Financial Services Authority

FIRST SUPERVISORY NOTICE

To: **M Young Legal Associates Limited**

Of: **60 Fountain Street**
Manchester
M2 2FE

Dated: **23 August 2007**

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS ("the FSA"/"the Authority") has taken the following action

1. ACTION

1.1. For the reasons listed below and pursuant to section 45 of the Financial Services and Markets Act 2000 (the "Act"), the FSA has decided to vary the permission granted to M Young Legal Associates Limited ("MYLA") pursuant to Part IV of the Act ("your Permission") by removing all regulated activities with immediate effect. Accordingly, your Permission no longer includes the following regulated activities:

(1) Agreeing to carry on a regulated activity; and

(2) Dealing in investments as agent (in relation to non-investment insurance contracts for commercial and retail (non-investment insurance) customers).

1.2 The FSA has further decided to vary MYLA's Part IV permission by including the following requirements, namely that within 14 days it must:

(1) advise in writing all clients for its regulated activities that it is no longer permitted by the FSA to carry on regulated activities; and

(2) provide the FSA with a copy of the written advice sent to all clients for its regulated activities pursuant to (1) above, together with a list of all clients to whom such advice has been sent.

2. REASONS FOR ACTION

2.1. The FSA has concluded, on the basis of the facts and matters described below, that MYLA is failing to satisfy Threshold Condition 5 as set out in Schedule 6 to the Act, in that the FSA is not satisfied that MYLA is a fit and proper person having regard to all the circumstances, that is, because in the opinion of the FSA, as it has failed to conduct its business with integrity (in breach of Principle 1), has failed to treat customers fairly (in breach of Principle 6), has failed to arrange adequate protections for clients' assets (in breach of Principle 10) and has failed to deal with the FSA in an open and cooperative way (in breach of Principle 11).

2.2. The FSA also considers, on the basis of these facts and matters that it is necessary, in order to protect the interests of consumers, for the action specified above to take immediate effect.

3. RELEVANT STATUTORY PROVISIONS, REGULATORY REQUIREMENTS AND GUIDANCE

3.1. Part I (sections 1 to 18) of the Act contains the provisions about the FSA as a Regulator.

3.2. Section 2(1) provides that, in discharging its general functions, the FSA must, so far as is reasonably possible, act in a way which is compatible with its regulatory objectives and in a way which the FSA considers most appropriate for the purpose of meeting those objectives. Pursuant to section 2(2) the FSA's regulatory objectives include securing the appropriate degree of protection for consumers.

3.3. Part IV (sections 40 to 55) contains the provisions relating to permission to carry on regulated activities. Section 41(2) provides that, in giving or varying permission, the FSA must ensure that the person concerned will satisfy and continue to satisfy the Threshold Conditions in relation to all the regulated activities for which he has permission.

3.4. Section 41(1) provides that the Threshold Conditions are those set out in Schedule 6. Schedule 6 describes five Threshold Conditions including Threshold Condition 5 (suitability) which provides:

> *The person concerned must satisfy the Authority that he is a fit and proper person having regard to all the circumstances including –*
>
> *(a) his connection with any person;*
>
> *(b) the nature of any regulated activity that he carries on or seeks to carry on; and*
>
> *(c) the need to ensure that his affairs are conducted soundly and prudently.*

3.5. Section 44 provides that the FSA may, on the application of an authorised person, vary a Part IV permission in a number of ways, including removing a regulated activity. Section 45(2) gives the FSA power on its own initiative to vary a Part IV permission in any of the ways mentioned in section 44, and section 45(1) provides:

> *The Authority may exercise its power under this section in relation to an authorised person if it appears to it that:*
>
> *(a) he is failing, or is likely to fail, to satisfy the threshold conditions;*
>
> *…or*
>
> *(c) it is desirable to exercise that power in order to protect the interests of consumers or potential consumers.*

3.6. Section 53 contains the provision about the procedure for the exercise of the Authority's own–initiative power to vary a Part IV permission ("OIVOP"). It

provides that a variation either takes effect immediately or on such a date as may be specified in the notice. Section 53(3) provides:

A variation may be expressed to take effect immediately (or on a specified date) only if the Authority, having regard to the ground on which it is exercising its own initiative power, reasonably considers that it is necessary for the variation to take effect immediately (or on that date).

