

FSA - Top 10 fines of 2011

The FSA issued £66.1m of fines to 59 firms in the past 12 months, down on the £89m issued the previous year.

However, these 2010 figures were skewed by a couple of big fines, £33.3m against JP Morgan and £17.5m against Goldman Sachs. 2011 saw the second largest total amount of fines issued by the regulator in one calendar year. The money collected in fines is used to lower regulatory costs for firms for the next year. Here we look at the firms who were subject to the toughest regulatory action and the reasons why.

10 - Combined Insurance Company of America £2.8m

The FSA fined Combined Insurance Company of America £2.8m in December over treating customers fairly failures in relation to the sale of accident and sickness cover. Cica agreed to carry out a past business review and pay redress.

Cica sold accident and sickness insurance products via self-employed sales agents. Between April 2008 and October 2010 Cica had 542,133 policyholders and received £47m in premiums for new policies sold.

The FSA found that Cica failed to effectively manage its sales processes, claims handling and complaints handling to ensure the fair treatment of customers.

9 - RBS and Natwest £2.8m

In January, the FSA fined Royal Bank of Scotland and NatWest £2.8m for responding inadequately to more than half the complaints reviewed by the FSA. The FSA's investigation found there was an unacceptably high risk that customers may not have been treated fairly due to a number of failings with the way the banks' approach complaint handling, including delays in responding to customers.

8 - Integrated Financial Arrangements £3.5m

The FSA fined Transact's holding company Integrated Financial Arrangements £3.5m in December for failing to protect client money. A final notice stated that the wrap did not perform daily client money calculations to check that amounts in client bank accounts matched the firm's records and failed to identify or fund any shortfalls in its client money bank accounts.

This resulted in clients' money being at risk if Integrated Financial Arrangements became insolvent. The firm should have funded any possible shortfalls from its corporate account.

The second breach related to a failure to have adequate trust documentation in place for three of its 28 client bank accounts, also putting client money at risk in the event of insolvency.

7 - Bank of Scotland £3.5m

The regulator hit Bank of Scotland with a £3.5m fine in May for the mishandling of complaints about retail investment products and also forced it to pay £17m in compensation.

Between July 30, 2007 and October 31, 2009, BOS received 2,592 complaints about sales of its collective investment plan, personal investment plan, guaranteed growth bond, Isa investor and guaranteed investment plan.

The regulator said BOS, which is part of Lloyds Banking Group, wrongly rejected a significant number of these complaints.

The FSA's investigation found complaints were not investigated properly, with BOS complaint handlers failing to take account of all relevant customer information.

6 - Rameshkumar Satyanarayan Goenka £4m

Rameshkumar Satyanarayan Goenka was fined for manipulating the closing price of Reliance Industries securities on the London Stock Exchange. The fine comprised of a penalty of about £4m and restitution of about £2m to reimburse the bank, which overpaid Goenka as a result of his market abuse.

On October 18, 2010, Goenka placed orders and executed trades which artificially inflated the closing price of Reliance securities.

The Dubai-based investor had arranged for a pre-planned series of substantial and carefully timed orders to be placed in the final seconds of the LSE's closing auction. The orders were placed and the trades executed with the intention of increasing the closing price of the Reliance securities above a certain level.

Goenka held an over-the-counter structured product which matured on October 18 and for which the pay-out depended on the closing price of Reliance securities that day. By increasing the closing price Goenka avoided a loss of £1.9m under the terms of the structured product.

5 - Credit Suisse £5.95m

The FSA fined Credit Suisse UK £5.95m in October for systems and controls failings in relation to sales by its private bank of structured capital at risk products.

Between January 2007 and December 2009, 623 Credit Suisse UK customers invested over £1bn in 1,701 Scarps - which are complex financial products that provide income to customers but also expose them to the risk that they lose all or part of their initial capital.

