Chapter 4

Product governance: IDD and pathway investments

4.2 Manufacture of insurance products

Product governance arrangements

4.2.1 R A *firm* which *manufactures* any insurance product must maintain, operate and review a process for the approval of:

(1) each insurance product; and

(2) significant adaptations of an existing insurance product,

in each case before it is marketed or *distributed* to *customers*.

[**Note**: first subparagraph of article 25(1) of the *IDD*]

4.2.1A G For the purposes of PROD 4.2:

(1) whether a proposed change to the product would be a 'significant adaptation' should include consideration of the potential impact the adaptation may have on an existing or potential *customer* (when compared to the unadapted version of the product);

(2) a 'significant adaptation' in relation to a *non-investment insurance product* 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.

4.2.2 R The product approval process referred to in PROD 4.2.1R must be proportionate and appropriate to the nature of the insurance product.

[**Note**: second subparagraph of article 25(1) of the *IDD*]

4.2.3 G *Manufacturers* should take into account the following when considering whether the product approval process is proportionate and appropriate:

(1) the complexity of the insurance product;

(2) the degree to which publicly available information can be obtained;

(3) the nature of the insurance product and the risk of consumer detriment related to it;

(4) the characteristics of the target market; and

(5) the scale and complexity of the relevant business of the *manufacturer* or *distributor*.

[**Note**: recital 2 to the *IDD POG Regulation*]

4.2.3A G In addition to, and/or by way of elaboration of, the factors set out in PROD 4.2.3G, for a *non-investment insurance product* a *firm* should take into account:

(1) the potential risk, and possible levels, of harm to *customers* if the product design is flawed, in particular, due to the potential scale of harm if the product is intended for a wide target market;

(2) the nature of the cover that the product is intended to provide;

(3) whether the distribution arrangements could mean *customers* are at a greater risk of not receiving fair value from the insurance product, for example where:

(a) the insurance product will be *distributed* with *additional products*;

(b) where the insurance product will be *distributed* on an ancillary basis to another product; or

(c) there is complexity in the distribution arrangements including the use of multiple parties in the distribution chain or reliance on persons not regulated under *FSMA* when selling the insurance product;

(4) the nature and complexity of the *firm's* existing or intended *customer* base, for example whether it includes or is likely to include;

(a) different types of *customers* with varying characteristics including in relation to their understanding of financial matters;

(b) a significant number of vulnerable *customers*;

(c) a significant number of *customers* of long *tenure*;

(5) any particularly notable features of, or relating to, existing products (including how it has been *distributed*).

4.2.4 G For the purposes of PROD 4.2.2R proportionality means that the product approval process should be relatively simple for straightforward and non-complex products that are compatible with the needs and characteristics of the mass retail market. On the other hand, in the case of more complex products with a higher risk of consumer detriment more exacting measures should be required.

[**Note**: recital 2 to the *IDD POG Regulation*]

4.2.4A G (1) In relation to a *non-investment insurance product*, PROD 4.2.2R does not allow a *firm* to assume a simple product approval process will be appropriate for a product intended for a mass retail market even if the product and/or distribution arrangements are straightforward and not complex. For example, the potential risks and levels of harm which could result even from a straightforward and non-complex product, with simple distribution arrangements, intended for the mass market could mean that more exacting measures are required.

(2) An example of a straightforward and non-complex product could be cover for a single item (such as mobile phone insurance), or in relation to a single risk (such as ticket cancellation insurance), with straightforward distribution arrangements. However, there could be potential risks of such a product not providing fair value and therefore potentially leading to significant levels of harm. *Firms* should ensure the product approval process has the necessary measures to identify and mitigate any potential risks and harms.

Product approval process

4.2.5 R

(1) A *manufacturer* must maintain, operate and review a product approval process for newly developed insurance products and for significant adaptations of existing insurance products.

(2) The process in (1) must contain measures and procedures for designing, monitoring, reviewing and distributing insurance products, as well as for corrective action for insurance products that are detrimental to *customers*.

(3) The measures and procedures must be proportionate to the level of complexity and the risks related to the products as well as the nature, scale and complexity of the relevant business of the *manufacturer*.

[**Note:** article 4(1) of the *IDD POG Regulation*]

4.2.5A R

For a *non-investment insurance product*, a *firm* must ensure a product approval process has all necessary measures and procedures for identifying whether the product is, or remains, appropriate to be marketed or *distributed* to *customers* in light of the requirements in ■ PROD 4.2.14A (Fair value for non-investment insurance products: individual insurance product and packages) to ■ PROD 4.2.14SR (Fair value for non-investment insurance products: additional provisions).

4.2.6 R

The product approval process required under ■ PROD 4.2.1R must be set out in a written document ("product oversight and governance policy"), which must be made available to the relevant staff.

[**Note:** article 4 (2) of the *IDD POG Regulation*]

4.2.7 R

Relevant actions taken by a *manufacturer* in relation to its product approval process must be duly documented, kept for audit purposes and made available to the *FCA* upon request.