3.7. In exercising its power to vary a Part IV permission, the FSA must have regard to guidance published in the FSA Handbook. The main considerations in relation to the action specified above are set out below.

Relevant Principles for Businesses ("the Principles")

3.8. Principle 1 - a firm must conduct its business with integrity.

3.9. Principle 6 - a firm must pay due regard to the interests of its customers and treat them fairly).

3.10. Principle 10 - a firm must arrange adequate protection for clients' assets when it is responsible for them.

3.11. Principle 11 - a firm must deal with its regulators in an open and cooperative way, and must disclose to the FSA appropriately anything relating to the firm of which the FSA would reasonably expect notice.

Relevant Rules

3.12. Under CASS 5.2.3R a firm must not agree to:

(1) Deal in investments as agent for an insurance undertaking in connection with insurance mediation activity; or

(2) Act as agent for an insurance undertaking for the purpose of settling claims or handling premium refunds; or

(3) Otherwise received money as agent of an insurance undertaking unless;

(4) It has entered into a written agreement with the insurance undertaking to that effect.

ENF 3.5 - The FSA's policy for exercising its own-initiative power to vary a Part IV permission (also known as an OIVOP)

3.13. ENF 3.5.2G sets out that when considering how to deal with a concern about a firm the FSA will have regard to its regulatory objectives and the range of regulatory tools that are available to it and amongst other things, the principle that a restriction imposed on a firm should be proportionate to the objectives the FSA is seeking to achieve.

3.14. ENF 3.5.3G provides that the FSA will take formal action affecting the conduct of a firm's commercial business only if that business is being conducted in such a way that the FSA judges it necessary to act in order to address the consequences of non-compliance with the Act, Principles and FSA rules.

3.15. ENF 3.5.8G provides that the circumstances in which the FSA will consider exercising its power include where the FSA has serious concerns that the authorised person has breached requirements imposed on it by or under the Act (including Principles and FSA rules) and the breaches are material in number or individual seriousness.

3.16. ENF 3.5.11G provides that the FSA will consider exercising its OIVOP power as a matter of urgency under section 53 of the Act where:

(1) the information available to it indicates serious concerns about the firm or its business that need to be addressed immediately;

(2) circumstances indicate that it is appropriate to use statutory powers immediately to require and / or prohibit certain actions by the firm in order to ensure the firm addresses those concerns.

3.17. ENF 3.5.12G gives examples of situations that will give rise to serious concerns including:

(1) information indicating significant loss, risk of loss or other adverse effects for consumers, where action is necessary to protect their interests;

(2) evidence that the firm has submitted to the FSA inaccurate or misleading information so that the FSA becomes seriously concerned about the firm's ability to meet its regulatory requirements;

(3) circumstances suggesting a serious problem within a firm or with a firm's controllers that calls into question the firm's ability to continue to meet the Threshold Conditions.

3.18. ENF 3.5.13G includes among the factors which will determine whether the urgent exercise of the FSA's own initiative power is an appropriate and proportionate response to serious concerns:

(1) the extent of any loss, or risk of loss, or other adverse effect on consumers;

(2) the nature and extent of any false or inaccurate information provided by the firm. Whether false or inaccurate information warrants the FSA's urgent exercise of its OIVOP powers will depend on matters such as:

(a) the impact of the information on the FSA's view of the firm's compliance with the regulatory requirements to which it is subject and the firm's suitability to conduct regulated activities;

(b) whether the information appears to have been provided in an attempt knowingly to mislead the FSA rather than through inadvertence;

(c) whether the matters to which false or inaccurate information relates indicate there is a risk to customer assets or to the other interests of the firm's actual or potential customers.