During that period there were a number of serious failings in Credit Suisse's systems and controls in respect of those sales, including inadequate assessments of customers' attitudes to risk. The FSA found that Credit Suisse UK had poor systems and controls in place and

failed to maintain adequate records regarding its advice on these products. As a result, customers were exposed to an unacceptable risk of being sold a Scarp that was unsuitable.

4 - Coutts and Company £6.3m

The FSA fined Coutts & Company £6.3m last month for a string of failings in connection with the sale of the AIG enhanced variable rate fund.

Coutts also agreed to carry out a costly past business review, overseen by an independent third party, in relation to all customers who remained invested at 15 September 2008. It will compensate all those customers who have suffered a loss as a result of its failings.

The FSA said between December 3, 2003 and September 15, 2008, Coutts sold the fund to 427 high net worth customers, with investments totaling £1.45bn.

The fund invested in financial and money market instruments but unlike a standard money market fund, it sought to deliver an enhanced return by investing a material proportion of its assets in asset-backed securities and floating rate notes.

During the financial crisis of 2007 and 2008, the market values of some of the assets in the fund fell below their book values. On September 15, 2008, Lehman Brothers applied for Chapter 11 bankruptcy protection in the US and AIG's share price fell sharply and suddenly. A large number of investors sought to withdraw their investments and there was a run on the fund. As a result, the fund was suspended, with customers prevented from immediately withdrawing all of their investment.

The FSA said there were a number of serious failings in the way the fund was sold prior to, and after, September 2008.

3 - Willis Limited £6.895m

The regulator fined Willis Limited £6.895m in July for failings in its anti-bribery and corruption systems and controls.

The fine related to an unacceptable risk being created by Willis Limited over payments it made to overseas parties that could have been used for corrupt purposes. Willis Limited is one of the leading insurance and re-insurance brokers in the London market.

Between January 2005 and December 2009 Willis Limited made £27m worth of payments to overseas third parties who assisted it in winning and retaining business from overseas clients, particularly in high risk jurisdictions.

The FSA found that Willis Limited failed to ensure it established and recorded an adequate commercial rationale for the payments, failed to ensure adequate due-diligence on the third parties was made before doing business with them and failed to adequately review its relationship on a regular basis to confirm that Willis Limited should continue with the partnership.

2 - Barclays £7.7m

The FSA fined Barclays £7.7m in January 2011 for failures relating to the sale of the Aviva global balanced income fund and the global cautious income fund,

Between July 2006 and November 2008, Barclays sold Aviva's global balanced income fund and the global cautious income fund to 12,331 people with investments totalling £692m.

Money Marketing revealed in 2009 that Barclays had advised cautious clients approaching or in retirement to transfer their long-term savings into the global balanced income fund.

The value of the fund plunged by almost 50 per cent in the 12 months to March 2009 and the bank admitted it erroneously categorised the fund as balanced rather than adventurous between July and November 2007. The FSA said there were a number of serious failings in the way the funds were sold, including a failure to ensure the funds were suitable for customers in view of their investment objectives, financial circumstances, investment knowledge and experience.

1 - HSBC Bank Plc - £10.5m

The FSA issued its largest ever retail fine of £10.5m earlier this month against HSBC because of inappropriate investment advice provided by one of its subsidiaries to elderly customers.

Between 2005 and 2010 HSBC subsidiary NHFA advised 2,485 customers to invest in asset-backed investment products, typically investment bonds, to fund long-term care costs for elderly customers. The products were sold to individuals entering, or already in, long-term care and in many cases these elderly customers were reliant on the investments to pay for their care.

The average age of NHFA's customer base was almost 83. The total amount invested was close to £285m, putting the average amount invested per customer at approximately £115,000.

In June, HSBC announced it was to close NHFA to new business as it "no longer forms part of the group's strategic direction".

The advice and sales were unsuitable because in a number of cases the individual's life expectancy was below the recommended five-year investment period. As a result customers with shorter life expectancies had to make withdrawals from these investments sooner than is recommended.

HSBC estimates that the amount of compensation to be paid to Nursing Homes Fees Agency customers will be approximately £29.3m in addition to the fine.

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