



Protection Roadshow

Compliance Update

November / December 2024

Forward financial thinking

REGULATORY
EXPERTISE

BUSINESS
SUPPORT

FINANCIAL
TECHNOLOGY



Learning Objectives

01

You will be able to identify key areas of product governance and its implications for the protection space



02

You will be able to describe Providers stance on distribution quality and what support is available at SimplyBiz



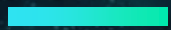
03

You will be to explain how Compliance Audits can be beneficial to your business





TR24/2 - Thematic Review of PROD for GI and Protection





TR24/2

- The principle focus for this publication is for PROVIDERS who are manufacturers under PROD.

HOWEVER,

- The review does also covers BROKER FIRMS who are distributors under PROD and are subject to PROD 4.3.

FCA FINANCIAL CONDUCT AUTHORITY

Thematic Review
TR24/2

Product Oversight and Governance thematic review – General Insurance and Pure Protection (PROD 1.4 and PROD 4)

August 2024



FCA recommendations for BROKER FIRMS

- **Understand** the product being recommended – it's complexity and any risks
- **Consider any value problems** - There should be an individual designated for identifying value problems – this would normally be the Senior Manager 'Responsible for Insurance Distribution' on the FS Register
- **Ensure your annual PROD and Fair Value Assessments are complete** and that you have a clear distribution strategy, target market, remuneration and clear evidence of product's intended value.
- Consider **remuneration policies**, its interaction with the services and benefits they provide and its impact on the product's value. – this would be part of the value assessment. *Worth noting here para 5.14 which references 'setting a cap on the pound value of commission'.*



FCA recommendations for BROKER FIRMS

- **Evidence of consideration of the provider's target market statement** and value assessment – your target market should align to the provider's, including negative target market.
- The firm should have **Data and MI** to show sold products are sold within your relevant target market.
- Where products are sold as part of a package, there should be a **process in place to mitigate the risk of duplication of cover.**



ACTION POINTS FOR FIRMS

Ensure the firm's PROD review is up to date and goes into sufficient detail

Ensure the firm has completed a Fair Value Assessment for each service offered



SUPPORT AVAILABLE

Fair Value Assessment

This document is personal to your firm. The text in red should be amended so that it illustrates the relationship between the amount a customer pays and the benefits they receive from your service.

Value assessment

Name of product / service	Protection Insurance Intermediation
Assessment reason	Review/significant adaptation
Reviewer name	SMF name

Service description

An initial meeting / discussion
 Fact-finding information gathering
 [A personal recommendation, advice which is not a personal recommendation or information only]
 [Fair analysis (whole of market); or, limited or single provider]
 Research using sourcing system
 Application/documentation support
 Assistance with underwriting process

Target market

New or existing clients when there's a significant life event/change of circumstances.
 Clients who have an interest insuring against unforeseeable events.

[Include details of any client segments your firm targets with protection insurance services, e.g. term assurance, income protection, critical illness.]

Limitations

Pre-existing medical conditions that may exclude certain providers.
 Insufficient disposable income for insurance products
 Not a client's priority
 Clients that do not fulfil criteria for products including eligibility.
 Clients looking to obtain cover where there's no insurable interest.
 [Include details of any negative client segments where your firm's protection services are not likely to be appropriate]

Remuneration

Broker fee
 Commission received from Insurer. Details of any commission setting/sacrifice arrangements which firm applies to particular groups of customers.
 Cost to manufacture service.

[Where you charge a fee, insert here details of any assessment you have undertaken in relation to the costs you incur in delivering your broker service in the context of the remuneration you receive]

Market research when designing service

[Comment here whether your charges (if applicable) are in line with comparable services on the market, including any analysis of competitors, industry research, e.g. by insurers and or client feedback]

Annual revenue

Clients and target market

Do you act for third parties?
 If yes, confirm

Insurance products

Other than the product being assessed, are you offering any other insurance products?
 If yes, list below

Insurance Advice

Are any additional services provided?
 If yes, list below

Method of distribution

How are you distributing the product?
 Advised
 Non-advised
 Execution Only
 Automated Advice
 Guidance Service

The Consumer Duty Hub

The Consumer Duty Hub provides a range of support to help firms understand and meet their duties. This includes:

- Guidance on how to assess the value of a product to a customer, taking into account the costs of the product and the benefits they receive.
- Guidance on how to communicate this information to customers in a clear and understandable way.
- Guidance on how to ensure that the product is suitable for the customer's needs and circumstances.