[**Note:** article 9 of the *IDD POG Regulation*]

4.2.8 R

The product approval process must:

(1) ensure that the design of insurance products:

(a) takes into account the objectives, interests and characteristics of *customers*;

(b) does not adversely affect *customers*;

(c) prevents or mitigates *customer* detriment;

(2) support a proper management of conflicts of interest.

[**Note:** article 4(3) of the *IDD POG Regulation*]

4.2.9 R A *manufacturer's governing body* responsible for the *manufacturing* of insurance products must:

(1) endorse and be ultimately responsible for establishing, implementing and reviewing the product approval process;

(2) continuously verify internal compliance with that process.

[**Note:** article 4(4) of the *IDD POG Regulation*]

4.2.10 R A *manufacturer* must ensure that staff involved in designing and manufacturing insurance products have the necessary skills, knowledge and expertise to properly understand the insurance products sold and the interests, objectives and characteristics of the *customers* belonging to the target market.

[**Note:** article 5(4) of the *IDD POG Regulation*]

4.2.11 R A *manufacturer* designating a third party to design products on its behalf remains fully responsible for compliance with the product approval process.

[**Note:** article 4(5) of the *IDD POG Regulation*]

4.2.12 R A *manufacturer* must regularly review its product approval process to ensure it is still valid and up to date. A *manufacturer* must amend the product approval process where necessary.

[**Note:** article 4(6) of the *IDD POG Regulation*]

Manufacture by more than one firm

4.2.13 R Where there is more than one *firm* involved in the *manufacture* of an insurance product, the *firms* must have a written agreement which specifies:

(1) their collaboration to comply with the requirements for *manufacturers* referred to in PROD 4.2, including in particular PROD 4.2.1R, PROD 4.2.2R, PROD 4.2.29R, PROD 4.2.33R and PROD 4.2.34R;

(2) the procedures through which they will agree on the identification of the target market; and

(3) their respective roles in the product approval process.

[**Note:** article 3(4) of the *IDD POG Regulation*]

4.2.14 R In circumstances other than PROD 4.2.13R, when *firms* collaborate to *manufacture* an insurance product, they must outline their mutual responsibilities in a written agreement.

Fair value for non-investment insurance products: individual insurance product and packages

4.2.14A R For a *non-investment insurance product*, a *firm* must ensure that the product approval process identifies whether the product provides fair value to *customers* in the target market including whether it will continue to do so for a reasonably foreseeable period (including following *renewal*).

4.2.14B R

(1) Where a *non-investment insurance product* is intended to be *distributed* with one or more *additional products*, a *firm* must identify whether:

(a) each component product; and

(b) the package as a whole,

will provide fair value to the *customer* including that it will continue to do so for a reasonably foreseeable period (including following *renewal*).

(2) The assessment referred to in (1) must include (but is not limited to) consideration of:

(a) the value of the core insurance product;

(b) the value of any *additional products*; and

(c) the overall price of the package to the *customer*, taking into account the proposed distribution arrangements.

(3) A *firm* is not required to assess the value of a component product under (1) where the component is a *non-investment insurance product* for which the *firm* is not a *manufacturer*.

Fair value for non-investment insurance products: record keeping and steps following value assessment

4.2.14C R

(1) A *firm* must:

(a) be able to clearly demonstrate how any *non-investment insurance product*, *additional product* or package provides (and will provide for a reasonably foreseeable period) fair value; and

(b) make and retain a record of the value assessment required by PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

(2) Where a *firm* is unable to both:

(a) identify; and

(b) clearly demonstrate,

that the insurance product and, where relevant, the package will provide fair value, the *firm* must not market the product or permit the product to be *distributed* (whether directly or through another *person*), or must have ensured appropriate changes have been made so that fair value will be provided.

Fair value for non-investment insurance products: relevance through the product approval process

4.2.14D R A *firm* must consider the value considerations in PROD 4.2.14AR and, where relevant, PROD 4.2.14BR throughout every stage of the product approval process in PROD 4 including, in particular, when:

(1) identifying the target market and the interests, needs, objectives and characteristics of such *customers* (PROD 4.2.15R to PROD 4.2.21AG);

(2) undertaking product testing (PROD 4.2.22R to PROD 4.2.26G); and

(3) selecting any distribution channel (PROD 4.2.27R to PROD 4.2.32DR).

Fair value for non-investment insurance products: meaning of value

4.2.14E R In PROD 4, 'value' means the relationship between the overall price to the *customer* and the quality of the product(s) and/or services provided. The assessment of value must include consideration of at least the following:

(1) the nature of the product including the benefits that will be provided, their quality, and any limitations (for example in the scope of cover, exclusions, excesses or other features);

(2) the type and quality of services provided to *customers*;

(3) the expected total price to be paid by the *customer* when buying or renewing the insurance product, and the elements that make up the total price. This will need to include consideration of at least the following:

(a) the pricing model used to calculate the risk premium:

(i) for the initial policy term; and

(ii) any future renewal;

(b) the overall cost to the *firm* of the insurance product (including the underwriting and operating of the product) and, where relevant, any other components of a package;

(c) the individual elements of the expected total price to be paid by the *customer* including, but not limited to, the price paid for:

(i) the insurance product, including any additional features which are part of the same *non-investment insurance contract*;

(ii) any *additional products*, including *retail premium finance*, offered alongside the insurance product;

(iii) the distribution arrangements, including the remuneration of any relevant *person* in the distribution arrangements, and including where the final decision on setting the price is taken by another person);

(4) how the intended distribution arrangements support, and will not adversely affect, the intended value of the product.

