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Settlement Agreement between the Central Bank of Ireland and Combined Insurance Company of Europe Limited

The Central Bank of Ireland (the "Central Bank") has entered into a Settlement Agreement with effect from 16 December 2011 with Combined Insurance Company of Europe Limited (the "firm"), a regulated financial services provider, in relation to breaches of regulatory requirements contained in the 2006 Consumer Protection Code (the "Code"), the European Communities (Insurance Mediation) Regulations (SI 13/2005) (the 'IMD') and the 2006 Minimum Competency Requirements (the "MCR").

Reprimand and fine

The Central Bank reprimanded the firm and required it to pay a monetary penalty of €3,350,000.

Reasons for taking Administrative sanctions case

The taking of this administrative sanctions case and the penalties imposed reflect the paramount importance the Central Bank places on consumer protection and the obligation of regulated entities to ensure that they comply with the requirements of the Code and, in addition, have adequate systems and controls in place to ensure compliance with those requirements.

Tied agents

The firm sold non-life insurance products through a network of tied agents who operated nationwide. The firm had full responsibility for the actions of those tied agents. The firm is currently not selling new business.

Look Back Reviews and voluntary rebates

The Central Bank identified twenty eight breaches of regulatory requirements by the firm. These breaches took place between 1 August 2006 and 20 April 2011 (the "relevant period"). At the request of the Central Bank, the firm is conducting a look back review to identify customers affected by the breaches. The firm has completed phase 1 of the look back review in relation to the period 1 October 2009 to 30 June 2010 (the "Phase 1 LBR"). Phase 2 of the look back review, in relation to the period 1 August 2006 to 30 September 2009 (the "Phase 2 LBR") is due to be completed in 2013. The firm has offered refunds on all new policies sold between September 2010 and April 2011.

To date, in respect of the Phase 1 LBR, approximately €564,328 has been refunded in respect of approximately 3,239 policies sold to customers. The estimated remediation figure for the Phase 2 LBR is €1,586,415 in respect of 4,678 policies.

On completion of all remediation by the firm, it is expected that customers will receive approximately €2,150,744 in respect of approximately 7,917 policies. The relevant customer restitution figures are set out in the customer restitution section of this notice.

Breaches

Code Breaches

Twenty six of the twenty eight breaches identified were breaches of the Code. During the Relevant Period the firm breached the Code in the following ways:

Remuneration framework

1. The firm established a remuneration and rewards system for its tied agents which led to the creation of a high pressure sales environment. Tied agents were paid on a commission only basis and could also increase their remuneration by

reaching certain sales targets. In addition, the remuneration of the firm's line managers, who had day-to-day operational oversight of tied agents, was partly based on the volume of sales of the tied agents reporting to them. The establishment of, and failure to adequately control, this high pressure sales environment by the firm led to considerable pressure being put on tied agents to produce large volumes of sales which, in turn, led to some of those agents failing to act fairly and professionally in the best interests of the firm's customers and the integrity of the market in breach of General Principle 1 of the Code.

Inappropriate behaviour of tied agents

2. Some tied agents of the firm acted dishonestly, unfairly and unprofessionally and not in the best interests of the firm's customers, in breach of General Principle 1 of the Code, by engaging in the following behaviours:
 - wrongly obtaining customers' bank account details and using them to set up policies in other peoples' names;
 - collecting premiums from customers and either failing to set up the new policies for which those premiums were intended or failing to apply the premiums for the benefit of those customers' existing policies;
 - using existing customers' bank account details to set up additional policies for those customers without their knowledge or permission; and
 - selling replacement policies to customers which had fewer benefits or were more expensive than the customers' previous policies.
3. Some tied agents of the firm recklessly, negligently and deliberately misled customers as to the real or perceived advantages of the firm's products in breach of General Principle 3 of the Code by:
 - informing customers they were eligible for cover when the tied agent selling the policy was aware that the relevant customer had a pre-existing medical condition which would make them ineligible; and
 - incorrectly promoting the firm's products as income protection products.
4. Some tied agents of the firm exerted undue pressure on customers to purchase policies in breach of General Principle 9 of the Code.

Over-insuring

5. Some tied agents of the firm failed to act fairly and professionally in the best interests of the firm's customers and the integrity of the market, in breach of General Principle 1 of the Code, by over-insuring customers in respect of 646

policies sold. This resulted in refunds of €130,018 being made to those customers.

Complaints

6. The firm failed to efficiently and fairly handle some complaints received from customers in breach of General Principle 8 of the Code. From a total of 376 complaints received by the firm from 1 October 2009 to 30 June 2010, the firm reached the incorrect conclusion in relation to 102 complaints, resulting in refunds totalling €33,707 being made to the relevant customers for that period.
7. The firm failed to provide a written acknowledgment of some complaints within five business days of those complaints being received in breach of Common Rule 46(a), Chapter 2 of the Code.
8. The firm failed to provide some complainants with written updates in relation to the progress of the investigation of their complaint at twenty day intervals in breach of Common Rule 46(c), Chapter 2 of the Code.

