

Chapter 19F

Remuneration and performance management

19F.2 IDD remuneration incentives

Application

19F.2.1 **R** This section applies to *insurance distributors* carrying on *insurance distribution activities* from an establishment maintained by it, or its *appointed representative*, in the *United Kingdom*.

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

19F.2.1A **R** This section does not apply to an *authorised professional firm* with respect to its *non-mainstream regulated activities* if:

- (1) the *firm's designated professional body* has made rules which implemented article 17(3) of the *IDD*;
- (2) those rules have been approved by the *FCA* under section 332(5) of the *Act*; and
- (3) the *firm* is subject to the rules in the form in which they were approved.

Remuneration and the customer's best interests

19F.2.2 **R**

- (1) *Insurance distributors* must not:
 - (a) be *remunerated*; or
 - (b) *remunerate* or assess the performance of their *employees*, in a way that conflicts with their duty to comply with the customer's best interests rules (■ *ICOB*S 2.5.-1R, in relation to a *non-investment insurance contract*, or ■ *COBS* 2.1.1R, in relation to a *life policy*).
- (2) In particular, an *insurance distributor* must not make any arrangements by way of *remuneration*, sales target or otherwise that could provide an incentive to itself or its *employees* to recommend a particular *contract of insurance* to a *customer* in contact with the *firm* when the *insurance distributor* could offer a different *insurance contract* which would better meet the *customer's* needs.

[Note: article 17(3) of the *IDD*]

- (3) In relation to a *non-investment insurance contract*, an *insurance distributor* must not make any arrangements by way of *remuneration* or incentive to any *person*, including itself, its *employees* or any third party, that could lead:

- (a) the *firm* or its *employees* to arrange a particular *contract of insurance*; or
- (b) the *customer* to take out a particular insurance contract, where that would not be consistent with the interests of all *customers* of the *policy*, including prospective or actual *policyholders* or *policy stakeholders* including *leaseholders* (as the case may be).

19F.2.2A **G**

- (1) When assessing whether it complies with **SYSC 19F.2.2R**, an *insurance distributor* should consider all of the *remuneration* it receives in connection with a *non-investment insurance contract*, whether or not it intends to retain that *remuneration* or make payments out of that amount to another *person*. A *firm* should consider whether the gross amount of any sum it receives by way of *remuneration*, whether in the form of *commission* or of any other type, is consistent with **ICOB 2.5.-1R**, rather than the net amount that the *firm* intends to retain.
- (2) Where a *firm* has arrangements to provide incentives, including partial *premium* refunds or commission-like payments, to third parties (including the *customer* taking out the *policy*), this may encourage those *persons* to use the services of the *firm*. Where that is the case, those arrangements would be expected to lead to the *firm* receiving a financial or non-financial benefit or other incentive in respect of the *insurance distribution activities* to which it relates and so would be *remuneration* to which **SYSC 19F.2.2R(1)** applies.

Retail premium finance

19F.2.3 **R**

The requirement in **SYSC 19F.2.2R** applies to *remuneration* an *insurance distributor* receives in relation to *retail premium finance*.

19F.2.4 **G**

ICOB 6A.5 includes further *guidance* on remuneration in relation to *retail premium finance*.