Subsidiary Legislation made under s.626A and regulation 18(8) of the Financial Services (Insurance Distribution) Regulations 2020.

Financial Services (Insurance Product Oversight and Governance) (Technical Standards) Regulations 2024

LN.2024/078

Commencement **9.5.2024**

Amending enactments	Relevant current provisions	Commencement date
LN.2026/110	Annex (Arts. 1(2), (2A), (4), 3(3)-(8), 10(10A), (12)-(13), 23(1), (1A)-(1B), 28	28.5.2026

ARRANGEMENT OF REGULATIONS

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1. Title.
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4. Revocation.

ANNEX

TECHNICAL STANDARDS ON PRODUCT OVERSIGHT AND GOVERNANCE FOR INSURANCE UNDERTAKINGS AND INSURANCE DISTRIBUTORS

Financial Services (Insurance Product Oversight and Governance) (Technical Standards) Regulations 2024 2024/078

In exercise of the powers conferred on the Minister by section 626A of the Financial Services Act 2019 and regulation 18(8) of the Financial Services (Insurance Distribution) Regulations 2020, the Minister has made these Regulations-

Title.

1. These Regulations may be cited as the Financial Services (Insurance Product Oversight and Governance) (Technical Standards) Regulations 2024.

Commencement.

2. These Regulations come into operation on the day of publication.

Technical Standards.

3. Subject to sub-regulation (2), the Technical Standards on Product Oversight and Governance for Insurance Undertakings and Insurance Distributors, set out in the Annex to these Regulations, have effect.

Chapters 4 and 5 of those Technical Standards apply from the date that Part 3 of the Financial Services (Core Principles and Consumer Duty) Regulations 2024 comes into operation.

Revocation.

4. Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors is revoked.

ANNEX

TECHNICAL STANDARDS ON PRODUCT OVERSIGHT AND GOVERNANCE FOR INSURANCE UNDERTAKINGS AND INSURANCE DISTRIBUTORS

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CHAPTER 1
GENERAL PROVISIONS

Overview.

1.(1) These Standards supplement regulation 18 of the Insurance Distribution Regulations and provide for–

(a) the maintenance, operation and review of product oversight and governance arrangements for new insurance products or significant adaptations to existing insurance products before those products are brought to the market or distributed to customers (the "product approval process"); and

(b) product distribution arrangements for those insurance products.

(2) Subject to paragraph (2A), Chapters 1 to 3 apply to–

(a) insurance undertakings and insurance intermediaries that manufacture insurance products that are offered for sale to customers ("manufacturers"); and

(b) insurance distributors that advise on, or propose, insurance products that they do not manufacture ("distributors").

(2A) Where a provision in Chapters 1 to 3 is described as only applying to specified providers, it only applies to persons in paragraph (2)(a) or (b) which are specified providers.

(3) Chapters 4 and 5 supplement Chapters 1 to 3 but only apply to persons in paragraph (2)(a) or (b) which are specified providers.

(4) These Standards do not apply to an insurance product that falls within regulation 18(7A) of the Insurance Distribution Regulations.

Interpretation.

2.(1) In these Standards–

"distributor" has the meaning given in Article 1(2)(b) (but see paragraph (2));

"general insurance contract" means a contract of insurance falling within a class in paragraph 22(1).1 to 18 of Schedule 2 to the Financial Services Act 2019;

"legacy N-II product" has the meaning given in Article 31(2);

"Insurance Distribution Regulations" means the Financial Services (Insurance Distribution) Regulations 2020;

"long-term insurance contract" means a contract of insurance falling within a class in paragraph 23.I to IX of Schedule 2 to the Financial Services Act 2019, other than–

(a) a with-profits policy;

(b) an industrial assurance policy; or

(c) a policy that is the subject of a trust;

"manufacturer" has the meaning given in Article 1(2)(a) (but see paragraph (2));

"N-II product" means a non-investment insurance product;