4.2.14F R When considering the value of a *non-investment insurance product* under PROD 4.2.14A and, where relevant, PROD 4.2.14BR, a *firm* must not rely on individual *customers* to consider whether they are making fair value purchases in place of any part of the *firm's* own assessment, in particular where an insurance product is *manufactured* to be *distributed* either with *additional products* or on an ancillary basis to another good or service.

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4.2.14FA R

(1) For the purposes of PROD 4.2.14ER, and any rules in PROD 4 that rely on the meaning of 'value' in this *rule*, a *firm* is not required to take into account product distribution arrangements that relate to the *distribution* of the product to:

(a) a *customer* who is not *habitually resident* in the *United Kingdom*; or

(b) where the *state of the risk* is not the *United Kingdom*

(2) The effect of (1) includes that a *firm* is not required to obtain and assess information in relation to the *distribution* of the product to a *customer* who is not *habitually resident* in the *United Kingdom* or where the *state of the risk* is not the *United Kingdom*, from a *distributor* based outside of the *United Kingdom*, including, in particular, information pertaining to that *person's* remuneration for such *distribution*.

(3) A *non-investment insurance product* that is used for effecting a *multi-occupancy building insurance contract* is excluded from (1).

Fair value for non-investment insurance products: guidance on reasonably foreseeable period

4.2.14G G

(1) *Firms* will need to consider the matters in PROD 4.2.14ER and PROD 4.2.14ME to identify if there is fair value both for the initial term of a *non-investment insurance product* and renewals for a reasonably foreseeable period. What may constitute a 'reasonably foreseeable period' will depend on the type of the *non-investment insurance product* (including the intended term of any *policy* and the underlying risk) and the expected length of time a *customer* in the target market will keep the product, including in particular where it would be reasonably expected that a *customer* would renew the product on a number of occasions.

(2) When considering whether a product will provide fair value for a reasonably foreseeable period, a *firm* should consider at least:

(a) any expected changes to the total price a *customer* would pay during the period that they hold the product (including at the first or any subsequent *renewal* or any other point in time);

(b) any expected change to the insured risk over time, for example in the nature, financial value or a *customer's* usage of an underlying good to which the insurance relates;

(c) whether the number of expected claims that may be made, or financial value of any such claim, would be expected to change over time due to the nature of the product, the *customer's* needs or any relevant features of the insured risk, for example:

(i) as a result of expected depreciation in the value of the insured asset;

(ii) where the *customer's* need, or eligibility, for certain cover may change including as a result of features identified in (b) or where claims have been made;

(d) 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 for example due to cover limits applying across the foreseeable period (taking into account any deductions permitted by the contract such as any relevant policy excess for such claims);

(e) whether the benefits offered by the *policy* at inception may not be available at subsequent *renewals*, due to exclusions or claims limits, without any commensurate reduction in the premium;

(f) whether *customers* could be discouraged from or be unable to renew due to the level of ongoing premiums including increases at renewal meaning they may not be receiving the full intended benefits of the product (where these are intended to be spread across the reasonably foreseeable period).

Fair value for non-investment insurance products: general

4.2.14H G

(1) When considering the costs of, or associated with, any distribution arrangements, *firms* should consider the justification in value terms of any difference between the risk price and the total price paid by the *customer* including where the difference is mainly due to the costs (including remuneration) of any person in the distribution arrangements or where this is due to the combined costs (including remuneration) of multiple parties involved in the distribution arrangements.

(2) Where a *firm* identifies that an insurance product, package or individual component has poor value or there is an unreasonable relationship between either the cost to the *firm* and the price paid by the *customer*, or the price paid by the *customer* and product quality or service provided, the product or package will not be providing fair value. However, a *firm* should not assume there is fair value simply due to the absence of an unreasonable relationship in the costs or where they identify an absence of poor value. *Firms* will need to consider all relevant aspects of value in the particular context and consider whether overall there is fair value provided.

(3) Where a *non-investment insurance product* has negligible, or no obvious, benefit for the *customer* this will not be providing fair value regardless of the price of the product. For example, the product will not provide fair value where the cover under the *non-investment insurance contract* is significantly limited, whether by exclusions or limits on the amount that would be paid in settlement, meaning that the *customer* is unlikely to be able to make a successful claim or where the *customer* could conclude it is not in their interests to make a claim due to the disproportionate time or effort which would be required, compared to the claim settlement which would be expected.