Firms must complete a fair value assessment in respect of all products they offer, keep this assessment up to date and review it whenever there is a significant change to the product or you materially alter the product. You should focus on the specific product you are assessing. You are not required to assess the value of other elements of the product, such as platform fees, platform charges etc. It is up to you to assess their own value. Your findings, including the expected cost to the customer, should be included in the assessment.

We have prepared a range of templates for firms to use, with support and guidance on how to complete them. By thinking about your target market and your service, you can make your templates more specific to your customers and amend them to fit with your non-exhaustive list of products.

The boxes below follow the format of the fair value assessment template to the type of information required by the Regulator. It is worth noting that the proportionality of the assessment will depend on the nature of the product and the way it is delivered. However, target

This guide includes:

1. A brief overview of the Consumer Duty Hub
2. So you can understand the requirements
3. So you can understand the requirements
4. The requirements
5. Distinction between the requirements
6. The requirements
7. What you need to do

Appendix 1

Appendix 2

The introduction of the Consumer Duty Hub requires the introduction of a third party to the relationship between the customer and the provider. However, in some cases, the provider may be able to exercise its own discretion in relation to the outcomes of the assessment, particularly in relation to the assessment of the value of the product to the customer.

PROD takes account of:

- The characteristics of the target market
- The complexity of the product
- The distribution strategy
- The risk of consumer detriment relating to the product

Fair Value Assessments additionally cover:

- Cost to the client
- Benefits / Value
- Behavioural Bias / Vulnerability

Fair Value templates – Consumer Duty Hub
PROD templates – operating centre – plans and templates



Market Study into Protection Distribution

The FCA is launching a 'Market Study' looking at how well the protection market is working for consumers and any areas of potential harm.

This will take time so we expect this to play out over 2025/2026.

As it stands the focus will be on:

- term assurance,
- critical illness cover,
- income protection insurance, and
- whole of life insurance including guaranteed acceptance over 50s plans

- Commission incentives

This could lead to FCA identifying problems and then consulting on remedies



Market Study into Protection Distribution

- FCA concerns are outlined in para 3.2 and you will see that some are familiar:
- **The design of commission arrangements may not always support the delivery of fair value:**
 - Firms encouraging customers to switch unnecessarily to earn repeat commission
 - the use of ‘loaded premiums’ – a mark-up to the standard premium paid by a consumer that enables additional commission to be paid to an intermediary
 - commission arrangements that incentivise firms to push products not consistent with client needs



Compliance Audits





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- Generally our firms do a fantastic job with their clients, with firms crucial in helping their clients achieve their desired financial outcomes.
 - There have been audits of mortgage and protection firms which have revealed where gaps exist.



The good

- **CPD** - evidenced the advisers have undertaken at least 15 hours relevant Insurance Distribution Directive (IDD) CPD on an annual basis.
- **Conduct Rules Training** - all Senior Managers, Certified Persons and other relevant staff members have completed Conduct Rules Training
- **FCA permissions** - Firms are conducting business inline with permissions on the FCA Financial Services Register
- **Consumer Duty** – Firms can evidence steps have been taken to implement the Consumer Duty. It's important this continues to be embraced at all levels as a 'not once and done' exercise.



Common problems

- **File checks** – Advisers are undertaking suitability reviews on their own client files, or these completed by a person who doesn't have the relevant qualification / experience.
- **Vulnerable customer** - some firms are struggling to record potential client vulnerabilities or documenting the steps taken to cater to vulnerable clients
- **Policies/Template documents** – Policies should be personalised and be kept under review. PROD assessments should be periodically considered.
- **Returns** – Returns not being submitted in a timely manner. It is important to ensure that controls are in place to meet deadlines.
- **Introducers** - firms not recording details of, and/or completing regular due diligence for, their introducers.



Distribution Channel

The FCA want firms in the same distribution chain to share relevant information with each other. This will help firms to quickly address issues to prevent consumer harm and deliver good outcomes.

Providers are themselves required to monitor the outcomes and this will lead to increased monitoring of business quality that is submitted by firms.

YOU ARE REQUIRED UNDER FCA RULES TO RESPOND TO REASONABLE REQUESTS

A distributor must, upon request, provide manufacturers with relevant information including, where appropriate, sales information and information on the regular reviews of the product distribution arrangements. (PRIN

2A.3.18 R)



Providers and the benefits of audits

Providers audit too and will ask when a firm works with a compliance service provider do you have copies of the audit .