"non-investment insurance contract" means a contract of insurance which is a general insurance contract or a pure protection contract;

"non-investment insurance product" means an insurance product sold or underwritten as individual non-investment insurance contracts;

"product approval process" has the meaning given in Article 1(1)(a);

"pure protection contract" means–

(a) a long-term insurance contract in respect of which the following conditions are met–

(i) the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;

(ii) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium; and

(iii) the contract makes no provision for its conversion or extension in a manner which would result in it ceasing to comply with (i) or (ii); or

(b) a reinsurance contract covering all or part of a risk to which a person is exposed under a long-term insurance contract;

"specified provider" is to be interpreted in accordance with regulation 7(3) of the Financial Services (Core Principles and Consumer Duty) Regulations 2024.

(2) In Chapters 4 and 5, which only apply to specified providers, references to "distributor" "manufacturer" are to be construed as references to a specified provider which is a distributor or manufacturer (as the case may be).

(3) In these Standards, references to an insurance product, including a N-II product, are to be construed as references to the product for distribution to customers generally and not as references to each individual contract of insurance being sold or underwritten (unless the context indicates otherwise).

Manufacturing insurance products.

3.(1) An insurance intermediary must be treated as a manufacturer where overall analysis of its activity shows that it has a decision-making role in designing and developing an insurance product for the market.

(2) A decision-making role must be assumed, in particular, where an insurance intermediary–

(a) autonomously determines the essential features and main elements of an insurance product, including its coverage, price, costs, risk, target market and compensation and guarantee rights; and

(b) those features and elements are not substantially modified by the insurance undertaking providing coverage for the insurance product.

(3) Where more than one manufacturer (within the meaning of Article 2) is involved in the manufacture of an insurance product, they must execute a written agreement which specifies–

(a) their collaboration to comply with the requirements for manufacturers in regulation 18 of the Insurance Distribution Regulations;

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

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

(4) Paragraph (3) does not apply where more than one manufacturer is involved in the manufacture of an insurance product but those manufacturers have agreed that one of them (the "lead manufacturer") is solely responsible for compliance with the obligations set out in that paragraph.

(5) The option to select a lead manufacturer who is solely responsible for compliance with the obligations set out in paragraph (3) may only be exercised where–

(a) the lead manufacturer is an insurance undertaking;

(b) the manufacturers concerned are able to demonstrate that the lead manufacturer has sufficiently significant involvement in the manufacture of the product to warrant its selection as the lead manufacturer;

(c) all the manufacturers concerned have unambiguously agreed in writing that–

(i) the lead manufacturer is solely responsible for compliance with the those requirements in relation to all aspects of the product including in relation to any aspects of the manufacturing carried out by any of the other manufacturers;

(ii) the lead manufacturer accepts any and all liability arising out of any breaches of the requirements for which it has accepted responsibility, including liability for any claims for redress which may arise (but the lead manufacturer may seek indemnities from the other manufacturers in relation to that liability); and

(iii) the other manufacturers will cooperate with the lead manufacturer and share all information reasonably required by the lead manufacturer, in a timely manner, to enable the lead manufacturer to fully comply with those requirements.

(6) A lead manufacturer–

(a) must ensure that the manufacturer's obligations are met in respect of a product for which it is the lead manufacturer, including in relation to any aspects carried out by the other manufacturers involved in the manufacture of the insurance product; and

(b) may be treated by the GFSC as responsible for, and liable for any breaches of, the manufacturer's obligations in relation to the whole of that product.

(7) Where an manufacturer has agreed to be the lead manufacturer in accordance with paragraph (4), regulation 18(1) of the Insurance Distribution Regulations only applies to that manufacturer.

(8) Paragraphs (4) to (7) only apply to specified providers.

CHAPTER 2
PRODUCT GOVERNANCE REQUIREMENTS FOR MANUFACTURERS

Product approval process.

