

# Sheffield Insurance Institute

FCA Product Governance Rules

Tony Darwall ACII

Insurance Compliance Services



# Core Learning Objectives

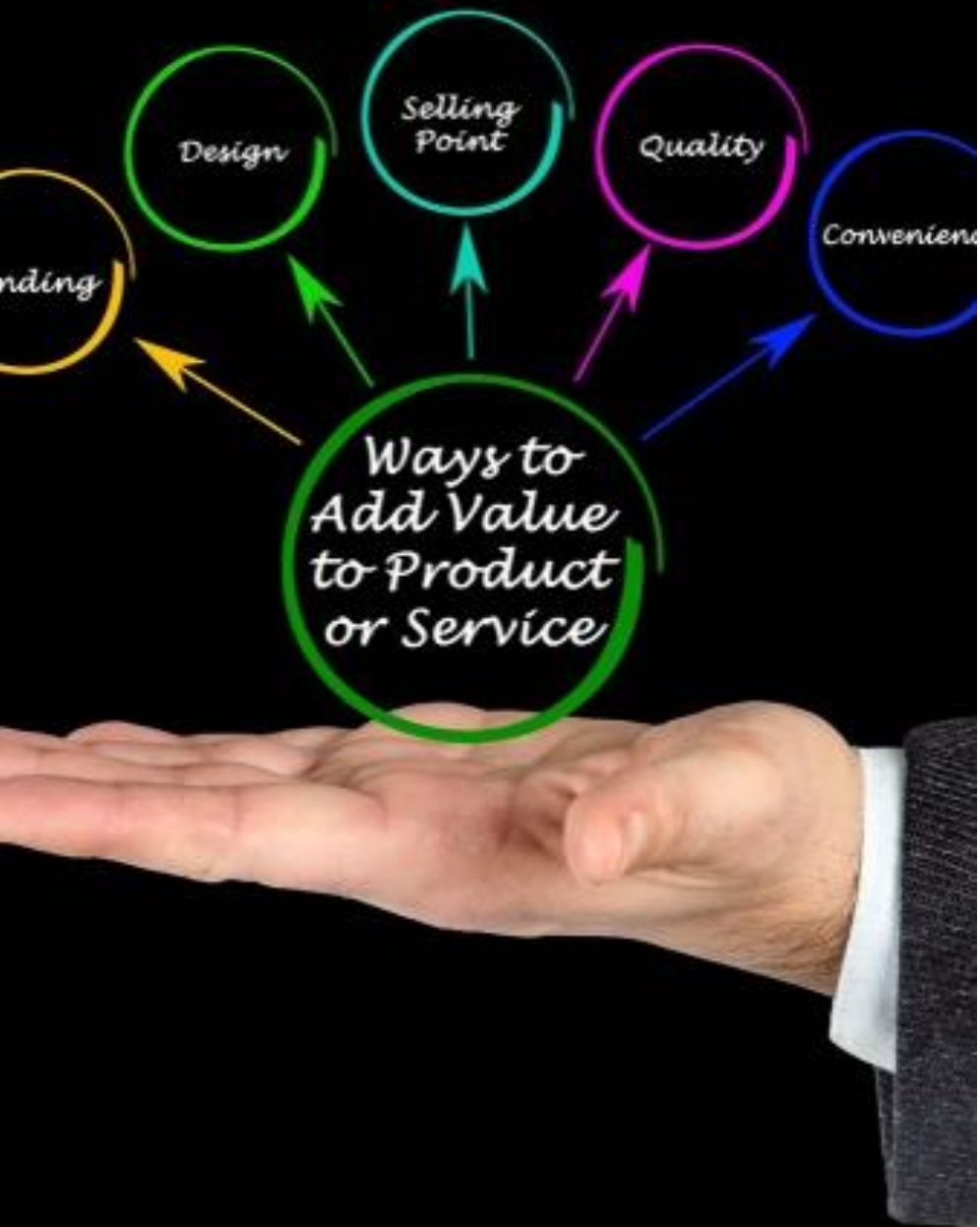
By the end of this session, you will be able to:

1. Understand the scope of the Product Governance and Oversight rules
2. Identify the different types of product review's that may be necessary
3. Explain the roles of distributor, manufacturer and co-manufacturer



1. Overview
2. Scope
3. Manufacturers
4. Distributors
5. Dear CEO Letter
6. What else, what next?





# Overview

- FSA - The Responsibilities of Providers and Distributors for the Fair Treatment of Customers guidance in 2007
- IDD - PROD, Chapter 4
  - Product approval process
  - Set target market
  - Design compatible products
  - Appropriate distribution channels
- 2019 FCA pol statement on GI value measures
- Policy Statement 21/5 – General Insurance pricing practices market study

# A reminder of what's in scope

- All general insurance policies and **premium finance** (except contracts of large risk and reinsurance)
- All pure protection insurance (except reinsurance)
- Includes closed books of business
- 12 months from October 2021 for assessments
- Actions required by manufacturers and distributors

# Context

- The aim is products that
  - Deliver fair value
  - Meet customer needs
- Is value just about price?
  - Service – efficiency, complaints and claims handling
  - Product coverage - cover levels, excesses, additional benefits etc
  - Communication methods/availability
- Would you buy or recommend the product?
- Who wouldn't you recommend the product to?



# Planning – Manufacturers and Distributors

- From **1<sup>st</sup> October** onwards PROD assessments required for:
  1. Each insurance product; and
  2. Significant adaptation of an existing insurance product
  3. Ongoing monitoring on an annual basis
- Understand whether you have any co/manufacturing responsibilities
- How are you going to evidence PROD assessments?
- Good communication is key

# Manufacturer FCA definition

‘designing, developing, creating and/or underwriting’  
which  
cover activities prior to the insurance product being  
approved for marketing and distribution, and on a  
continuing basis after such approval





# Product Review Target Market

- For each product set, **who are your target market** e.g. in/experienced, financially independent, cost conscious etc.
- Any **risks** associated with the target market e.g. vulnerable customers
- Does your **distribution strategy** take account of the target market
- How will you ensure the product is not distributed to customers it is not suitable for?

# Target Market – Vulnerable Customers

- Someone who, due to their personal circumstances, is especially susceptible to harm - particularly when a firm is not acting with appropriate levels of care
- Poor health, such as cognitive impairment,
- Low resilience to cope with financial or emotional shocks
- Low capability, such as poor literacy or numeracy skills
- Life events can make a customer vulnerable  
such as bereavement, redundancy

# Product Reviews – Fair Value Assessment

Does the product provide fair value to customers in the target market, both now and for a reasonably foreseeable period?

Nature of product including quality of benefits and any limitations

Type and quality of services provided to customers

Expected total price to be paid + elements that make up total price including additional products and finance charges

The overall cost to the firm (underwriting, operational costs etc)

*Note*

*If product is part of a package then all component parts of the package and the package as a whole must be 'fair value assessed'.*

# Product Reviews – Reasonably Foreseeable Period

Does the product provide fair value to customers in the target market, both now and for a reasonably foreseeable period?

Consider factors such as:

- Likely tenure of the policy
- The expected number and cost of claims
- Whether benefits might reduce at renewal due to exclusions or claims limits
- Whether the total premiums expected to be paid over the length of time a customer would hold the product would exceed the benefits that could be received from claims
- Policies where premiums go up / cover reduces over time?
  - e.g. Pet Cover, Life insurance

Whole of  
life cover?



**PAY LATER** ○

**PAY NOW** ○

## Product Reviews – Premium Finance

- Do the additional costs of premium finance have a ‘material’ detrimental affect on the value of the insurance for the customer when both insurance and finance are taken together?
- Has the firm assessed total price to pay for retail premium finance

# Product Reviews – Information

- Compare actual data versus projected:
  - cancellations (especially within cooling off period)
  - lapses
  - claim frequency / loss ratios
  - claims declined
  - complaints
- Customer research
- Competitor analysis
- Remuneration and service levels from distributors
- Results of monitoring and oversight of distributor processes  
e.g. call monitoring or file reviews.