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(4) When assessing whether a package provides fair value for the purposes of PROD 4.2.14BR, a *firm* will need to consider both the components individually and the package as a whole to identify whether there is fair value. This should include whether there is a risk that the individual components do not provide the same level of value to the *customer* when combined in a package. For example, where the package includes more than one *non-investment insurance product*, a *firm* should consider the type and level of insurance cover provided by each of these products and whether this would result in duplicate insurance cover that could detrimentally affect the value of the package.

Fair value for non-investment insurance products: retail premium finance guidance

4.2.14I G

(1) Where the *manufacturer* will provide, or arrange for another *firm* to provide, the option for *customers* to buy a *non-investment insurance product* using *retail premium finance*, it will need to consider if the additional costs of, or relating to, the *retail premium finance* have a material detrimental effect on the value of the insurance product when the two products are taken together.

(2) When assessing the value of any particular *retail premium finance* under PROD 4.2.14BR, a *manufacturer* should consider the relationship between:

the total price a *customer* would pay (including the applicable *APR*) for the *retail premium finance*; and

the quality of that *retail premium finance* including any relevant factors and features. For example, any benefit that a *customer* could have from using *retail premium finance* including the ability to spread the cost of a *non-investment insurance contract* instead of paying up front, taking into account the higher overall price the *customer* will have to pay.

Fair value for non-investment insurance products: information to be used

4.2.14J R

(1) When assessing value, a *firm* must use all necessary and appropriate data and information available to it.

(2) For the purposes of (1) the data and information a *firm* should consider using includes, but is not limited to:

(a) information available to the *firm* internally including:

(i) customer research;

(ii) claims information such as handling times, frequency, severity of claims costs (including total costs and average per claim), claims ratios, rates of and reasons for claim acceptance/declinature, both expected for the product and/or any actual information from a comparable product; and

(iii) complaints data (including root cause analysis and handling times), both expected for the product itself and/or any actual information from a comparable product;

(b) public information or information obtainable by the *firm* from external sources including analysis of similar insurance products available from other *firms* and, where relevant, data published as part of the *FCA's* work on value measures in the general insurance market;

(c) information available to the *firm* specifically from persons in the distribution arrangements, including:

(i) remuneration and its impact on the value of the product, package or component part;

(ii) levels or quality of service provided by any person in the distribution arrangements; and

(iii) any results of monitoring and oversight of the processes of any persons in the distribution arrangement (for example, call monitoring or file checks) including in relation to other products that person *distributes*.

4.2.14K G The information that a *firm* will need to use for PROD 4.2.14JR will depend on the nature of the particular *non-investment insurance product* and (where relevant) the package, the particular distribution arrangement(s), the target market, the nature of any actual customer base, and any existing information on customer outcomes (for example claims experiences, outcomes of claims and complaints related data).

Fair value for non-investment insurance products: compliance with fair value requirement

4.2.14L G The following *evidential provision* provides examples of arrangements the *FCA* considers will breach PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

4.2.14M E

(1) A *firm* should not have a *non-investment insurance product* where the difference between the risk price to the *firm* and the total price paid by the *customer* bears no reasonable relationship to:

(a) the actual costs incurred by the *firm* or any another person involved in the distribution arrangements;

(b) the quality of any benefits (including of the insurance product or any *additional products*); or

(c) the costs or quality of any services provided in connection with the insurance product or additional products, by the *manufacturer* or any another person involved in the distribution arrangements.

(2) A *firm* should not increase the price of an insurance product based on:

(a) *policies* being subject to auto-renewal compared to *policies* that are not subject to auto-renewal;

(b) the *customer's* vulnerability or any protected characteristic(s) (unless the *firm* is clearly permitted to rely on them under the Equalities Act 2010); or

(c) where *customers* purchase the *policy* using *retail premium finance*,

unless the *firm* has an objective and reasonable basis for making the change.

(3) A *firm* should not use an estimated final price to the *customer* to assess value that does not represent the expected total price to the *customer* including any *additional products* the *firm* expects to be purchased by the *customer*. For example, where the *firm* is responsible for providing or making available *retail premium finance* (the costs of which will be part of the total price paid by the *customer*).

(4) Contravention of any of (1) to (3) may be relied on as tending to establish contravention of PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

Fair value for non-investment insurance products: distribution arrangements

4.2.14N **R** A *firm* must, as far as reasonably possible, ensure the distribution arrangements for a *non-investment insurance product* avoid or minimise the risk of negatively impacting the fair value of the insurance product or package. This includes, but is not limited to:

(1) avoiding or reducing the risks arising from:

(a) any remuneration of a party, or parties, involved in the distribution arrangements increasing, directly or indirectly, the total price paid by the *customer* without adequate monitoring or oversight of the nature, level and fairness justification for their inclusion; or

(b) providing discretion to another person to set the final price, for example through a net pricing arrangement, without adequate monitoring or oversight of the final price paid by the *customer*;

(2) ensuring that appropriate arrangements will be in place to identify if the actions of another person involved in the distribution arrangements would adversely affect the value of the insurance product or package; and

(3) reducing the scope for the overall effect of any distribution arrangements to detrimentally affect the value of the products or package including where the cumulative effects of the remuneration of multiple parties unreasonably add to the overall price paid by the *customer*.