4.(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 product approval process must–

(a) contain measures and procedures for–

(i) designing, monitoring, reviewing and distributing insurance products; and

(ii) taking corrective action in respect of insurance products which are detrimental to customers; and

(b) be proportionate to the level of complexity and the risks related to the products and the nature, scale and complexity of the relevant business of the manufacturer.

(3) The product approval process must be set out in a written document (the "product oversight and governance policy"),which must be made available to all relevant staff.

(4) The product approval process must–

(a) ensure that the design of insurance products–

(i) takes account of the objectives, interests and characteristics of customers;

(ii) does not adversely affect customers; and

(iii) prevents or mitigates customer detriment; and

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

(5) The manufacturer's body or structure responsible for manufacturing insurance products must–

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

(b) continuously verify internal compliance with that process.

(6) A manufacturer which designates a third party to design products on its behalf remains fully responsible for compliance with the product approval process.

(7) A manufacturer must regularly review its product approval process to ensure that the process remains valid and up to date and amend the process where necessary.

Target market.

5.(1) The product approval process must identify, for each insurance product, the target market and the group of compatible customers.

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

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

(4) 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.

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

(6) A manufacturer must ensure that its 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.

Product testing.

6.(1) A manufacturer must test an insurance product appropriately, including scenario analyses where relevant, before bringing that product to the market, significantly adapting it or where the target market has significantly changed.

(2) That product testing must assess whether the insurance product meets the identified needs, objectives and characteristics of the target market over the product's lifetime.

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

(4) A manufacturer must not bring an insurance product to the market if the results of the product testing show that the product does not meet the identified needs, objectives and characteristics of the target market.

Product monitoring and review.

7.(1) A manufacturer must continuously monitor and regularly review any insurance product it has brought to the market, in order to–

(a) identify events that could materially affect the main features, risk coverage or guarantees of the product; and

(b) assess whether–

(i) the product remains consistent with the needs, characteristics and objectives of the identified target market; and

(ii) the product is distributed to the target market or is reaching customers outside the target market.

(2) A manufacturer must determine the appropriate intervals for the regular review of its insurance products, taking account of–

(a) the size, scale, contractual duration and complexity of the products;

(b) their respective distribution channels; and

(c) any relevant external factors, including technological developments or changes to the market situation or the applicable legal rules.

(3) A manufacturer that identifies during the lifetime of an insurance product any circumstances related to the insurance product that may adversely affect customers must–

(a) take appropriate remedial action to mitigate any adverse effects and prevent further detriment; and

(b) promptly inform relevant distributors and customers of the remedial action taken.

Distribution channels.

8.(1) A manufacturer must select distribution channels that are appropriate for the target market, taking account of the particular characteristics of the relevant insurance product.

(2) A manufacturer must provide distributors with all appropriate information on–

(a) the insurance products, the identified target market and the suggested distribution strategy, including information on the main features and characteristics of the insurance products; and

(b) their risks and costs, including implicit costs, and any circumstances which might cause a conflict of interest to the detriment of the customer.

(3) The information provided under paragraph (2) must be clear, complete and up to date and enable distributors to–

(a) understand the insurance product;

(b) comprehend the identified target market for the insurance product;

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

(d) carry out distribution activities in accordance with the best interests of their customers, as required by regulation 11 of the Insurance Distribution Regulations.

(4) A manufacturer must undertake appropriate monitoring to ensure that distributors act in accordance with the objectives of the manufacturer's product approval process and, in particular, must verify on a regular basis whether the insurance product is distributed on the identified target market.

(5) A manufacturer's monitoring activities must be reasonable, taking into consideration the characteristics and the legal framework of the respective distribution channels, and the obligation to undertake monitoring does not extend to monitoring the general regulatory requirements with which distributors must comply when carrying out insurance distribution activities for individual customers.

(6) A manufacturer must take appropriate remedial action if it considers that an insurance product is not being distributed in accordance with the objectives of its product approval process.