# Product Reviews – Distribution



- Manufacturers have to oversee distribution arrangements to ensure there is no risk to the fair value assessment from:
  - Remuneration – not just Plevin!
  - Allowing another party in the chain to set the final price (net pricing arrangement)
- Manufacturers require distributors to provide:
  - The type and amount of remuneration of each firm in the chain
  - An explanation of the services provided
  - Confirmation that firms remuneration is not causing conflicts of interest &/or customer detriment



# Product Testing

- No changes to product testing rules brought in by IDD
  - Product testing required for new and significantly adapted products;
  - Assess that identified needs, objectives and characteristics are met for the target market over product lifetime;
  - Complexity of the charging structure





# Monitoring & Oversight

- Overarching policy
- Senior management responsibility
- Staff training
- Annual review – is product performing as expected?
- Management information

# Record Keeping

- Product Governance and Oversight policy
- Product manufacturing checklists
- Individual product approval records
- Dovetail with
  - Treating customers fairly / conduct risk policy
  - Training and competence plan
- Evidence of:
  - Product testing
  - Fair value assessment
  - Staff training
  - Annual review





**What is deemed  
a 'significant  
adaption'?**

*A 'significant adaption' may include, but is not restricted to, a proposed change to the insurance coverage, costs, exclusions, excesses, limits or conditions and any other significant change to the terms and conditions.*



***What responsibilities do we have if we are a co-manufacturer ?***

*Co – manufacturers shall sign a written agreement which specifies their collaboration to comply with the PROD requirements and the procedures through which they shall agree on the identification of the target market and their respective roles in the product approval process.*



**Can we group similar products together when undertaking reviews?**

*Yes - where this does not detrimentally affect the firm's ability to review each product appropriately. This includes the need to review whether any individual product, and where necessary a package, is providing fair value.*

*'Similar products' will be those products that are intended to deliver similar cover and outcomes for customers where the target markets and distribution methods are consistent.*

# Actions – Manufacturers

- ✓ Review the requirements in detail
- ✓ Determine for which products you are a co/manufacturer
- ✓ Liaise with insurers and other parties in the chain and clarify what information you will need from distributors
- ✓ Review your procedures and make enhancements where applicable
- ✓ Risk rate the product reviews i.e. what order will you review
- ✓ Document approach and rationale for decisions
- ✓ Provide details to your distributors



# Distributor – FCA glossary definition

‘a firm which advises on or proposes contracts of insurance which it does not manufacture’

# A reminder of what's in scope

Where a firm distributes insurance products which it does not manufacture, it must have in place adequate arrangements to understand:

- the characteristics of each insurance product;
- the outcome of the fair value assessment;
- the identified target market of each insurance product
- any identified group of customers for whom the insurance product is not expected to be suitable for
- the impact that remuneration throughout the chain will have on the overall value



# Distributor's Responsibilities

To obtain sufficient, adequate and reliable information from the manufacturer about the insurance products to ensure that they will be distributed in accordance with the characteristics, objectives and needs of the target market

The benefits the product is intended to provide to the customer

The characteristics, objectives and needs of the target market

Relationship between the price paid by the customer and the value of any services provided by the distributor

Whether any remuneration received results in the product ceasing to provide fair value

