

Chapter 4

Product governance: IDD and pathway investments

4.3 Distribution of insurance products

- 4.3.1** **R** Where a *firm distributes* insurance products which it does not *manufacture* it must have in place adequate arrangements to obtain the information in **■** PROD 4.2.29R from the *manufacturer*.
[Note: sixth sub-paragraph of article 25(1) of the *IDD*]
- 4.3.2** **R** Where a *firm distributes* insurance products which it does not *manufacture*, it must have in place adequate arrangements to understand:
- (1) the characteristics of each insurance product; and
 - (2) the identified target market of each insurance product.
- [Note: sixth sub-paragraph of article 25(1) of the *IDD*]
- 4.3.2A** **R** In relation to a *non-investment insurance product*, the arrangements in **■** PROD 4.3.2R must enable the *distributor* to understand:
- (1) the outcome of the value assessment required by **■** PROD 4.2.14AR and, where relevant, **■** PROD 4.2.14BR; and
 - (2) any identified group of *customers* for whom the insurance product is not expected to provide fair value.
- 4.3.3** **R** A *distributor* must take all reasonable steps to obtain the information in **■** PROD 4.2.29R when *distributing* insurance products *manufactured* by any *person* to which product governance requirements in **■** PROD 4.2 do not apply.
- 4.3.4** **G** To comply with **■** PROD 4.3.2R, *distributors* should put in place effective arrangements to ensure that they 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.
- 4.3.5** **R** A *firm* must have in place product distribution arrangements containing appropriate measures and procedures to obtain from the *manufacturer* all appropriate information on the insurance products it intends to offer to its *customers* and to fully comprehend those insurance products, taking into

account 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 *firm*.

[Note: first sub-paragraph of article 10(1) of the *IDD POG Regulation*]

4.3.6

R

The product distribution arrangements required under ■ PROD 4.3.5R must:

- (1) aim to prevent and mitigate *customer* detriment;
- (2) support a proper management of conflicts of interest;
- (2) ensure that the objectives, interests and characteristics of *customers* are duly taken into account.

[Note: article 10(2) of the *IDD POG Regulation*]

4.3.6A

R

In relation to a *non-investment insurance product*, the product distribution arrangements in ■ PROD 4.3.2R must enable the *distributor* to identify:

- (a) the value that the insurance product is intended to provide to the *customer*; and
- (b) the impact that the distribution arrangements (including any remuneration it, or another person in the distribution chain to which it belongs, receives) has on the overall value of the insurance product to the *customer*.

Any distribution strategy set up or applied by the *distributor* must be consistent with the aim of providing fair value to the *customer*.

For the purposes of (1) and (2) a *firm* must consider at least the following:

- (a) the benefits the product is intended to provide to the *customer*;
- (b) the characteristics, objectives, interests and needs of the target market;
- (c) the interaction between the price paid by the *customer* and the extent and quality of any services the *distributor* (or any person connected to it) provides;
- (d) whether any remuneration it receives in relation to the insurance product would result in the product ceasing to provide fair value to the *customer*;
- (e) any potential detrimental effect on the intended value where the insurance product is to be *distributed* as part of a package with, or as part of the same agreement which provides, another product or service; and
- (f) where the distribution strategy involves offering, or arranging for the *customer* to be offered, *retail premium finance*, the *firm* must ensure that, taking into account the costs (including any charges/ interest) of the *retail premium finance*, the *customer* does not pay a price that means, if seen as a package, the *customer* will not receive fair value.