Documentation.

9. A manufacturer must ensure that an appropriate written record is made of all relevant actions taken in relation to its product approval process and those records must be kept for audit purposes and made available to the GFSC on request.

CHAPTER 3
PRODUCT GOVERNANCE REQUIREMENTS FOR INSURANCE DISTRIBUTORS

Product distribution arrangements.

10.(1) A distributor must have in place product distribution arrangements containing appropriate measures and procedures to obtain from the manufacturer all appropriate information on the insurance products the distributor intends to offer to its customers and to fully comprehend those insurance products, taking account of 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 distributor.

(2) A distributor must set out the product distribution arrangements in a written document and make it available to all relevant staff.

(3) The product distribution arrangements must–

(a) aim to prevent and mitigate customer detriment;

(b) support a proper management of conflicts of interest; and

(c) ensure that the objectives, interests and characteristics of customers are taken into account.

(4) The product distribution arrangements must ensure that the distributor obtains from the manufacturer the information to be communicated under Article 8(2).

(5) Any specific distribution strategy set up or applied by a distributor must be in accordance with the distribution strategy set up and the target market identified by the manufacturer.

(6) The distributor's body or structure responsible for insurance distribution must–

(a) endorse and be ultimately responsible for establishing, implementing and reviewing the product distribution arrangements; and

(b) continuously verify internal compliance with those arrangements.

(7) A distributor must regularly review its product distribution arrangements to ensure that those arrangements are still valid and up to date and amend them where appropriate.

(8) A distributor 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.

(9) A distributor, when reviewing its product distribution arrangements, must verify that the insurance products are distributed to the identified target market.

(10) A distributor must determine the appropriate intervals for the regular review of its product distribution arrangements, taking account of the size, scale and complexity of the different insurance products involved.

(10A) In relation to a N-II product, a distributor must determine on an ongoing basis the appropriate intervals for the regular review of its product distribution arrangements based on the potential for customer harm arising from risk factors associated with the product.

(11) To support product reviews carried out by manufacturers, a distributor must on request provide manufacturers with relevant sales information, including, where appropriate, information on the regular reviews of the product distribution arrangements.

(12) In relation to a N-II product, a distributor must make and retain a record of–

(a) its determination of the appropriate intervals for the regular review of its product distribution arrangements; and

(b) the reasons for that determination.

(13) Paragraphs (10A) and (12) only apply to specified providers.

Informing the manufacturer.

11. Where a distributor becomes aware that an insurance product is not in line with the interests, objectives and characteristics of its identified target market or of other product-related circumstances that may adversely affect customers, the distributor must promptly inform the manufacturer and, where appropriate, amend its distribution strategy for that insurance product.

Documentation.

12. A distributor must ensure that an appropriate written record is made of all relevant actions taken in relation to its product distribution arrangements and those records must be kept for audit purposes and made available to the GFSC on request.

CHAPTER 4
SPECIFIED PROVIDERS OF NON-INVESTMENT INSURANCE PRODUCTS

Application of Chapter 4.

13. This Chapter applies to manufacturers and distributors which are specified providers and in relation to N-II products.

N-II product approval and fair value.

14. For a N-II product, a specified provider must ensure that the 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 Articles 15(1) to 20(2).

Fair value: N-II products and packages.

15.(1) For a N-II product, a specified provider 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).

(2) Where a N-II product is intended to be distributed with one or more additional products, a specified provider 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).

(3) An assessment under paragraph (2) must include, in particular, 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.

(4) A specified provider is not required to assess the value of a component product under paragraph (2) where the component is a N-II product for which the specified provider is not the manufacturer.

(5) A specified provider must–

(a) be able to clearly demonstrate how any N-II product, additional product or package provides fair value and will do so for a reasonably foreseeable period; and

(b) make and retain a record of the value assessment required by paragraph (1) and (2).