4.2.14O **G** (1) Where the *firm* is considering the effects of the distribution arrangements on value it should consider whether the additional costs of any individual party in the arrangements that add to the total price paid by the *customer* deliver any, or a proportional, additional benefit. If not, *firms* should consider how they can be satisfied that the arrangements are consistent with their obligations to be able to clearly demonstrate fair value to the *customer*.

(2) A benefit that could be consistent with fair value might include where the party's inclusion in the distribution arrangements increases access to the product for *customers* in the target market in a way that is proportionate to the additional cost involved.

4.2.14P R A *firm* must obtain from any person in the distribution arrangements all necessary and relevant information to enable it to identify the remuneration associated with the distribution arrangements to allow it to assess the ongoing value of the product, including at least:

the type and amount of remuneration of each person in the distribution arrangement where this is part of the *premium* or otherwise paid directly by the *customer*, including in relation to *additional products* (other than where this relates to another *non-investment insurance product* for which the *firm* is not a *manufacturer*);

an explanation of the services provided by each person in the distribution arrangements; and

confirmation from any *firm* in the distribution arrangements that any remuneration is consistent with their regulatory obligations including SYSC 19F.2 (IDD remuneration incentives).

4.2.14Q G *Firms* should take into account what is necessary to satisfy *PROD* requirements together with any wider legal obligations, for example, competition law to which they are subject.

Fair value for non-investment insurance products: additional provisions

4.2.14R R A *firm manufacturing* a *non-investment insurance product* must ensure the *manufacture* of an insurance product is driven by features that benefit the *customer* and not by a business model which relies on poor *customer* outcomes to be profitable.

4.2.14S R In relation to a *non-investment insurance product* to be sold in a package with *additional products*, a *firm* must not set or increase the price of those *additional products* to the *customer* in a way that detrimentally impacts the package delivering fair value, including where this is done to minimise the financial effects on the *firm* of reducing the price of, or making other changes to, an insurance product as a result of the fair value assessment.

Target market

4.2.15 R For each insurance product the product approval process must:

(1) specify an identified target market;

(2) ensure that all relevant risks to the identified target market are assessed;

(3) ensure that the intended distribution strategy is consistent with the identified target market; and

(4) require the *manufacturer* to take reasonable steps to ensure that the insurance product is *distributed* to the identified target market.

[**Note**: third subparagraph of article 25(1) of the *IDD*]

4.2.15A R The effect of PROD 4.2.14AR and, where relevant, PROD 4.2.14BR, when taken together with PROD 4.2.15R, is that a *firm* will need to be able to show that a *non-investment insurance product* offers fair value to the specified target market, taking into account in particular their needs, objectives, interests and characteristics.

4.2.16 R

(1) A *firm's* product approval process must, for each insurance product, identify the target market and the group of compatible *customers*.

(2) The target market in (1) must be identified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the insurance product.

[**Note:** article 5(1) of the *IDD POG Regulation*]

4.2.17 R A *manufacturer* may, in particular with regard to *insurance-based investment products*, identify groups of *customers* for whose needs, characteristics and objectives the insurance product is generally not compatible.

[**Note:** article 5(2) of the *IDD POG Regulation*]

4.2.17A R

(1) For a *non-investment insurance product*, when identifying the target market a *firm* must identify if there are groups of *customers* for whom the product or package would not provide the intended level of value identified for PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

(2) A *firm* must take reasonable steps in its use of the distribution arrangements to ensure the product is not distributed to any such groups of *customers* identified in (1). The information required in PROD 4.2.29R to be provided to *distributors* must include a clear description of these *customers*.

4.2.18 R

(1) A *manufacturer* must only design and market insurance products that are compatible with the needs, characteristics and objectives of the *customers* belonging to the target market.

(2) When assessing whether an insurance product is compatible with a target market, a *manufacturer* must take into account the level of information available to the *customers* belonging to that target market and their financial literacy.

[**Note:** article 5(3) of the *IDD POG Regulation*]

4.2.19 G The identification of the target market by the *manufacturer* should be understood as describing a group of *customers* sharing common characteristics at an abstract and generalised level in order to enable the *manufacturer* to adapt the features of the product to the needs, characteristics and objectives of that group of *customers*.

4.2.20 G The identification of the target market should be distinguished from the individual assessment at the point of sale to determine whether a product meets the demands and needs and, where applicable, whether an *insurance-based investment product* is suitable or appropriate for the individual *customer*.

[**Note:** recital 5 to the *IDD POG Regulation*]

4.2.21 G The level of granularity of the target market and the criteria used to define the target market and determine the appropriate distribution strategy should be relevant for the product and should make it possible to assess which *customers* fall within the target market. For simpler, more common products, the target market should be identified with less detail while for more complicated products or less common products, the target market should be identified with more detail taking into account the increased risk of consumer detriment associated with such products.

[**Note**: recital 6 to the *IDD POG Regulation*]

4.2.21A G In relation to a *non-investment insurance product*, a *firm* should consider whether the target market needs to be identified in more detail, even for a simpler, more common product, where there is a material risk of *customer* harm associated with it.