(3) the seriousness of any suspected breach of the requirements of the legislation or the rules and the steps that need to be taken to correct that breach;

(4) the impact that use of the FSA's own-initiative powers will have on the firm's business and on its customers. The FSA will take into account the (sometimes

significant) impact that a variation of permission may have on a firm's business and on its customers' interests, including the effect of variation on the firm's reputation and on market confidence. The FSA will need to be satisfied that the impact of any use of the own-initiative power is likely to be proportionate to the concerns being addressed, in the context of the overall aim of achieving its regulatory objectives.

Guidance concerning Threshold Condition 5: Suitability (paragraph 5, Schedule 6 to the Act) – COND 2.5

3.19. COND 2.5.1D reproduces the relevant statutory provision that the person concerned must satisfy the FSA that he is a fit and proper person, including his connection with any person, the nature of any regulated activity that he carries on or seeks to carry on and the need to ensure that his affairs are conducted soundly and prudently.

3.20. COND 2.5.3G(1) states that the emphasis of Threshold Condition 5 is on the suitability of the firm itself. The suitability of each person who performs a controlled function will be assessed by the FSA under the approved persons regime. In certain circumstances, however, the FSA may consider that the firm is not suitable because of doubts over the individual or collective suitability of persons connected with the firm.

3.21. COND 2.5.3G(2) states that when assessing Threshold Condition 5 in relation to a firm, the FSA may have regard to any person appearing to it to be in a relevant relationship with the firm. COND 2.4.3G(1) includes directors in the list of examples of such persons that might be in a relevant relationship with the firm.

3.22. The guidance at COND 2.5.4G (1) states that, when determining whether the firm will satisfy or continue to satisfy Threshold Condition 5, the FSA will have regard to all relevant matters, whether arising in the United Kingdom or elsewhere. Relevant matters include, but are not limited to whether a firm (a) conducts, or will conduct its business with integrity and in compliance with proper standards, (b) has, or will have, competent or prudent management; and, (c) can demonstrate that it conducts, or will conduct, its affairs with the exercise of due skill, care and diligence.

3.23. COND 2.5.6G, in giving guidance on the interpretation of whether a firm will satisfy and continue to satisfy Threshold Condition 5 in respect of conducting its business

with integrity and in compliance with proper standards gives examples of relevant matters which include:

(1) whether the firm has been open and co-operative in all its dealings with the FSA, and is ready willing and organised to comply with the requirements under the regulatory system (COND 2.5.6G(1)),

(2) whether the firm has contravened any provisions of the Act or the regulatory system (COND 2.5.6G(4)), and

(3) whether the firm has taken reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system applicable to it (COND 2.5.6G(6)).

4. FACTS AND MATTERS RELIED ON

4.1. MYLA is a general insurance intermediary business (founded in February 1999 by Mr Michael Young and incorporated in April 2000). It is based in Manchester and provides legal expenses insurance policies.

4.2. The legal expenses insurance includes after-the-event (ATE) insurance policies. An after-the-event insurance policy is taken out by a claimant or potential claimant after a loss, such as a personal injury, has been suffered and a decision has been made to make a claim for damages for that loss from a defendant. The policy will cover the legal costs of the claimant should the claim be unsuccessful.

4.3. MYLA has two different types of underwriting scheme for which it is intermediary. Firstly, a bespoke scheme under which MYLA assesses the individual risks of a client's circumstances and takes a view as to whether those risks should be recommended for cover by an underwriter. Secondly, a fast track delegated scheme where a panel of solicitors, who were given delegated authority by MYLA, bound business on behalf of MYLA and the associated underwriter. These solicitors were selected by MYLA and were restricted to binding fast track actions with claims valued at less than £15,000. Both types of scheme require submission of regular bordereaux (i.e. policy information) to the underwriters.

4.4. MYLA was authorised from 14 January 2005 when the FSA became responsible for regulating general insurance intermediaries.

4.5. On incorporation of MYLA, Mr Young was appointed a director under the Companies Act 1985 and is also the managing director. Asif Habib Malik ("Mr Malik") was also appointed a director under the Companies Act 1985, on 1 April 2002 and had responsibility for finance. Mr Malik resigned from MYLA effective 9 March 2006. Mr Young is therefore currently the sole director. MYLA is owned 51% by Mr Young.