Member firm recently received a request for information from a provider

- Have any products been distributed outside of the Insurer's defined target market?
- Have you made any changes to training or the assessment of advice quality?
- Have you made any changes to your vulnerable customer policy in the last 12 months?
- How do you monitor fees charged by brokers (if applicable)? Have you made any changes in the last 12 months as a result of your fair value assessments?

Audits help with provider surveys to create responses that are well versed.

In a FCA information request in another sector - asked for copies of audits within the last 24 month. With the Market Study and the recent Thematic review, firms could start to see these kind of requests.



Protection & GI GRC Audit

- We have enhanced our GRC audit with a Protection and GI focus for Protection firms.
- Provider relationships was a key addition
- Covering specific protection concerns
 - Unearned Indemnity Commission
 - Security Accounts
 - Lead Source

Tailored for Protection firms to ensure there's beneficial feedback

Compliance | CONSULTANCY SERVICES

Protection & GI Governance, Risk & Controls Audit

Firm Name: ABC Financial Planning Limited

FCA Firm: 235648

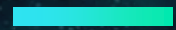
Reference No:

Date of Review: 27th January 2022

Consultant: A N Other



Artificial Intelligence



The current regulatory system



Discussion point:

Has anyone started using AI within your business?

What has been your experience?



Benefits and risks

- ✓ Save a firm time
- ✓ Cut costs for consumers

!! Data protection – how secure is client data

!! Responsibility for content and accuracy

The FCA's approach to AI

ico.
Information Commissioner's Office

"In 2023/24 ... the UK became home to over 1,300 AI companies."

**AI firm to help advisers
build suitability letters
in five minutes**

'First in the market' tool launched to
automate suitability letters



AI is not directly regulated

... HOWEVER it is indirectly regulated using existing frameworks

Principles
for Business

Threshold
Conditions

SM&CR

Consumer
Duty

Rule
breaches

Data
Protection



AI Guide & Due Diligence

- How will it improve efficiency and increase productivity?
- How it can be adopted safely, and does it offer accurate outputs?
- Whether it is compatible with existing data protection
- How it will integrate with other technology, e.g. back-office systems
- **Policy > Regulatory Guides**
- **Operating centre > Advice Journey > Research**

Guidance on the regulation of AI for financial services intermediaries

Overview

Artificial intelligence (AI) is becoming increasingly prominent in financial services. It has the potential to transform the way firms serve their customer services. As always, it is important to understand the existing regulatory requirements. This document provides a non-exhaustive list of due diligence considerations for a firm might be:

- How it will improve efficiency and in
- How it can be adopted safely and do
- Can it help the customer understand
- Whether it is compatible with existin
- How it will integrate with other tech

AI won't replace a paraplanner, adviser or im role and give them more time to use soft skill tools and have no 'emotional' intelligence.

Regulation

There is no direct regulation of AI as it stands regulatory frameworks, for example through identified the following principles around reg appropriate transparency and explainability; contestability and redress.

Existing FCA regulatory framework relevant

Firms are already subject to the following rec

Principles for Business	Firms must condu (Principle 2) and t responsibly, effect (Principle 3). Firm accuracy and qual
Systems and Controls	A firm is required mitigate risks that relating to busine
Threshold conditions	A firm's business i the consumer. Th senior managem understand the to
Consumer Duty	The tool should d products and serv consumer support which is character consumers (see PI Management Info outcomes experie

AI related due diligence

A non-exhaustive list of questions for the adoption of a third party AI tool

How does the tool work? (i.e. a description of the tool's functionality)

How client data is used and owned? Is client data locked within the tool and owned by your firm?

What data analysis does the tool perform? Can client data be processed externally by the AI model and processed in ways the client would not expect?

What methods does the tool employ to improve its output?

Where is the data stored? Data cannot be stored outside of the UK unless there is an adequacy decision or safeguards in place.

Where applicable, how does the system integrate with other systems such as back-office systems, video-conferencing systems, ID verification checks etc.?

Can the system be customised to the needs of the firm and its clients?



New Services



Supporting your needs



The growing importance of business quality

- *A good sales process is one in which a customer feels like more than just a number*

Business quality must be at the forefront of a firm's objectives from the initial lead source through to retention of the customer.

