

Due Diligence on Your Introducers

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The Bribery Act 2010 has placed an increased onus on those firms looking to appoint introducers, whether they are "ordinary" introducers", Introducer Appointed Representatives or Appointed Representatives.

The FSA are taking an increased interest in the subject and in particular the appointment process of the latter two above.

The regulator will expect all firms to be able to demonstrate that they have done a certain degree of pre-appointment Due Diligence and that post appointment; they should have a formal, written monitoring plan.

Pre Appointment

Such due diligence could take the form of –

- Evidence of Identity (e.g. premises visits, Companies House extract)
- Financial Checks (3 years accounts)
- Professional References
- Formal contract
- CRB / Credit Checks (if an individual or on directors / partners)
- Detailed Fit & Proper checks on Approved Persons (AR Only)

This is not exhaustive but gives a general idea.

The file should also contain statements detailing why the firm wish to make such an appointment and what are the potential benefits and risks (some form of SWOT analysis would be useful)

In addition, the file should also contain a detailed note as to the remuneration structure and how this has been determined.

Do not forget that the FSA should be advised of all IAR/AR appointments prior to the start date. The application to the FSA must be made via the ONA system.

Also, the AR should have appropriate PI cover (not really an issue for IAR's / Introducers)

Post Appointment

You must be able to demonstrate to the FSA that you are monitoring the introducer and that you have a formal mechanism for doing so.

Therefore, you should have a written plan setting out –

- Who in the firm has overall responsibility
- Who will, in effect carry out the monitoring
- The frequency (FSA would like to see monthly, but it should be proportionate)
- What monitoring will take place (e.g. Files reviews, T&C, Fit & Proper, staff training, Financial promotions, TCF, Complaints etc)
- How this is recorded and fed back
- What MI is given to the senior management of the Principal?

This is not exhaustive but gives a general idea.

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Also, you must be able to demonstrate that you have regular documented meetings with the Approved Person or the senior person at the introducer to ensure that they are aware of what is required and are kept informed of all changes.

In effect, you must treat an AR like you would your own employees.

Don't forget that you will need to keep a central register of all these appointments, even if there is only one.

Obviously, an IAR has a much lower risk profile and a much less onerous regime can apply, this will be dependent of the specific circumstances.

Whilst most of this has concentrated on the AR /IAR model, the FSA will expect to see something similar for those passive or infrequent introducers who are not either IAR or AR's.

The pre appointment regime will be similar, but the ongoing monitoring is not such an issue.

Previously, such appointment did not involve so much work for the broker, but with the advent of new legislation and the new much more "questioning! Approach from the regulator, it is important that you have all the "i's" dotted and "t's" crossed.

If you have or are thinking of appointing any form of introducer, you RWA consultant or the help desk can give further advice.

**DO YOU TRUST
YOUR
INTRODUCERS?**



AR, IAR or Introducer?

Whilst there are a number of similarities between them, it is important to be aware of the important differences and how the FSA view each of these.

Introducers

These are people who may well be already directly authorised and pass introductions to you in a professional capacity. E.g. Solicitors or accountants, or even an IFA firm. Or, they may be just companies who have no insurance connection and pass on leads.

Generally, to avoid the need for regulation, an introducer should only pass out any marketing material of your firm or pass your contact details to a prospect. The matter of any financial reward is not of any consequence here.

Occasionally, an introducer may pass the contact details to you, and here is where you have to be careful not to stray into the area of regulated activities. If there is no expectation of remuneration, either directly or indirectly, and the passing of such details is infrequent, then this may solve the problem. Further guidance is available in the FSA's Perimeter Guidance Manual (PERG) in the "By way of business" test.

There is no need to register an Introducer with the FSA

Appointed Representatives (AR)

In effect, these can do whatever you do and like IARs, must appear on the FSA website and be subject to pre appointment due diligence, formal contract and regular recorded monitoring. Also, they must have sufficient PII.

There is also the need for at least one person in the AR to be an Approved Person (not applicable to sole traders)

Whichever route you follow, you must ensure that pre appointment due diligence is carried out, which includes, references, financial checks, evidence of identity, fit & proper checks, and consider CRB and credit checks if in any doubt. Also, your files must show a reason for the appointment, the reason for the remuneration structure and a formal agreement with the firm you are appointing.

On appointment, you should tell the FSA prior to commencement, and submit through the ONA system or by paper, again deepening which route has been chosen and what submissions are required. For an AR, there will need to be a completed Form A for the approved person.

Post appointment, you must have a written formal monitoring plan setting out how you will monitor and supervise. The levels will vary dependent on which route you have chosen.

You will need to include the IAR or AR in your own procedures, such as T&C and TCF etc and will in effect be treating them as another division of your firm for compliance purposes.

Finally, remember that you as the Principal are totally responsible for all their activities, so this will present a risk to your firm and will inevitably attract greater interest from the FSA.

Introducer Appointed Representative (IAR)

IARs are limited to two activities – Passing out your literature and passing prospective client contact details only to you. It is this activity of passing client details to you that makes it a regulated activity.

IARs must appear on the FSA website and be subject to pre appointment due diligence, formal contract and regular recorded monitoring.