4.6. Since 14 January 2005, Mr Young has been an approved person at MYLA and holds controlled functions CF1 (Director) and CF8 (Apportionment and Oversight). Mr Malik was an approved person from 14 January 2005 until he applied to have his approved status withdrawn; this was granted effective 17 February 2006. Mr Malik held the following controlled functions: CF1 (Director), CF8 (Apportionment and Oversight); CF13 (Finance); CF14 (Risk assessment); CF15 (Internal audit); CF17 (Significant Management (Other Business Operations); CF19 Significant Management (Financial Resources); and Responsible for Insurance Mediation.

Background

4.7. In October and November 2004, the FSA received information from two sources stating that MYLA was failing to place business on risk with an underwriter and raising concerns over MYLA's systems and controls; claiming that MYLA was deliberately issuing policy certificates in the names of underwriters after the binding agreement with those underwriters had expired. Further information received in February 2005 related to concerns that MYLA was still purporting to have an agreement with an underwriter when it had expired.

4.8. As a result, the FSA contacted MYLA and arranged to visit MYLA in March 2005. Mr Malik indicated at the visit that a binding agreement was in place with an underwriter based in New Zealand, Contractors Bonding Limited ("CBL"), and an unsigned copy of an agreement was presented to the FSA. The FSA was informed that the managing director of MYLA, Mr Young, was in New Zealand meeting with CBL on 11 March 2005.

4.9. The FSA wrote to MYLA in March and April 2005 asking for a signed copy of the agreement with CBL. On 9 May 2005, MYLA provided a claim care Legal Expenses Insurance Schedule for CBL but no signed binding agreement. In June 2005, the FSA again wrote to MYLA requesting a signed copy of the binding agreement with CBL.

4.10. On 13 June 2005, Mr Young stated that there was "*bound business*" between MYLA and CBL on a "*mutual understanding*" while parties agreed the distribution of premium, the commission structure and other details of the scheme. Mr Young stated that he envisaged "*that the agreement shall now be finalised soon"*. This was the first occasion that MYLA had confirmed to the FSA that there was no concluded agreement in place with CBL. On 14 July 2005, the FSA wrote to MYLA expressing concern that the agreement was not concluded and provided a deadline of 31 July 2006, after which the FSA would contact CBL directly.

4.11. In early August 2005, the agreement between MYLA and CBL was still not signed. Mr Young requested more time and stated that CBL had agreed to provide cover in the interim period. The FSA requested written evidence of the interim cover. In view of the concerns arising out of MYLA's purported indemnity cover with CBL, an investigation was commenced by the FSA into MYLA in September 2005.

Chronology of Key Events

Underwriting Cover and Premiums

4.12. The investigation revealed that MYLA issued insurance policies to customers in the following substantial periods of time when no underwriting cover was in place:

(1) July 2003 – March 2004; and

(2) September 2004 – November 2005.

NIG

4.13. MYLA initially had a binding agreement with National Insurance and Guarantee Corporation ("NIG") between 13 January 2000 and 30 June 2003. The agreement was terminated by NIG by written notice given to MYLA on 3 June 2003 and, again, on 26 September 2003 with an effective date of 30 June 2003. The notice of termination

was provided in accordance with the termination clause in the original agreement. The reason provided by NIG for the termination was due to strategic review of the ATE Legal Expenses insurance business.

4.14. MYLA continued to place business in the name of NIG as underwriter until February 2004 despite the termination. MYLA did not pass on any further premiums or bordereaux in relation to new policies over to NIG after 30 June 2003. The bordereaux were not revealed to NIG until NIG was given the opportunity to review and inspect the records which were the subject of an injunction granted in October 2004. NIG have stated that, of the 9201 policies issued by MYLA in the name of NIG, approximately 2300 were written after the date of termination.

4.15. NIG sought an injunction against MYLA in the High Court which was granted on 18 October 2004, The reasons for the injunction against MYLA were, in summary and inter alia, for MYLA (following the termination by NIG): purporting to grant delegated authority to panel solicitors in breach of the agreed terms (i.e. using non-standard wording and for matters other than fast track disputes); purporting to incept policies and continuing to delegate authority to panel solicitors following termination; and, holding itself out to a panel solicitor as agent for NIG.

