this is not the case.
- Many new payments firms have been able to enter the market and grow quickly, but some of their products do not have protection in place for consumers, for example e-money services advertised as 'current accounts' aren't covered by the Financial Services Compensation Scheme.

In relation to the General Insurance & Protection sector, the FCA sees the key drivers of change as being: technology developments changing how consumers and insurers interact, EU withdrawal, and ongoing low interest rates, which continue to put pressure on insurers' margins. The FCA note the two common drivers for much of the identified harm in the sector are poor culture and low consumer engagement. This leads to several negative customer outcomes including:

- Pricing practices in personal lines still penalising loyal customers;
- Add-on prices continuing to cause harm to consumers;
- Complex distribution chains and products contributing to poor value products;
- Consumers with specific needs facing barriers to insurance products; and
- Misuse of customer data harming consumers, particularly vulnerable consumers.

The FCA also identified two wholesale market themes of concern in the sector:

- Non-financial misconduct in the London Market poses a threat to market integrity; and
- Higher prices arising from inefficiencies in the London Market for commercial customers.

The Sector views analysis will contribute to the FCA's Business Plan 2020/21 and the ongoing decisions it makes affecting consumers, market integrity and competition.

UK FINANCIAL SANCTIONS GUIDANCE POST BREXIT

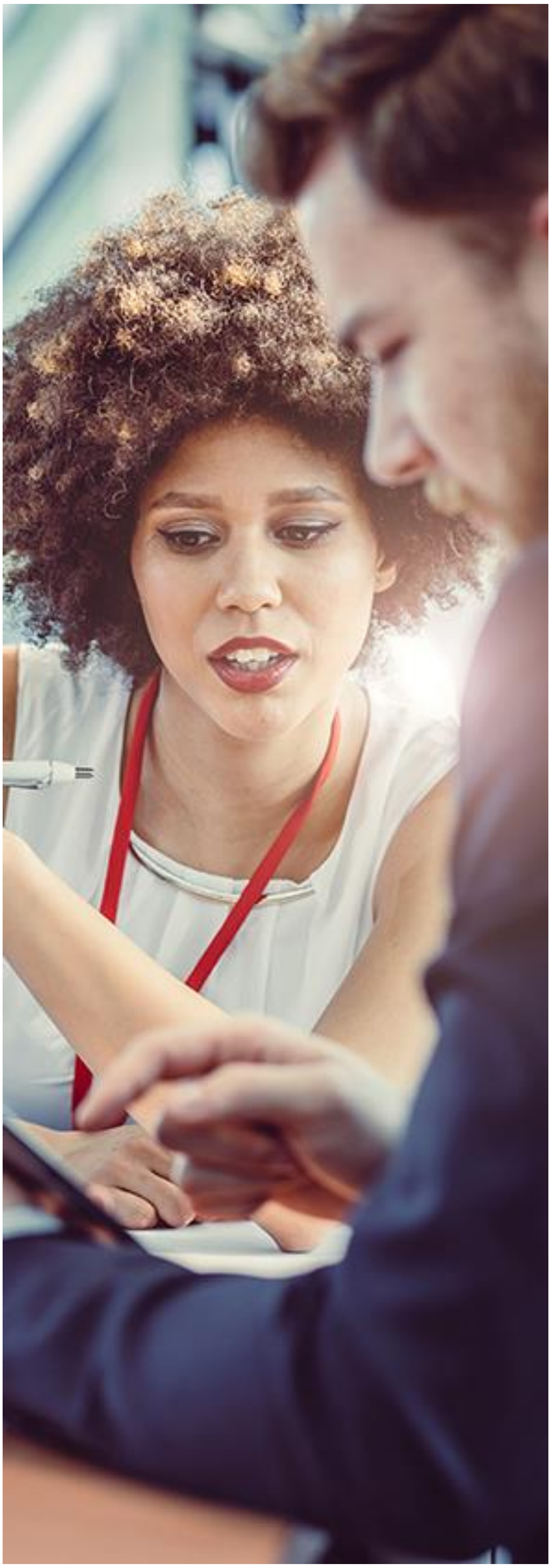
On 19 February, HM Treasury published guidance on financial sanctions under the UK Sanctions Act which will continue uninterrupted from 11pm on 31 December 2020.