Claims-handling

9. The firm failed in some instances to follow standard claims procedures and properly adjudicate claims in breach of General Principles 1 and 2 of the Code. Between 1 October 2009 and 30 June 2010, the firm failed to use standard claims procedures and properly adjudicate on 22 claims received by it. The firm subsequently refunded €36,765 to the relevant customers.

Suitability

10. In some cases tied agents of the firm failed to recommend the most suitable products to consumers having regard to the facts disclosed by those consumers or relevant facts about those consumers of which the firm was aware in breach of Common Rule 30, Chapter 2 of the Code, for example by:
 - continuing to sell policies to a consumer who already held a number of policies with the firm; and
 - selling policies to consumers which did not meet their financial objectives.
11. In some cases tied agents of the firm failed to prepare and retain written statements of suitability in respect of consumers in contravention of Common Rule 31, Chapter 2 of the Code.

Cancelled policies

12. The firm failed to have adequate systems and controls in place, in breach of Common Rule 57, Chapter 2 of the Code, to identify the root cause for the cancellation of policies by consumers, particularly the cancellation of policies sold by tied agents who were unregistered or tied agents subsequently terminated for cause (i.e. for theft, forgery, selling bogus policies, backdating policies or gross mis-selling) to analyse whether those cancelled policies had been sold in compliance with the Code.

Other

Red flags

13. The firm failed to act with due skill, care and diligence in the best interests of its customers, in breach of General Principle 2 of the Code, by failing to investigate 'red flags' raised on policies sold by it between 29 September 2010 and 20 April 2011. At the request of the Central Bank, the firm had implemented a quality control system to monitor the behaviour of its tied agent sales force, which highlighted potential customer detriment by raising 'red flags' on particular sales. Although those flags were raised by the firm, the firm failed to investigate them. This failure led to the firm refunding a total of €434,310 in respect of 2,377 policies sold to customers.

Unsolicited contact

14. In some instances, tied agents of the firm contacted consumers outside permitted hours in breach of Common Rule 35, Chapter 2 of the Code.
15. In some instances, tied agents of the firm failed to identify themselves to consumers in breach of Common Rule 36, Chapter 2 of the Code.
16. In some instances, tied agents of the firm failed to abide by requests from consumers not to make unsolicited contact with them again in breach of Common Rule 37, Chapter 2 of the Code.

Record keeping

17. The firm failed to comply with its obligations under the consumer records requirements set out in Common Rule 49, Chapter 2 of the Code, in that it:
 - failed to obtain and maintain records of consumers' dates of birth;
 - failed to maintain records of consumers' direct debit information; and

- failed to maintain up to date consumer records for six years from the date of the relevant transaction in a readily accessible manner.

Instruction processing

18. In some cases the firm failed to ensure that instructions from consumers were processed properly and promptly in breach of Common Rule 2, Chapter 2 of the Code.

Contingent sales

19. In some cases the firm made the sale of one product contingent on a consumer purchasing another product in breach of Common Rule 4, Chapter 2 of the Code.

Provision of information to the Central Bank

20. In some cases the firm failed to provide full, fair and accurate information to the Central Bank on a number of occasions, in breach of Common Rule 58, Chapter 2 of the Code.

Systems and Controls

21. The firm failed to have and employ effective resources and procedures, systems and control checks necessary for compliance with the Code, in breach of General Principle 4 of the Code. The firm failed to have adequate systems and controls in place to:
- identify the reasons for the cancellation of policies by consumers;
 - ensure consumers' instructions were processed promptly and properly;
 - prevent product sales being made contingent on one another;
 - ensure the suitability requirements of the Code were adhered to;
 - ensure compliance with consumer complaint communication timelines;
 - ensure maintenance of consumer records;
 - provide accurate information to the Central Bank;
 - prevent customers being over-insured;
 - properly adjudicate on claims;
 - properly adjudicate on complaints; and
 - ensure that 'red flags' were investigated pursuant to the quality control system implemented by the firm.

In addition to the twenty six breaches of the Code, the firm also breached the IMD and the MCR in the following ways:

Insurance Mediation Directive

22. The firm allowed unregistered tied agents to sell insurance policies on its behalf in breach of Regulation 33 of the IMD. Approximately 6,100 policies were sold by unregistered tied agents during the period relevant to the Phase 1 LBR.

Minimum Competency Requirements

23. The firm failed to ensure that staff in its complaints handling unit held the necessary qualifications to meet to meet the minimum competency requirements for this type of function.