- 4.3.6B** G (1) Where a *distributor* intends to *distribute* a *non-investment insurance product* alongside:
- (a) one or more other *non-investment insurance products* (whether from the same or another *manufacturer*); or
 - (b) any other *additional product*,
- then the *distributor* should be able to demonstrate these arrangements are consistent with the aim of providing fair value to a customer and any package does not have a detrimental effect on the intended value of any *non-investment insurance product*.
- (2) For the purposes of (1), where more than one *non-investment insurance product* is part of a package, a *distributor* should consider at least whether the products:
- (a) have consistent target markets; and
 - (b) provide cover in respect of the same risk and subject matter which could result in duplicate cover that could detrimentally affect the intended value of each individual product.
- (3) A *distributor* should ensure they have obtained, and taken account of, all relevant information from a *manufacturer* in relation to any *non-investment insurance product* in the package in order to understand the value, the relevant target market and any other relevant characteristic of that product.
- (4) The arrangements a *distributor* is required to have in place under ■ PROD 4.3 are separate from the processes and arrangements the *firm* should have in place at the point of sale, including to comply with the *customer's best interests rule* and to determine whether a product being proposed is consistent with the demands and needs of a particular *customer*.
- 4.3.6C** G When assessing the impact that the distribution arrangements may have, a *distributor* should consider the effects of any *retail premium finance* it offers to *customers* including the relationship between:
- (1) the total price a *customer* would pay for the *retail premium finance* (including any charges for the credit whether in the *APR* or otherwise and fees); and
 - (2) the quality of that *retail premium finance* including any relevant factors and features. For example, any benefit that such 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.
- 4.3.6D** G The following evidential provision provides examples of arrangements the FCA considers will breach ■ PROD 4.3.6AR.
- 4.3.6E** E (1) A *firm's* distribution arrangements including any distribution strategy it sets up, should not result in:

- (a) the *firm* receiving a level of remuneration which does not bear a reasonable relationship to the *firm's* actual costs, or their contribution, level of involvement or the benefit added by them, to the arrangements for the distribution of the product, including where the *firm* provides little or no benefit beyond that which the *customer* would receive if they obtained the insurance product through another distribution channel;
- (b) the *firm* having remuneration arrangements which give an incentive to propose or recommend an insurance product which either does not meet the *customer's* needs (or not as well as another product would) or is not in accordance with the *customer's best interests rule*;
- (c) where the insurance product is distributed as part of a package, the overall price of the package not bearing a reasonable relationship to the overall benefits provided by the package; or
- (d) the level of any remuneration (for which the *firm* is responsible for setting) not being reasonably reflective of the costs actually incurred.

(2) Contravention of any of (1) may be relied upon as tending to establish contravention of ■ PROD 4.3.6AR.

4.3.6EA **R**

For the purposes of ■ PROD 4.3.6AR and ■ PROD 4.3.6BR, a *firm* is not required to take into account product distribution arrangements that relate 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.*

The effect of (1) includes that a *firm* is not required to assess the impact of a *person's* remuneration 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*, when identifying the impact of the distribution arrangements on the value being provided to the *customer*.

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

4.3.7 **R**

A *firm* must ensure that its product distribution arrangements contain the necessary measures to obtain from the *manufacturer* the information to be communicated under ■ PROD 4.2.30R.

[Note: article 10(3) of the *IDD POG Regulation*]

4.3.8 **R**

Any specific distribution strategy set up or applied by a *firm* must be in accordance with the distribution strategy set up and the target market identified by the *manufacturer*.

[Note: article 10(4) of the *IDD POG Regulation*]