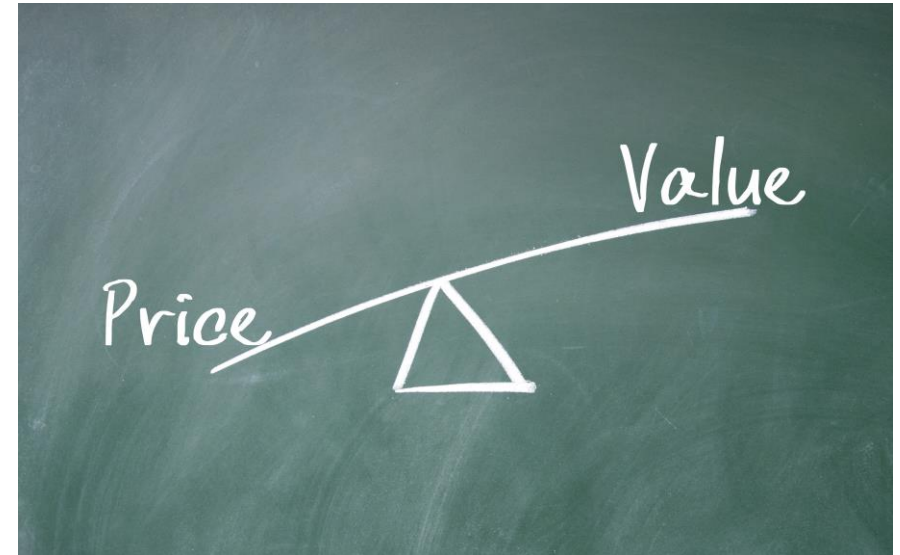
Potential for any detrimental effect on the intended value if sold as part of a package

If premium finance or additional products are sold alongside the insurance then to ensure that the overall cost of the package provides fair value

*Note  
IDD POG rules  
already make it a  
requirement for  
distributors to  
obtain sufficient  
and adequate  
information about  
the products they  
distribute*

# Distributors – Packaged Products & Premium Finance

- Overall package and component parts provide fair value
- Consistent target markets and no duplication of cover
- Distributors need to consider the impact of arranging premium finance in particular;
  - The total price to pay for retail premium finance (APR, Fees etc)
  - Is an alternative option better for the customer?



# Management Information

On request from manufacturers, distributors must provide remuneration info on:

- the core product;
- additional product(s); and
- premium finance.

# Annual Review & Record Keeping

Distributors must be able to provide:

- Remuneration details;
- Information on additional products or services which could affect the manufacturers intended value of the product;
- Confirmation that the firm is meeting SYSC 10 &19 (Conflicts of Interest & IDD remuneration incentives)

# Actions – Distributors

- ✓ Review the requirements in detail
- ✓ Liaise with insurers and other parties in the chain and clarify what information they will need from you
- ✓ Review your procedures and make enhancements where applicable
- ✓ Review the assessments provided by manufacturers
- ✓ Challenge the assessments if necessary
- ✓ Document approach and rationale for decisions
- ✓ Risk rate the product reviews i.e. what order will you review
- ✓ Remember “add on’s” and Premium Finance





***What do we need to do if we identify issues with distribution?***

*If the distribution is undermining the value of the product firms must take appropriate remedial measures including, but not limited to:*

- (1) amending the distribution arrangements, including ceasing to use certain distributors or distribution channels;*
- (2) amending remuneration structures;*
- (3) withdrawing the insurance product from continued marketing or distribution.*

*Liaise with the manufacturers.*

# Dear CEO Letter

- Issued 18<sup>th</sup> October to insurance intermediaries
- Firms were not meeting existing PROD requirements
- Concerns about levels of understanding and customer outcome
- FCA expects firms to:
  - establish whether the firm is a manufacturer or distributor
  - assess the impact of the enhanced product governance rules
  - take the necessary steps to ensure compliance
  - act promptly to address any gaps





***What else do we need to do to think about?***

- ✓ *GI Pricing Remedy – Price Walking*
- ✓ *Auto renewals*
- ✓ *Premium finance disclosures*

*2022 – Appointed Representatives*





# Questions

- Any questions?

# Overarching Learning Objectives Recap

1. Understand the scope of the Product Governance & Oversight rules
2. Identify the different types of product review's that may be necessary
3. Explain the roles of distributor, manufacturer & co-manufacturer



Thank you for your time!