4.16. On 9 November 2004, the solicitors acting for NIG wrote to one of the panel solicitors stating that MYLA could no longer act as agent for NIG, and was followed by a further letter on 15 November 2004 confirming that MYLA could no longer act as funding intermediary for NIG.

4.17. On 23 November 2004, solicitors instructed by MYLA wrote a contradictory letter to the panel solicitors stating that it was MYLA's position that MYLA was fully and properly authorised by NIG for the period in which the policies were issued. The letter also indicated that, at the date of the letter, MYLA was still authorised to act as agent in issuing non-NIG policies. However, as stated below, as at November 2004, the underwriting agreement between MYLA and another underwriter, IGI Insurance Company Limited ("IGI"), had been terminated by IGI in September 2004 and, therefore, MYLA had no underwriting cover in place despite representing that it did.

4.18. Mr Young and Mr Malik (in compelled interviews) stated that the agreement with NIG ran until March 2004. However, both failed to inform the FSA that NIG were disputing this and had brought injunction proceedings in October 2004 on the basis that the agreement was terminated on 30 June 2003. Mr Young also maintained, in an affidavit to the High Court dated 24 November 2005 and in written correspondence with the FSA dated 24 November 2005 and 9 February 2006 that the NIG agreement ran until March 2004. Mr Young has stated that the contract with NIG ended in March 2004 since it had been granted a renewal by NIG in March 2003 and included a monthly policy allocation which allowed MYLA to extend the agency beyond March 2004.

4.19. This information conflicts with the written notice of termination sent to MYLA by NIG terminating the agreement from 30 June 2003. Notwithstanding MYLA's response that the agreement did not terminate at that date, this still does not explain why MYLA did not provide NIG with premiums and bordereaux in the period after June 2003 and why MYLA failed to alert NIG to the fact that MYLA was still placing business in its name.

IGI

4.20. IGI entered into a Delegated Underwriting Agreement ("DUA") with MYLA in July 2004. MYLA failed to comply with the terms of the DUA, namely by failing to submit regular and accurate monthly bordereaux and timely (60 days) payment of premiums to IGI. In certain instances, MYLA disclosed some bordereaux information to IGI but this reflected only a very small proportion of the business placed in IGI's name. As a result, in September 2004, IGI cancelled its agreement with MYLA.

4.21. MYLA continued to place business in the name of IGI until at least September 2005 and, during that time, MYLA failed to notify IGI of at least 863 cases placed in its name.

4.22. In addition, when MYLA had an agreement in place with IGI in 2004, MYLA entered into contracts of insurance using NIG terms then notified the insured that the underwriter was IGI contrary to the agreement with IGI (and the cancellation with NIG).

4.23. MYLA has asserted that the agreement with IGI was for the period from March 2004 until November 2005 and sought to rely on a second agreement, the IGI Group Terms of Business Agreement for Intermediaries that was effective 14 January 2005. However, IGI advised that those Terms of Business were sent to all of its agents and brokers via an external mailing house in December 2004 and MYLA was still erroneously listed as an agent when IGI sent its list of agents to the mailing house. An additional class of business, Legal Expenses Insurance, was handwritten on the Terms of Business, suggesting that the document had been falsified by MYLA. This document was sent to the FSA on 27 April 2006 by Mr Young in an attempt to support the extended underwriting period.

CBL

4.24. As noted above, it was due to concerns that the FSA had arising out of MYLA's purported underwriting cover with one underwriter, Contractors Bonding Limited ("CBL"), that an investigation was commenced by the FSA into MYLA. Significantly, this related to the period following FSA authorisation of MYLA in January 2005.

4.25. MYLA and CBL had been party to various discussions and negotiations regarding potential underwriting cover since January 2005, some of which involved CBL's broker in the UK, ESR Insurance Services Limited ("ESR").

4.26. Mr Young visited CBL in March 2005 since no formal agreement had been signed and left the meeting on the understanding that, if MYLA could provide satisfactory audited accounts, then CBL would consider providing underwriting cover.

