

## Chapter 2

# Conduct of business standards: general

## 2.3 Inducements: regulated mortgage contracts, home reversion plans and regulated sale and rent back agreements

### Purpose

- 2.3.1 **G** The purpose of **■** MCOB 2.3 is to ensure, in accordance with *Principles 1, 6 and 8*, that a *firm* does not conduct business under arrangements that might give rise to a conflict with its duty to *customers* or to unfair treatment of them.

### Prohibition of inducements

- 2.3.2 **R** A *firm* must take reasonable steps to ensure that it, and any *person* acting on its behalf, does not:

- (1) offer, give, solicit or accept an inducement; or
- (2) direct or refer any actual or potential business in relation to a *regulated mortgage contract, home reversion plan or regulated sale and rent back agreement* to another *person* on its own initiative or on the instructions of an *associate*;

if it is likely to conflict to a material extent with any duty that the *firm* owes to its *customers* in connection with such a *home finance transaction* or any duty which such a recipient *firm* owes to its *customers* in connection with such a *home finance transaction*.

- 2.3.3 **G** An inducement is a benefit offered with a view to bringing about a particular course of action.

- 2.3.4 **G** The purpose of **■** MCOB 2.3.2 R(2) is to prevent the requirement in **■** MCOB 2.3.2 R(1) being circumvented by an inducement being given or received by an unregulated *associate*. There may be circumstances, however, where a *firm* is able to demonstrate that it could not reasonably have knowledge of an *associate* giving or receiving an inducement. It should not, however, direct business to another *person* on the instruction of an *associate* if this is likely to conflict with the interests of its *customers*.

- 2.3.5 **G** **■** MCOB 2.3.2 R does not prevent a *firm*:

- (1) assisting a *home finance intermediary* so that the quality of the *home finance intermediary's* service to *customers* is enhanced; or

- (2) giving or receiving indirect benefits (such as gifts, hospitality and promotional competition prizes);

providing in either case this is not likely to give rise to a conflict with the duties that the recipient owes to the *customer*. In particular, such benefits should not be of a kind or value that is likely to impair the ability of a *firm* to act in compliance with any *rule* in *MCOB*, for example the suitability requirements in ■ **MCOB 4.7** (Advised sales).

2.3.6

**R**

- (1) A *firm* must not operate a system of giving or offering inducements to a *mortgage intermediary*, *reversion intermediary*, *SRB intermediary* or any other third party whereby the value of the inducement increases if the intermediary or third party, such as a packager, exceeds a target set for the amount of business referred (for example, a volume override).
- (2) A *firm* must not solicit or accept an inducement whereby the value of the inducement increases if the *firm* exceeds a target set for the amount of business referred.

**Quantification of inducements**

2.3.7

**R**

- (1) A *mortgage lender*, *reversion provider* or *SRB agreement provider* must quantify, in cash terms, any material inducement it offers to a *mortgage intermediary*, *reversion intermediary*, *SRB intermediary* or a third party.
- (2) In quantifying the value of the material inducement, the *firm* must include any subsequent payments (such as a trail fee) made where the *customer* continues with the *samehome finance transaction*.

2.3.8

**G**

- (1) Quantification of any material inducement offered by the *mortgage lender* or *reversion provider* supports the disclosure requirements elsewhere in *MCOB*. Further *guidance* on the disclosure of any inducement in cash terms is provided in ■ **MCOB 5.6.118 G** for *regulated mortgage contracts* other than *lifetime mortgages*, ■ **MCOB 9.4.124 G** for *lifetime mortgages* and ■ **MCOB 9.4.173 G** for *home reversion plans*.
- (1A) Quantification of any material inducement offered by a *SRB agreement provider* in connection with the conclusion of a *regulated sale and rent back agreement* must be included in the disclosures made to the potential *SRB agreement seller* under ■ **MCOB 5.9.1R (1A)(c)**.
- (2) A payment made to a third party unconnected with the *home finance intermediary*, where that payment only reflects the cost of outsourcing work relating to the processing of mortgage applications, would not be considered an inducement for these purposes.