Findings of Inspection of Insurance Intermediaries Compliance with Client Premium Account Regulations

The Financial Regulator today (19 July 2010) published the findings of an examination of compliance by insurance intermediaries with the rules governing the handling of client premiums and the operation of client premium accounts. The examination, which commenced in 2009, inspected a sample of insurance intermediaries. The Financial Regulator has communicated the findings to industry and will continue to monitor compliance to ensure that firms are complying fully with all regulations regarding the management of client money.

The statutory Consumer Protection Code has detailed requirements for insurance intermediaries for managing client premium accounts, including requirements to ensure accounts are never overdrawn; to lodge funds in segregated banks accounts; and to retain detailed reconciliation of amounts due to regulated entities on each client premium account operated.

While the majority of firms inspected were found to be in compliance with the requirements of the Code, a number of issues were identified during the course of the inspection. Compliance issues identified during the inspection are subject to separate engagement by the Financial Regulator with the individual firms concerned.

As a result of these inspections, the Financial Regulator has written to all insurance intermediaries outlining that firms should be in compliance with the following issues identified:
• As required under the Code, firms should ensure that they reconcile funds in client premium accounts with amounts owing to regulated entities for insurance policies.

• Firms must maintain sufficient funds in accounts to prevent accounts being overdrawn. The Code requires that client premium accounts must never be overdrawn.

• Client premium accounts must be designated as such and must be segregated from insurance intermediaries’ other accounts. The Code sets out details of the transactions which can be passed through such accounts.

• In addition firms were reminded that when handling client premiums firms must ensure that all premiums received are properly receipted and that adequate supervision and control is exercised over the operation of these accounts.

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Further information: Press Office (01) 224 6299, press@centralbank.ie

Notes for editors:
Under the requirements of the Consumer Protection Code (Chapter 5, Provisions 24-29) insurance intermediaries must lodge money it receives in respect of a premium or premium rebate to a segregated bank account. Each such account must be designated as a ‘client premium account’.

Other requirements include:

• An insurance intermediary must carry out and retain, on a monthly basis, a detailed reconciliation of amounts due to regulated entities with the balance on each client premium account it operates.

• Specific provisions on the only debits and credits that may be passed through a client premium account.

• Firms must provide a consumer with a receipt for each negotiable or non-negotiable instrument presented by the consumer as payment for a financial product or service provided by that regulated entity.