(6) Where a specified provider is unable to both identify and clearly demonstrate that a N-II product and any additional product or package will provide fair value, the specified provider must not market the product or permit the product to be distributed (whether directly or through another person), unless the specified provider has ensured that appropriate changes have been made so that fair value will be provided.

Fair value throughout process.

16. A specified provider must consider the value considerations in Article 15(1) and (2) throughout every stage of the product approval process including, in particular, when–

(a) identifying the target market and the interests, needs, objectives and characteristics of such customers;

(b) undertaking product testing; and

(c) selecting any distribution channel.

Meaning of value.

17.(1) For the purposes of this Chapter, "value" means the relationship between the overall price to the customer and the quality of the products or service provided.

(2) The assessment of value must include, in particular, consideration of–

(a) 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);

(b) the type and quality of service provided to customers;

(c) the expected total price to be paid by the customer when buying or renewing the product, and the elements that make up the total price; and

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

(3) Assessment of the expected total price under paragraph (2)(c) must include, in particular, consideration of–

(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 specified provider of the 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, in particular, the price paid for–

(i) the 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; and

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

(4) When considering the value of a N-II product under Article 15(1) and (2), a specified provider must not rely on individual customers to consider whether they are making fair value purchases in place of any part of its 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.

Information to be used.

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

(2) For the purposes of paragraph (1) the data and information a specified provider must consider using includes, in particular–

(a) information available to the specified provider internally including–

(i) customer research;

(ii) claims information such as handling times, frequency and severity of claims (including total costs and average per claim), claims ratios, rates of and reasons for accepting or declining claims, based on expectations for the product or information in respect of a comparable product; and

(iii) complaints data (including root cause analysis and handling times), based on expectations for the product or information in respect of a comparable product;

(b) public information or information obtainable by the specified provider from external sources, including analysis of similar insurance products available from other specified providers and, where relevant, data published as part of any value measures reporting regime in the general insurance market; and

(c) information available to the specified provider specifically from persons in the distribution arrangements, including–

(i) remuneration and its impact on the value of the product, package or a 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 person in the distribution arrangement (for example, call monitoring or file checks) including in relation to other products that person distributes.

Impact of distribution arrangements.

19.(1) So far as reasonably possible, a specified provider must ensure the distribution arrangements for a N-II product avoid or minimise the risk of having any negative impact on the fair value of the product or package.

(2) The obligation under paragraph (1) includes, in particular–

(a) avoiding or reducing the risks arising from–

(i) any remuneration of a party 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, fairness and justification for its inclusion; or

(ii) 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;

(b) 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

(c) 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.

(3) A specified provider 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–

(a) 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 another N-II product for which the specified provider is not a manufacturer);

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

(c) confirmation from any specified provider in the distribution arrangements that any remuneration is consistent with their regulatory obligations including, in particular, regulation 34 of the Insurance Distribution Regulations.

Fair value: additional provisions.

20.(1) A specified provider manufacturing a N-II product must ensure that manufacture is driven by features that benefit the customer and not by a business model which relies on poor customer outcomes in order to be profitable.

(2) In relation to a N-II product to be sold in a package with additional products, a specified provider must not set or increase the price of those additional products to the customer in a way that detrimentally affects the package delivering fair value, including where this is done to minimise the financial effects on the specified provider of reducing the price of, or making other changes to, an insurance product as a result of the fair value assessment.

Target market: fair value.

21.(1) For the purpose of complying with regulation 18(3) of the Insurance Distribution Regulations, when taken together with Article 15(1) and (2), a manufacturer must be able to show that a N-II product offers fair value to the specified target market, in particular, taking account of the needs, objectives, interests and characteristics of that market.

(2) When identifying the target market for a N-II product, a manufacturer must–

(a) identify any group of customers for whom the product or package would not provide the intended level of value in accordance with Article 15(1) and (2); and

(b) take reasonable steps to ensure the product is not distributed to any group identified under sub-paragraph (a).