Firms should:

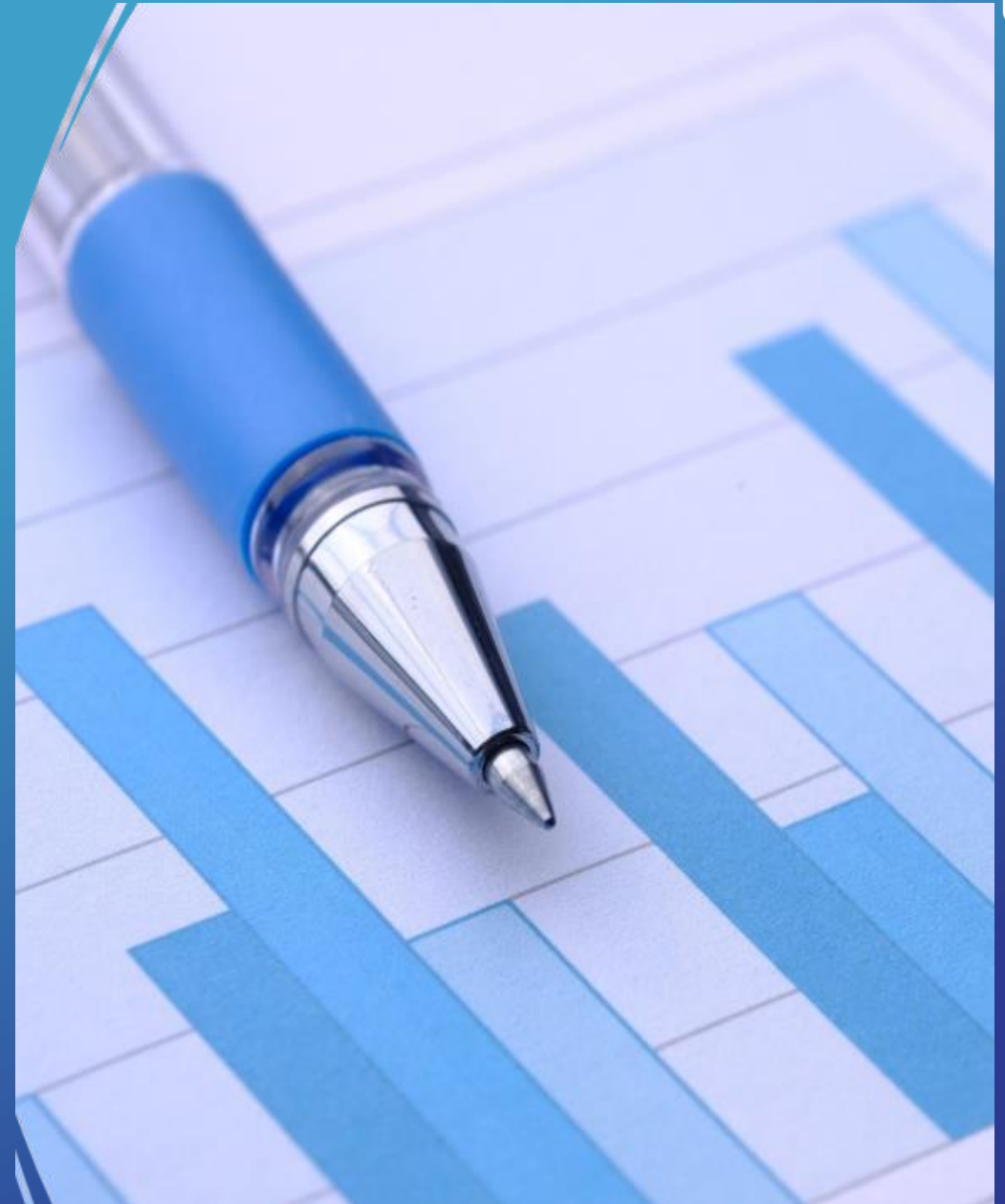
- Have oversight of the data and appropriate MI
- Engage with providers. Providers place a lot of importance on quality 'Distribution Quality Management' forums
- Review your persistency rates – proper process leads to improved retentions and improved customer experience and profitability!
- Identify any trends or any areas where improvement is required

- Sales Quality Webinar Series

'Check The Checker' Reviews

How can you demonstrate that your internal file checking process is aligned to FCA expectations?

- 'Check the Checker' file assessment reviews client file and internal file review output
- Determines whether internal process is suitably robust
- Identifies any trends, training needs or areas for improvement
- Detailed feedback to identify any gaps in your assessing standards to improve the quality of your existing internal file assessments.





Learning Outcomes

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