Customer restitution

As a result of the breaches outlined above, the firm has carried out, or is in the process of carrying out, a number of customer restitution exercises as follows:

1. to date, in respect of the Phase 1 LBR, the firm has remediated approximately €564,329 in respect of 3,239 policies sold to customers.
2. the firm currently estimates that it will have remediated a total of €1,586,415 in respect of issues arising from approximately 4,678 policies sold to customers during the Phase 2 LBR.
3. on foot of a direction issued by the Central Bank in 2009, the firm has made remediation payments of approximately €130,018 in respect of 646 policies for customers who were over-insured (see point 5 above).
4. as a result of failing to take any action in relation to red flags (see point 13 above), the firm remediated customers a total of €434,310 in respect of 2,377 policies.
5. as a result of the firm failing to obtain and maintain records of customers' dates of birth (see breach 17 above), it collected premiums from some customers beyond the firm's upper age exclusion threshold, resulting in 5 customers being remediated a total amount of €8,341.49.
6. in total, the firm expects that customers will receive remediation of approximately €2,150,744 in respect of approximately 7,917 policies.

7. during the relevant period the firm had approximately 500,000 policies in force.
8. Since 2010, the firm has made significant efforts to improve its processes and remediate customers.

Penalty decision factors

In deciding the appropriate penalty to impose, the Central Bank has taken the following factors into account:

- the firm had begun to take steps to improve its processes before it ceased selling new business in April 2011;
- the firm agreed to undertake both the Phase 1 LBR and the Phase 2 LBR and appointed an independent third party to provide quality assurance oversight;
- the firm has, and is continuing to, remediate customers affected by the breaches; and
- the co-operation of the newly appointed board of directors and senior management team during the Central Bank's investigation and in settling at an early stage in the administrative sanctions procedure.

The Central Bank confirms the matter is now closed.

- End -

The Central Bank of Ireland has entered into a Settlement Agreement on 16 December 2011 with Combined Insurance Company of Europe Limited, a regulated financial services provider, in relation to breaches of the 2006 Consumer Protection Code, the European Communities (Insurance Mediation) Regulations 2005 and the Minimum Competency Requirements.

The Central Bank of Ireland also issued a general comment from Director of Enforcement, Peter Oakes:

"This is the largest fine issued by the Central Bank and reflects the seriousness with which we view fundamental regulatory failures including inadequate systems and controls which cause large scale non-compliance with our regulatory requirements. This

enforcement action relates to consumer protection failures and the penalty imposed demonstrates that we will not tolerate breaches of this nature.

The types of failures arising in this matter not only cause detriment to a firm's customers but also erode the special trust customers place in regulated firms, leading to significant reputational and regulatory cost, in the form of penalties and the expense of remedial action for firms.

The Consumer Protection Code (the "Code"), which was introduced by the Central Bank in 2006, sets out the standards the Central Bank expects regulated entities to comply with in their dealings with consumers. The breaches identified in this case constitute some of the gravest and most persistent breaches of those standards that the Central Bank has come across since the introduction of the Code.

The protection of consumers in their dealings with financial entities is one of the Central Bank's statutory objectives and is therefore a key priority. We have said previously where serious breaches of regulatory requirements designed to provide that protection occur, regulated entities can expect that those breaches will be investigated fully and followed through to conclusion. The use of highly pressurised sales tactics will not be accepted by the Central Bank and regulated entities should ensure that all members of their sales forces are familiar with their obligations and with the regulatory requirements which apply to them.

Insurance companies can cause significant consumer detriment through mis-selling, through their remuneration arrangements and having inadequate systems and controls. The level of consumer detriment in this case arising from the firm's non-compliance and behaviour, will not be tolerated by the Central Bank. We will continue to focus our supervisory and enforcement resources to achieve acceptable standards of compliance and consumer protection within the financial services industry, including through robust enforcement action.

My colleague, Director of Consumer Protection, Bernard Sheridan, has an important message on the revised Consumer Protection Code:

"Our recently published revised Consumer Protection Code, significantly strengthens consumer protection measures, the need for which were highlighted by this enforcement case. Firms are reminded that from 1 January 2012, unsolicited personal visits to consumers will be banned and firms will be required to take account of any vulnerabilities that emerge in their interactions with consumers in recommending a

suitable product. In addition, the revised Code reflects the Central Bank's concerns in relation to remuneration arrangements and includes specific provisions in this regard. Regulated entities must now carefully review, and revise where necessary, all relevant aspects of their business in light of our new Code."

Finally, the Central Bank would like to acknowledge the cross-jurisdictional co-operation it received from the Financial Services Authority in the UK who have taken their own enforcement action for misconduct against an affiliated company of the firm.

If customers of the firm have particular queries in relation to their policies, they should contact the following helpline for assistance: **01 440 2781** or email the firm at csd@ie.combined.com.