(3) The information which a manufacturer is required to be provide to distributors in accordance with regulation 18(5) of the Insurance Distribution Regulations must include a clear description of any group of customers identified under paragraph (2)(a).

Product testing: charging structure.

22. As part of its product testing under Article 6, a manufacturer must consider the charging structure proposed for each N-II product, including examining–

(a) whether the costs and charges of the N-II product are compatible with the needs, objectives and characteristics of the target market;

(b) where relevant, whether the charging structure of the N-II product is appropriately transparent for the target market (for example, that charges are not disguised or too complex to understand); and

(c) where relevant, whether the charges undermine the return expectations of the N-II product (for example, where the costs or charges remove all or almost all the expected tax advantages linked to a life policy).

Product monitoring and review.

23.(1) For a N-II product, a specified provider must determine on an ongoing basis the appropriate intervals for regular review based on the potential for customer harm arising from risk factors associated with the product.

(1A) For the purposes of paragraph (1), a specified provider must take into account at least the following factors, in addition to those in Article 7(2)–

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

(b) any indicators of customer harm seen in the provider's assessment of the product's value to the customer; and

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

(1B) In relation to a N-II product, a specified provider must make and retain a record of–

(a) its determination of the appropriate intervals for regular review; and

(b) the reasons for that determination.

(2) In relation to a N-II product, the review must include consideration of whether the product remains consistent with any fair value assessment required under Article 15(1) or (2).

(3) A specified provider must obtain all necessary and relevant information in order to enable it to properly understand and monitor a N-II product, including verification of the information in Article 19(2)(c) and (3).

(4) When reviewing a N-II product, a specified provider must consider–

(a) whether the 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 N-II product it provides fair value.

(5) For the purposes of paragraph (4), a specified provider 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.

(6) The information that a specified provider must consider using under paragraph (5) includes, in particular–

(a) information available to the specified provider internally including–

(i) customer research;

(ii) claims information (such as handling times, frequency, rates of and reasons for accepting and declining claims, 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 specified provider from external sources including analysis of similar insurance products available from other specified providers and, where relevant, published data on value measures in the general insurance market;

(c) information available to the specified provider or which it is 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; and

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

(7) For a N-II product, the review process must–

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

(b) provide for appropriate action to be taken–

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

(ii) to prevent harm to new customers.

Assessment of N-II product changes.

24. For the purposes of showing the requirements in regulation 18(1) of the Insurance Distribution Regulations and Article 4(1) and (2) are met, where a specified provider makes a change to a N-II product it must make and retain a record of–

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

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

Distribution channels.

25.(1) A manufacturer must make available to any distributor information about the manufacturer's target market assessment.

(2) The information made available under paragraph (1) must be of an adequate standard to enable distributors to–

(a) comprehend the identified target market for the insurance products; and

(b) be able to identify any customers for whom the N-II product is not compatible with their needs, characteristics and objectives.

(3) A manufacturer is not required to disclose specific information which it objectively considers to be commercially sensitive if the information it does make available to distributors is sufficient to enable them to comply with paragraph (2)(a) and (b).

Selecting distribution channels for N-II products.

26.(1) A specified provider must not use a distribution channel for a N-II product unless it is able to demonstrate clearly that the channel results in fair value to customers in the target market.

(2) When changing the distribution arrangements for a N-II product, a specified provider must–

(a) obtain all necessary information from the distributor or any other person who will be involved with the distribution arrangement, including that set out in Article 19; and

(b) identify whether the proposed change to the distribution arrangements is consistent with the fair value requirement in Article 15(1) and (2).

(3) Where a specified provider identifies that the distribution of a N-II product is detrimentally affecting its intended value, it must take appropriate remedial measures including, in particular–

(a) amending the distribution arrangements, including ceasing to use certain distributors or distribution channels;

(b) amending remuneration structures; and

(c) withdrawing the insurance product from continued marketing or distribution.