Product testing

4.2.22 R

(1) A *manufacturer* must test their its insurance products appropriately, including scenario analyses where relevant, before bringing that product to the market or significantly adapting it, or in case the target market has significantly changed.

(2) The product testing in (1) must assess whether the insurance product over its lifetime meets the identified needs, objectives and characteristics of the target market.

(3) A *manufacturer* must test its insurance products in a qualitative manner and, depending on the type and nature of the insurance product and the related risk of detriment to *customers*, quantitative manner.

[**Note:** article 6(1) of the *IDD POG Regulation*]

4.2.23 G For the purposes of PROD 4.2.22R, *manufacturers* should include assessments of the performance and risk/reward profile of their insurance product where appropriate.

[**Note**: recital 8 to the *IDD POG Regulation*]

4.2.24 R A *manufacturer* must not bring insurance products to the market if the results of the product testing show that the products do not meet the identified needs, objectives and characteristics of the target market.

[**Note:** article 6(2) of the *IDD POG Regulation*]

4.2.25 R *Manufacturers* must consider the charging structure proposed for each insurance product, including examination of the following:

(1) whether the costs and charges of the insurance product are compatible with the needs, objectives and characteristics of the target market;

(2) where relevant, whether the charging structure of the insurance product is appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand; and

(3) where relevant, whether the charges undermine the return expectations of the insurance product, such as where the costs or charges equal, exceed or remove almost all the expected tax advantages linked to a *life policy*.

4.2.26 G (1) PROD 4.2.25R does not affect the *manufacturer's* freedom to set *premiums*.

(2) In relation to a *non-investment insurance contract* a *firm* should consider whether, as a result of the charging structure it has put in place, the overall cost for the *customer* is consistent with its obligations under PROD 4.2.14AR (and, where relevant, PROD 4.2.14BR), the *Principles* and *ICOBS*.

(3) PROD 4.2.25R should be read in light of a *firm's* wider obligations under the *Handbook* which impose specific restrictions or requirements around what costs and charges may be permissible. For example, the *rules* in COBS 20.2 govern what may be charged to a *with-profits policy* when considering its charging structure under PROD 4.2.25R.

Distribution channels and information disclosure to distributors

4.2.27 R A *manufacturer* must carefully select distribution channels that are appropriate for the target market, thereby taking into account the particular characteristics of the relevant insurance products.

[**Note:** article 8(1) of the *IDD POG Regulation*]

4.2.28 G To ensure appropriate information for *customers*, *manufacturers* should select *distributors* that have the necessary knowledge, expertise and competence to understand the features of an insurance product and the identified target market.

[**Note**: recital 9 to the *IDD POG Regulation*]

4.2.29 R A *firm* which *manufactures* an insurance product, must make available to a *distributor*:

(1) all appropriate information on the insurance product

(2) all appropriate information on the product approval process; and

(3) the identified target market of the insurance product.

[**Note**: fifth subparagraph of article 25(1) of the *IDD*]

4.2.29A G For a *non-investment insurance product*, the information required by PROD 4.2.29R should include:

(1) all appropriate information to enable the *distributor* to understand the intended value of the insurance product established by the *firm*;

(2) any effect the *distributor* may have on the intended value that has not been fully taken into account by the *firm* when assessing value, and therefore which the *distributor* should take into account; and

(3) any type of *customer* for whom the insurance product is unlikely to provide fair value.

4.2.30 R (1) A *manufacturer* must provide a *distributor* with all appropriate information on the insurance products, the identified target market and the suggested distribution strategy, including information on the main features and characteristics of the insurance products, their risks and costs, including implicit costs, and any circumstances which might cause a conflict of interest to the detriment of the *customer*.

(2) The information in (1) must be clear, complete and up to date.

[**Note:** article 8(2) of the *IDD POG Regulation*]

4.2.31 R The information required under PROD 4.2.30R must enable the *distributor* to:

(1) understand the insurance products;

(2) comprehend the identified target market for the insurance products;

(3) identify any *customers* for whom the insurance product is not compatible with their needs, characteristics and objectives;

(4) carry out *insurance distribution activities* for the relevant insurance products in accordance with the best interests of their *customers* as prescribed in ICOBS 2.5-1R or COBS 2.1.1R (as relevant).

[**Note:** article 8(3) of the *IDD POG Regulation*]

4.2.32 R A *manufacturer* must make available to any *distributor* information about the target market assessment.

The information made available under (1) must be of an adequate standard to enable *distributors* to:

comprehend the identified target market for the insurance products; and

be able to identify any customers for whom the insurance product is not compatible with their needs, characteristics and objectives.

A *manufacturer* is not required to disclose specific information objectively considered to be commercially sensitive if the information it does make available would still allow *distributors* to meet (2)(a) and (b).

Distribution channels: selecting channels for non-investment insurance products

4.2.32A R In relation to a *non-investment insurance product*, a *firm* must not use a distribution channel unless it is able to demonstrate clearly that the channel results in fair value to *customers* in the target market.