4.27. Notwithstanding this condition that CBL placed on MYLA, MYLA informed ESR in April 2005 that it had placed approximately 900 cases with CBL immediately pending the agreement with CBL being signed.

4.28. In July 2005, CBL advised ESR that it would not give the matter with MYLA further consideration until it had seen the audited accounts of MYLA. It was not until 10 August 2005 that MYLA forwarded accounts to CBL. However, the accounts related to 2003 and were heavily qualified and, therefore, CBL advised that it required MYLA's most recent account information.

4.29. On 18 August 2005, CBL confirmed to the FSA that CBL had no arrangement with MYLA, interim or otherwise (as stated at paragraph 4.10 above, on 13 June 2005 MYLA indicated for the first time to the FSA that there was no concluded agreement in place with CBL). CBL told the FSA that MYLA had approached CBL but CBL required further information from Mr Young before it would consider the matter further.

4.30. Mr Young informed the FSA that business at that time was being underwritten by CBL, and CBL had been underwriting business since 1 July 2004, despite there being no agreement in place with CBL.

4.31. On 22 September 2005, CBL sent an email to MYLA explicitly stating that CBL had never agreed to provide cover to MYLA. On the same day, CBL informed the FSA that it was concerned to hear that MYLA had been using CBL's name without its permission.

4.32. In order to address the problem that policies had been issued in its name (and notwithstanding that this had been done without its knowledge or agreement), CBL entered into a binding agreement with MYLA on 1 November 2005 in respect of retrospective deferred premium policies only, for the period March 2004 to November 2005. As it remained wary of MYLA, CBL insisted that the agreement would only relate to the backlog of cases and would not cover ongoing business.

4.33. The bordereaux for those policies which CBL agreed to cover retrospectively amounted to £1,548,794 in premium.

4.34. Later in November 2005, CBL indicated to the FSA that MYLA wished to amend the agreement in place between the parties to represent that the agreement had always been in place. CBL would not agree to this amendment since it was not an accurate reflection of events.

4.35. In early 2006, MYLA indicated to ESR and CBL that an agreement had been reached with IGI that, following litigation, IGI would take the risk for some of the matters where CBL had been previously offered to take the risk. As a result of this reason and others, CBL withdrew from the agreement with MYLA on 1 March 2006.

Client Money

4.36. Following authorisation in January 2005, MYLA had a requirement imposed upon it by the FSA under which it was not permitted to hold client money. Therefore, the only means by which MYLA could lawfully have held client money was as agent under a written risk transfer agreement with the underwriter.

4.37. Since there was no written agreement in place between MYLA and CBL until 1 November 2005, from March until November 2005 MYLA was holding client money. Mr Young admitted that MYLA was holding client money and provided a schedule showing policies issued by MYLA on or after 1 March 2005 for which it had received premiums. The schedule identified some £93,236 in premium had been received by MYLA up until 7 September 2005.

4.38. MYLA has not disputed the fact that it was holding client money and also paid claims out of those funds; however, MYLA has attempted to prove to the FSA that it was appropriately segregating the money by placing it in a Premium and Funding Account. The substantial activity on that account indicates that it was not solely used for client money, as MYLA claims to have been the case. By way of example, on 10 August 2005 two cheques were drawn on the account to defray obligations of MYLA itself (one for £25,000 and one for £2,450).

4.39. On 17 January 2006, Mr Malik provided the FSA with the account details for the Premium and Funding Account that MYLA purportedly held with Bank of Scotland. The FSA attempted to conduct further enquiries and obtain bank statements for that account, however, Bank of Scotland informed the FSA that the account was not held by MYLA and was a reconciliation account held by Bank of Scotland not a customer. Therefore, false information was provided to the FSA.

Falsely Charging Clients Interest

4.40. Prior to authorisation in January 2005, MYLA had a funding arrangement in place with a bank. Under this arrangement, a client entering into an insurance policy arranged by MYLA could enter into a loan contract that would enable the draw down of funds to pay the insurance premium and disbursement costs.