Product distribution arrangements.

27.(1) The arrangements that a distributor must have in place under regulation 18(6) of the Insurance Distribution Regulations to obtain information on, and understand the characteristics and target market of, N-II products which it distributes but does not manufacture must enable the distributor to understand–

(a) the outcome of the N-II product's value assessment under Article 15(1) and (2); and

(b) any identified group of customers for whom the N-II product is not expected to provide fair value.

(2) A distributor must take all reasonable steps to obtain the information in regulation 18(6) of the Insurance Distribution Regulations when distributing insurance products manufactured by any person to which product governance requirements in Chapter 2 do not apply.

(3) In relation to a N-II product, the product distribution arrangements 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.

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

(5) For the purposes of paragraphs (3) and (4) a specified provider must consider, in particular–

(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, whether the customer will receive fair value, taking account of the costs (including any charges or interest) of the retail premium finance, if seen as a package.

28. *Omitted*

Information for manufacturers.

29. A distributor must provide on request to the manufacturer of a N-II product–

(a) information on the distributor's remuneration in connection with the distribution of the insurance product;

(b) 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

(c) confirmation that the distribution arrangements are consistent with the specified provider's obligations including, in particular, regulations 34 and 35 to 37 of the Insurance Distribution Regulations.

Informing the manufacturer.

30.(1) Where a distributor identifies that–

(a) an N-II product or package is not providing fair value for customers;

(b) an aspect of an N-II product or package may mean it does not offer fair value for customers; or

(c) the distribution arrangements, including remuneration structures, for an N-II product or package may mean customers are not being provided with fair value,

it must take the steps in paragraph (2).

(2) The distributor must–

(a) take appropriate remedial action, to aim to mitigate the situation and prevent any further possible harm to customers including, where appropriate, by amending its distribution arrangements or strategy for the product or package; and

(b) inform the manufacturer promptly about the distributor's concerns and any action it is taking.

Legacy N-II products.

31.(1) Articles 32 and 33 apply to specified providers which manufacture or distribute legacy N-II products (including by the renewal of an existing policy).

(2) In this Article and in Articles 32 and 33, a "legacy N-II product" means a N-II product–

(a) which was manufactured before, and not significantly adapted on or after, 1st October 2018; and

(b) which is either–

(i) still marketed or available for distribution to customers (including in the form of a renewal of an existing policy); or

(ii) no longer marketed or distributed but where policies under the product remain in effect.

(3) For a product falling within paragraph (2)(b), references to distribution or renewal are to be construed as including the collection of premiums in relation to a policy that remains in effect.

(4) For the purposes of this Article and Articles 32 and 33, a manufacturer of legacy N-II products includes–

(a) an insurance intermediary which has a decision-making role (in whole or in part) in relation to the manufacture of a legacy N-II product; or

(b) an insurer that is responsible for the manufacture of a legacy N-II product including whoever currently underwrites the legacy N-II product.

Manufacturers of legacy N-II products.

32.(1) A manufacturer of a legacy N-II product must apply the product approval process to that insurance product.

(2) A manufacturer must determine whether the legacy N-II product should continue to be marketed and distributed (including renewals for existing customers).

(3) Where a manufacturer does not approve the continued marketing and distribution of a legacy N-II product, including where it has been unable to identify that the product or package provides fair value for the purposes of Article 15(1) and (2), it must immediately do either or both of the following–

(a) cease marketing or distributing the product or package (whether directly or indirectly), including any renewal for an existing customer; and

(b) make such changes as are necessary for the product or package to provide fair value.

Distributors of legacy N-II product.

33.(1) A distributor which distributes, or will distribute, a legacy N-II product must meet the requirements in Chapter 3 and Articles 27 to 30 in relation to that product.