4.2.32B R In relation to a *non-investment insurance product*, whenever making a change to the distribution arrangements a *firm* must:

obtain all necessary information from the *distributor* or any other person who will be involved with the distribution arrangement, including that set out in PROD 4.2.14PR; and

identify whether the proposed change to the distribution arrangements is consistent with the fair value requirement in PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

4.2.32C G For PROD 4.2.32BR, a change to the distribution arrangements includes adding a further distribution channel.

4.2.32D G For a *non-investment insurance product* sold on an ancillary basis to another product or service, for example a motor vehicle, electrical good or a holiday, a *firm* should consider whether the proposed distribution channel would be appropriate in light of the risk that the *customer's* focus is on the core product rather than the insurance product.

Monitoring and review of insurance products

4.2.33 R A *firm* must understand the insurance products it offers or markets.

[**Note**: fourth subparagraph of article 25(1) of the *IDD*]

4.2.34 R A *firm* must regularly review the insurance products it offers or markets taking into account any event that could materially affect the potential risk to the identified target market. In doing so, the *firm* must assess at least the following:

(1) whether the insurance product remains consistent with the needs of the identified target market;

(2) (in relation to a *non-investment insurance product*) whether the insurance product remains consistent with the fair value assessment required under PROD 4.2.14AR and, where relevant, PROD 4.2.14BR; and

(3) whether the intended distribution strategy remains appropriate.

[**Note**: fourth subparagraph of article 25(1) of the *IDD*]

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4.2.34A G ‘Offers’ and ‘markets’ in the requirements in PROD 4.2.33R and PROD 4.2.34R should be read to include ‘renews’ in relation to the *renewal* of existing *non-investment insurance products*.

4.2.34B R For a *non-investment insurance product*, a *firm* must undertake the regular review required by PROD 4.2.34R:

(1) every 12 *months*; or

(2) more frequently where the potential risk associated with the product makes it appropriate to do so.

4.2.34C G For the purposes of PROD 4.2.34BR, the factors that should be taken into account when considering if more frequent reviews would be appropriate include, but are not limited to:

(1) the nature and complexity of the product;

(2) the nature of the *customer* base, including whether there are significant numbers of *customers* of long *tenure* and/or vulnerable *customers*;

(3) any specific indicators seen in the *firm’s* assessment of the product’s value to the *customer*;

(4) any indicators of customer harm potentially emerging from the performance of the product (for example through claims and complaints data); and

(5) the nature and type of distribution arrangements being used.

4.2.34D R A *firm* must obtain all necessary and relevant information in order to enable it to properly understand and monitor a *non-investment insurance product* including verification of the information in PROD 4.2.14PR.

4.2.34E G When reviewing *non-investment insurance products* a *firm* may group similar products together 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.

For the purposes (1) 'similar products' will be those products that are intended to deliver similar cover and outcomes for *customers* where the target markets are consistent.

A *firm* should consider the following factors when identifying whether it is appropriate to group products together for review:

(a) the risk of customer harm for each individual product;

(b) the complexity of each product;

(c) the nature of the target market and existing customer base for each product (including the extent to which this includes vulnerable *customers*);

(d) any specific indicators seen in the assessment of value under ■ PROD 4.2.14AR, and where relevant ■ PROD 4.2.14BR which may make it inconsistent to review that product alongside others;

(e) any specific indicators of customer harm emerging from the performance of each product; and

(f) the nature and type of distribution arrangements for each product.

A *firm* will need to ensure that the grouping of any reviews does not impair the *firm's* ability to identify any risk that a product is not delivering fair value or that there is any other issue which could give rise to customer harm in relation to each individual product.

4.2.35 R

(1) A *manufacturer* must continuously monitor and regularly review insurance products it has brought to the market, to identify events that could materially affect the main features, the risk coverage or the guarantees of those products.

(2) A *manufacturer* must assess whether the insurance products remain consistent with the needs, characteristics and objectives of the identified target market and whether those products are distributed to the target market or are reaching *customers* outside the target market.

[**Note:** article 7(1) of the *IDD POG Regulation*]

4.2.35A R

(1) When reviewing a *non-investment insurance product*, a *firm* must consider:

(a) whether the insurance product, and where relevant the package, is providing the intended fair value to *customers*;

(b) any impact which the distribution arrangements are having on the value including whether the distribution channels remain appropriate; and

(c) whether the use of any *retail premium finance* arrangement remains appropriate including whether when distributed in a package with a *non-investment insurance product* it provides fair value.

(2) A *firm* in (1) must:

(a) ensure that it has sufficient, good quality management information; and

(b) use all appropriate and necessary data and information available to it (whether it holds this information already, the information is publicly available or it is able to obtain it from another person),

to enable it to consider and assess value including the value actually being provided by the insurance product.