Existing EU sanctions will transfer into UK law in the form of Statutory Instruments. Specific guidance regarding financial sanctions for Russia have been published by OFSI and will come into effect at 11pm on 31 December 2020 or when the Russia (Sanctions) (EU Exit) Regulations 2019 come into force.

STATEMENT ON FCA DATA BREACH

On 25 February, the FCA issued a statement acknowledging that confidential information may have been accessible as a result of a response to a Freedom of Information Act request which was published on the FCA website in November 2019.The response related to various complaints made against the FCA which were handled by the Complaints Team between 2 January 2018 and 17 July 2019.

The FCA has confirmed that the relevant data has been removed from its website and a full review has been undertaken to identify the extent of information that may have been accessible.



ENFORCEMENT ACTION

FCA REGULATORY FINES ROUND-UP

FCA regulatory fines in 2020 total £2.9m. The following fines and related enforcement actions have been announced in the past month:

Moneybarn Limited	A fine of £2.8m relating to breaches of PRIN 6, PRIN 7 and the CONC rules related to the unfair treatment of customers in the consumer credit sector. Moneybarn is a subsidiary of Provident Financial plc, a FTSE 250 company. It provides motor finance for used vehicles predominantly to customers who typically cannot access finance from mainstream lenders due to their personal circumstances. Such customers are at an increased risk of financial vulnerability as they often have a poor or no credit history or past problems with credit due to periods of unemployment, ill-health or other adverse life events. They are also at greater risk of suffering detriment if they fall into arrears. Moneybarn did not communicate the likely financial consequences of failing to keep up with payments to customers in a way which was clear, fair and not misleading. More than 1,400 customers – many of whom were vulnerable - subsequently defaulted after entering into unsustainable short-term repayment plans. Moneybarn has voluntarily provided redress of more than £30 million to all 5,933 customers potentially affected by these failings without requiring them to demonstrate that they have suffered any financial detriment.

PRA ISSUES BANS AND PUBLIC CENSURES FOLLOWING FAILURE OF ENTERPRISE THE BUSINESS CREDIT UNION LTD

On 6 February, the PRA announced it had banned non-approved person Michael Grimsdale and former director, Richard Nichols, from the financial services industry on the grounds of lack of integrity (and dishonesty on the part of Mr Grimsdale). It also issued public censures to Mr Nichols and former directors, Gillian Birkett and Phil Neale. All were involved in the failure of Enterprise the Business Credit Union Ltd (EBCU) in 2015, which had 1,900 members and £7m in savings.

This enforcement action is the PRA's first against individuals involved in a credit union and the first action against a non-approved person. The PRA expects directors and senior managers to understand their responsibilities with regards to governance and the management of conflicts of interest, and to ensure they and the firm comply with the PRA's regulatory requirements. The careful and prudent management of a firm's financial resources is paramount to its safety and soundness. The PRA will consider enforcement action where an individual's misconduct puts the safety and soundness of a firm at risk.

EBCU entered into administration and subsequently liquidation in 2015 for failing to meet the requisite capital requirement. Before this, the individuals' misconduct contributed to EBCU breaching a PRA requirement not to accept deposits, issue new loans or vary the terms of existing loans, which had been imposed in 2014 as a result of the credit union's deteriorating capital position.

Mr Grimsdale's conduct demonstrated a lack of integrity and in some respects dishonesty, which resulted in his ban. As director of EBCU's outsourced service-provider, he paid out c. £650,000 of loans in contravention of the PRA's requirement and concealed his actions from EBCU. He also exploited his involvement with EBCU to invoice and improperly pay fees to the outsourced third-party provider on materially higher terms than those agreed by the EBCU Board.

Mr Nichols was banned for acting recklessly as to the accuracy of information he provided to EBCU's auditors and the PRA concerning the credit union's financial position. Mr Nichols - also a director of the outsourced service-provider - was in a better position than the other directors of EBCU to oversee and monitor the activities of the outsourced service-provider (and those of Mr Grimsdale) but he failed to do so. This demonstrated a lack of integrity.

Mr Nichols, Ms Birkett and Mr Neale have been censured for failing to act with due skill, care and diligence in performing their director roles at EBCU. They all held roles as remunerated directors at companies that received fees and commission – directly and indirectly – from EBCU.

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