(2) For the purposes of paragraph (1), a distributor must put in place appropriate arrangements for–

(a) obtaining any necessary information from the manufacturer;

(b) providing any necessary or relevant information to the manufacturer;

(c) understanding the product, identified target market and value assessment;

(d) ensuring adequate oversight, including the ability to obtain necessary or relevant information, of any other persons involved in the distribution with whom the distributor has a direct relationship; and

(e) the regular review of the product distribution arrangements including to take appropriate action in order to avert the risk of consumer detriment.

CHAPTER 5
MANUFACTURERS AND DISTRIBUTORS OF VALUE MEASURES PRODUCTS

Application of Chapter 5.

34.(1) This Chapter applies to specified providers which are manufacturers or distributors of general insurance contract products that are the subject of value measures reporting requirements.

(2) In this Chapter–

"value measures product" means a general insurance product which is the subject of a value measures reporting requirement regardless of when that product was first manufactured;

"value measures reporting requirement" means a requirement to submit information in a standard format on value measures products to the GFSC or the corresponding regulator in another jurisdiction;

"value measures information" means–

(a) the value measures data reported by a manufacturer or distributor to the relevant regulator; and

(b) any value measures data relating to other manufacturers or distributors published by the relevant regulator.

Manufacturers of value measures products.

35.(1) A manufacturer of a value measures product (in whole or in part) must comply with the requirements of this Article.

(2) In relation to an existing value measures product, the manufacturer must have effective procedures in place to ensure that the product offers fair value to customers in the target market on a continuing basis, taking account of–

(a) the needs of the target market;

(b) the manufacturer's reasonable assessment of the value expectations of customers in the target market;

(c) the value measures information, within a reasonable period;

(d) any particular features of the product or its terms and conditions that may give rise to concerns about poor value;

(e) appropriate product testing including scenario analysis and testing on consumers; and

(f) the charging structure of the product, including whether the costs and charges are compatible with how useful the product is to consumers and the transparency of costs and charges.

(3) In relation to a new product or significant adaptation to an existing product, a manufacturer must incorporate the procedures and considerations in paragraph (2) in its product approval process, its product testing under Article 6(1) (including the considerations

in Article 22) and the review of products in regulation 18(4) of the Insurance Distribution Regulations as it applies by virtue of Article 23(2).

(4) A manufacturer that identifies any aspect of a product which may mean the product does not offer fair value, must–

(a) take appropriate action to mitigate the situation and, where relevant, prevent further occurrences of any possible detriment to customers;

(b) inform relevant distributors promptly about any remedial action being taken; and

(c) where relevant, not bring new products to market or make any proposed changes.

(5) A manufacturer must regularly review the products it offers or markets to ensure they continue to offer fair value, taking account of any event that could materially affect whether this remains the case.

(6) A manufacturer which is required to submit a value measures report must take all reasonable steps to set up arrangements with persons entering into contracts of insurance as principal in relation to the relevant product, to enable it to obtain the value measures data required to be included in the value measures report.

(7) where a value measures product is manufactured by more than one manufacturer, they must outline in writing their mutual responsibilities arising under this Article.

Distributors of value measures products.

36.(1) A distributor which distributes a value measures product that it does not manufacture must comply with the requirements of this Article.

(2) In relation to an existing value measures product it distributes or any new value measures products it proposes to distribute, the distributor must have procedures in place to consider whether the product offers fair value to customers in the target market, on a continuing basis, taking account of the factors in Article 35(2)(a) to (f).

(3) A distributor which is required to submit a value measures report must take all reasonable steps to enter into arrangements with the manufacturer of the relevant product and persons entering into contracts of insurance as principal in relation to that product, to enable it to obtain the value measures data required to be included in the value measures report.

(4) A distributor that identifies any aspects of a product which may mean the product does not offer fair value, must–

(a) take appropriate action to mitigate the situation and, where relevant, prevent further occurrences of any possible detriment to customers, including, where appropriate, amending its distribution strategy for the product; and

(b) promptly inform any relevant manufacturer about the distributor's concerns and any action it is taking.