- 4.3.9** **R** The *firm's governing body* responsible for *insurance distribution activities* must endorse and be ultimately responsible for establishing, implementing and reviewing the product distribution arrangements and continuously verify internal compliance with those arrangements.
[Note: article 10(5) of the *IDD POG Regulation*]
- 4.3.10** **R**
- (1) A firm must regularly review its product distribution arrangements to ensure that those arrangements are still valid and up to date. The firm must amend product distribution arrangements where appropriate.
 - (2) A *firm* that has set up or applies a specific distribution strategy must, where appropriate, amend that strategy in view of the outcome of the review of the product distribution arrangements. When reviewing its product distribution arrangements, a *firm* must verify that the insurance products are distributed to the identified target market.
 - (3) A *firm* must determine the appropriate intervals for the regular review of its product distribution arrangements, thereby taking into account the size, scale and complexity of the different insurance products involved.
 - (4) To support product reviews carried out by *manufacturers*, a *firm* must, upon request, provide *manufacturers* with relevant sales information, including, where appropriate, information on the regular reviews of the product distribution arrangements.
- [Note: article 10(6) of the *IDD POG Regulation*]
- 4.3.10A** **R** A *firm* must review its product distribution arrangements in relation to a *non-investment insurance product* at least every 12 months.
- 4.3.10B** **R** For the purposes of **■ PROD 4.3.10R**, a *distributor* must provide on request to a *manufacturer* of a *non-investment insurance product*:
- (1) information on the *distributor's* remuneration in connection with the distribution of the insurance product;
 - (2) information on any ancillary product or service that the *distributor* provides to the *customer* (including insurance add-ons, non-insurance *additional products* and *retail premium finance*), which may affect the *manufacturer's* intended value of the insurance product; and
 - (3) confirmation that the distribution arrangements are consistent with the obligations of the *firm* under the *FCA Handbook* including in particular in **■ SYSC 10** (Conflicts of interest) and **■ SYSC 19F.2** (IDD remuneration incentives).
- 4.3.11** **R** A *firm* becoming aware that an insurance product is not in line with the interests, objectives and characteristics of its identified target market or becoming aware of other product-related circumstances that may adversely affect the *customer* must promptly inform the manufacturer manufacturer

and, where appropriate, amend their distribution strategy for that insurance product.

[Note: article 11 of the *IDD POG Regulation*]

4.3.11A **R**

- (1) For a *non-investment insurance product*, a *distributor* must take appropriate remedial and mitigating action, including to amend its product distribution arrangements, where it identifies:
 - (a) the insurance product (or, where relevant, the package) is not providing fair value for *customers*; or
 - (b) any aspects of a product or package that may mean it does not offer fair value; or
 - (c) the distribution arrangements including remuneration structures may mean the *customer* is not being provided with fair value.
- (2) The actions which the *distributor* takes for (1) must:
 - (a) aim to mitigate the situation and prevent further occurrences of any possible harm to *customers*, including, where appropriate, amending the distribution strategy for that product (and, where relevant, the package); and
 - (b) include informing any relevant *manufacturers* promptly about any concerns they have and any action the *distributor* is taking.

4.3.11B **G**

For the purposes of **PROD 4.3.11AR** the steps a *distributor* may need to take include, but are not limited to:

- (1) amending its remuneration structures;
- (2) amending the distribution arrangements;
- (3) improving the quality of, or ceasing, any service or benefits it provides;
- (4) where the failure to provide fair value is due to the costs or quality of *additional products*, renegotiating the terms of the current arrangements relating to the *additional products*, or selecting alternative providers or *distributors* of them, in order to provide for a fair outcome;
- (5) ceasing to distribute certain insurance products (or where relevant, packages), or ceasing to use certain distribution channels;
- (6) contacting existing *customers* to inform them of the issues and of the measures being taken to rectify them; and
- (7) providing redress to *customers*.

4.3.12 **G**

Manufacturers and *distributors* should take appropriate action in order to avert the risk of consumer detriment when they consider that the insurance product is not, or is no longer, aligned with the interests, objectives and characteristics of the identified target market.

[Note: recital 12 to the *IDD POG Regulation*]

4.3.13 **R** Relevant actions taken by a *firm* in relation to its product distribution arrangements must be duly documented, kept for audit purposes and made available to the *FCA* upon request.

[**Note:** article 12 of the *IDD POG Regulation*]

4.3.14 **R** A *firm* must set out the product distribution arrangements in a written document and make it available to its relevant staff.

[**Note:** second sub-paragraph of article 10(1) of the *IDD POG Regulation*]