4.41. Following cancellation in December 2003 by the bank of its funding arrangement with MYLA, MYLA advised panel solicitors that there was a new funding arrangement in place with a company controlled by Mr Young.

4.42. An analysis of 14 client files, of clients who had entered into a loan contract through MYLA to fund their policy premium, showed that interest had been calculated for these clients on a total loan amount which included the insurance premium. However, in each case no insurance premium had been passed on to the underwriters.

MYLA's ongoing business

4.43. On 9 February 2006 Mr Young wrote to the FSA giving an assurance that "*MYLA is not accepting any insurance business of any type, other than for the purpose of introducing that business to any authorised insurer*".

4.44. However, MYLA's website describes it as "*A legal expense insurance and funding specialist*", offering "*expert advice and solutions for all types of Litigation Funding requirements*". Also from its website, MYLA appears to be continuing to act as an intermediary in relation to after-the-event legal expense insurance (amongst other things).

4.45. On this basis MYLA appears to be doing more then simply introducing business to insurers.

Other dealings with the FSA – Retail Mediation Activities Returns

4.46. MYLA has failed, despite being chased repeatedly by the FSA, to submit three Retail Mediation Activities Returns ("the RMARs") and has failed to pay two invoices in respect of fees for non-submission of the RMARs as follows:

Return End	**Return Due**	**Invoice Number**	**Invoice Date**	**Invoice Due**
31/03/2006	17/05/2006	Paid		
30/09/2006	10/11/2006	LRF06_02481	27/11/2006	27/12/2006

31/03/2007	16/05/2007	LRF07_00369	12/06/2007	12/07/2007

4.47. The RMAR brings together, in one return, important information about a regulated firm, upon which the Authority relies to fulfil its regulatory objectives.

4.48. On 13 June 2007 a member of the FSA's Late Returns team contacted Mr Young in relation to MYLA's non-submission of the RMARs. Mr Young stated that he would submit the RMARs, but has again failed to do so.

4.49. In addition when questioned by the FSA's Late Returns team, Mr Young denied any knowledge of the ongoing investigation by the FSA's Enforcement Division, despite the fact that he had received and responded to Enforcement's Preliminary Investigation Report in relation to matters dealt with in this Supervisory Notice.

5. CONCLUSIONS

5.1. The FSA finds that between June 2003 and November 2005 MYLA:

(1) Purported to act as an intermediary in writing after-the-event legal expenses insurance at times when it did not have underwriting cover in place and received payments from clients as premiums for insurance policies in those circumstances (breaching Principles 1 and 6);

(2) Failed to pass on premiums in a timely manner or failed to pass on premiums at all to the appropriate underwriter, when underwriting cover was in place (breaching Principles 1 and 6);

(3) Held client monies after authorisation despite a requirement upon the Firm not to do so (and, notwithstanding this requirement, failed to arrange adequate protection of client assets by failing to ensure that client money was kept separate from the Firm's own money as would have been required under CASS Rules 5.3 to 5.6 had the Firm had permission to hold client monies) (breaching Principles 1, 6 and 10 and CASS 5.2.3R); and

(4) Charged clients interest on credit agreements for premiums that were never passed on to underwriters (breaching Principles 1 and 6).

5.2. In addition MYLA has, through it directors:

(1) knowingly provided false information and knowingly misled underwriters on various occasions, most significantly by failing to inform them of policies placed in their names and premiums received in relation to those policies (breaching Principle 1).

(2) knowingly provided false information and knowingly misled panel solicitors as to whether there was underwriting in place and with which underwriter (breaching Principle 1).

(3) knowingly provided false information and knowingly misled the FSA (breaching Principle 1 and 11) by:

(a) stating that the NIG underwriting agreement ran until March 2004 without, at least, informing the FSA that NIG were disputing this and had brought injunction proceedings in October 2004 on the basis that the agreement was terminated on 30 June 2003;

(b) stating that the IGI underwriting agreement ran until November 2005 when the agreement had been cancelled in September 2004, attempting to support this by falsifying IGI's standard Terms of Business Agreement (which had in fact been sent to MYLA in error in the first place);

(c) stating that there was underwriting cover in place between March and November 2005 when that was not the case;

(d) providing false bank account details to the FSA; and

(e) denying, to a member of the FSA's Late Returns team, any knowledge of the investigation by the FSA's Enforcement department into matters dealt with in this Supervisory Notice.