(3) The information in (2) that a *firm* needs to consider whether to use includes, but is not limited to:

(a) information available to the *firm* internally including:

(i) customer research;

(ii) claims information (such as handling times, frequency, rates of and reasons for claim acceptance and declinature, severity of claims costs (including total costs and average per claim) and claims ratios); and

(iii) complaints data (including root cause analysis and handling times);

(b) public information or information obtainable by the *firm* from external sources including analysis of similar insurance products available from other *firms* and, where relevant, data published as part of the *FCA's* work on value measures in the general insurance market;

(c) information available to the *firm* (including what it would be reasonably able to obtain) in relation to any distribution arrangements through which the product is distributed, including:

(i) remuneration information;

(ii) levels and quality of service provided by the *distributor*;

(iii) ongoing monitoring and oversight reports relating to the *distributor's* processes, for example call monitoring or file reviews.

4.2.35B G The information that a firm will need to use for PROD 4.2.35AR(2) will depend on the nature of the *non-investment insurance product*, (where relevant) the package, the particular distribution arrangement(s), the target market, the nature of the actual customer base, and the *firm's* existing information on *customer* outcomes (for example claims experiences, outcomes of claims and complaints related data).

4.2.35C G For PROD 4.2.35AR(1), a *firm* should identify whether there is a risk to it continuing to provide fair value where there is a material change in the relationship between the price to the *customer* and the actual costs to the *firm* or another party involved in the ongoing service/distribution of the product.

4.2.36 R A *manufacturer* must determine the appropriate intervals for the regular review of their insurance products, thereby taking into account the size, scale, contractual duration and complexity of those insurance products, its respective distribution channels, and any relevant external factors such as changes to the applicable legal rules, technological developments, or changes to the market situation.

[**Note:** article 7(2) of the *IDD POG Regulation*]

4.2.36A G In relation to a *non-investment insurance product*, when identifying the appropriate intervals for regular review, *firms* will need to consider the requirement in PROD 4.2.34BR and also whether any event has happened or any issue has arisen requiring the insurance product to be reviewed outside of the minimum review period.

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4.2.36B R For the purposes of showing the requirements in PROD 4.2.1R and PROD 4.2.5R are met, where a *firm* makes a change to a *non-investment insurance product* it must make and retain a record of:

(1) the assessment of whether that change would amount to a significant adaptation of the insurance product; and

(2) where the assessment in (1) is that the change would not be a significant adaptation, the reasons for that decision.

4.2.37 R Where a *manufacturer* identifies during the lifetime of an insurance product any circumstances related to the insurance product that may adversely affect the *customer* of that product, the *manufacturer* must take appropriate action to mitigate the situation and prevent further occurrences of the detrimental event. A *manufacturer* must promptly inform concerned insurance *distributors* and *customers* about the remedial action taken.

[**Note:** article 7(3) of the *IDD POG Regulation*]

4.2.37A R For a *non-investment insurance product*, the review process must:

(1) have the necessary measures to be able to identify if the insurance product is not providing fair value; and

(2) provide that appropriate actions be taken:

(a) for the mitigation and any potential remediation of the harm to existing *customers*; and

(b) to prevent harm to new *customers*.

4.2.37B G In relation to a *non-investment insurance product*, the actions *firms* may need to take for the purposes of PROD 4.2.37A include (and may involve a combination of), but are not limited to:

making changes to the product (such as amending policy terms or applying them more favourably to *customers* in the event of a claim);

offering existing *customers* the option to cancel the *non-investment insurance contract* without additional cost (for example by waiving cancellation fees or charges);

providing *customers* with a refund of the difference between the *premium* paid for the *non-investment insurance contract* and the *premium* for a fair value version of that product;

proposing alternative insurance products, whether offered by the *firm* or another provider, to existing *customers* or *distributors* which provide fair value and which would be compliant with other *FCA* requirements, for example, ICOBS 5.2 (Demands and needs); and

withdrawing the insurance product from continued marketing or *distribution*.

4.2.37C G Where in the review required by PROD 4.2.34R and PROD 4.2.35UK a *firm* identifies a breach of any *rules* in place at the time, it should consider what may be necessary to provide appropriate mitigation and/or remediation of the harm including whether redress should be made. The *firm* should contact any affected *customers* where this is necessary to inform them of the issues and of the actions being taken.

4.2.38 R

(1) A *manufacturer* must take appropriate steps to monitor that *distributors* act in accordance with the objectives of the *manufacturer's* product approval process.

(2) A *manufacturer* must in particular verify on a regular basis whether the insurance products are distributed on the identified target market. However, this monitoring obligation does not extend to the general regulatory requirements with which *distributors* have to comply when carrying out *insurance distribution activities* for individual *customers*.

(3) The monitoring activities in (1) must be reasonable, taking into consideration the characteristics and the legal framework of the respective distribution channels.

[**Note:** article 8(4) of the *IDD POG Regulation*]

4.2.39 R Where a *manufacturer* considers that the distribution of its insurance products is not in accordance with the objectives of its product approval process it must take appropriate remedial action.

[**Note:** article 8(5) of the *IDD POG Regulation*]

4.2.39A R In relation to a *non-investment insurance contract*, where a *firm* identifies that the *distribution* is detrimentally affecting the intended value of the insurance product it 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*.