5.3. Further, MYLA continued to offer advice as an insurance intermediary despite having given assurances to the FSA in February 2006 simply to act as an introducer insurers (in breach of Principle 11) and has failed to submit its latest three RMARs (in breach of Principle 11).

5.4. Given MYLA's breaches of Principles (as set out at paragraphs 5.1, 5.2 and 5.3 above) it is clear that MYLA has failed to conduct it affairs soundly and prudently over a considerable period and there are serious actual and potential consequences of its conduct (including deliberately misleading the FSA and the potential consumer detriment of (i) MYLA purporting to write insurance without underwriting and (ii) failing to adequately protect client assets). The FSA's concerns are heightened as it appears that, notwithstanding its February 2006 assurances to the FSA, MYLA is continuing to act as insurance intermediary (beyond simply acting as an introducer). As MYLA has failed, despite repeated chasing, to submit its last three RMARs the FSA is not able to readily assess whether in fact MYLA is keeping to its February 2006 assurances.

5.5. MYLA has not demonstrated to the FSA that it is fit and proper, conducting its affairs soundly and prudently and in compliance with proper standards. In light of these very serious concerns it appears to the FSA that MYLA is failing to satisfy Threshold Condition 5 in that the FSA. In the circumstances, the exercise of the FSA's own-initiative power to vary its Part IV permission with immediate effect is an appropriate response to those concerns.

6. DECISION MAKER

6.1. The decision which gave rise to the obligation to give this Supervisory Notice was made by the Regulatory Decisions Committee.

7. IMPORTANT

7.1. This Supervisory Notice is given to you in accordance with section 53(4) of the Act. The following statutory rights are important.

The Tribunal

7.2. MYLA may refer this matter to the Financial Services and Markets Tribunal ("the Tribunal"). Under section 133 of the Act, MYLA has have 28 days from the date it was were sent this Supervisory Notice to refer the matter to the Tribunal or such other period as specified in the Tribunal Rules or as the Tribunal may allow. A reference to the Tribunal is made by way of a written notice signed on behalf of MYLA and filed with a copy of this Notice. The Tribunal's address is: 15-19 Bedford Avenue, London WC1B 3AS (telephone 020 7612 9700). The detailed procedures for making a reference to the Tribunal are contained in section 133 of the Act and the Tribunal Rules.

7.3. MYLA should note that the Tribunal Rules provide that at the same time as filing a reference notice with the Tribunal, it must send a copy of the notice to the FSA. Any copy notice should be sent to Dan Enraght-Moony at the FSA, 9th Floor, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Representations

7.4. MYLA has the right to make written and oral representations to the FSA. If you wish to make written representations you must do so by 26 September 2007 or such later date as may be permitted by the FSA. Written representations should be made to the Regulatory Decisions Committee and sent to Vikram Singh, Regulatory Decisions Committee Professional Support Services. The Regulatory Decisions Committee Professional Support Services' address is: 25 The North Colonnade, Canary Wharf, London E14 5HS. If you wish to make oral representations, you should inform Vikram Singh not less than 5 business days before 26 September 2007.

Confidentiality and publicity

7.5. MYLA should note that this Supervisory Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). MYLA should also note that section 391 of the Act requires

the FSA when the Supervisory Notice takes effect, to publish such information about the matter as it considers appropriate.

FSA contacts

7.6. If you have any questions regarding the procedures of the Regulatory Decisions Committee, you should contact either Vikram Singh (direct line: 020 7066 3198 /fax: 020 7066 3199) or Jackie Noonan, Head of RDC Professional Support Services (direct line: 020 7066 3074/fax: 020 7066 1015).

7.7. For more information concerning this matter generally, you should contact Dan Enraght-Moony at the FSA (direct line: 020 7066 0166/fax: 020 7066 0167).

Tim Herrington
Chairman, Regulatory Decisions Committee