

Product governance: MiFID

Chapter 4

Product governance: IDD

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*]
- 4.2.2** **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*]
- 4.2.4** **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*]

Product approval process

- 4.2.5** EU 4(1)Manufacturers shall maintain, operate and review a product approval process for newly developed insurance products and for significant adaptations of existing insurance products. That process shall 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. The measures and procedures shall 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*]
- 4.2.6** EU 4(2)The product approval process shall be set out in a written document (“product oversight and governance policy”), which shall be made available to the relevant staff.
- [Note: article 4 (2) of the *IDD POG Regulation*]
- 4.2.7** EU 9Relevant actions taken by manufacturers in relation to their product approval process shall be duly documented, kept for audit purposes and made available to the competent authorities upon request.
- [Note: article 9 of the *IDD POG Regulation*]
- 4.2.8** EU 4(3)The product approval process shall
- (a)ensure that the design of insurance products:
 - (i)takes into account the objectives, interests and characteristics of customers;
 - (ii)does not adversely affect customers;
 - (iii)prevents or mitigates customer detriment;
 - (b)support a proper management of conflicts of interest.
- [Note: article 4(3) of the *IDD POG Regulation*]
- 4.2.9** EU 4(4)The manufacturers’ body or structure responsible for the manufacturing of insurance products shall:
- (a)endorse and be ultimately responsible for establishing, implementing and reviewing the product approval process;
 - (b)continuously verify internal compliance with that process.
- [Note: article 4(4) of the *IDD POG Regulation*]
- 4.2.10** EU 5(4)Manufacturers shall ensure that staff involved in designing and manufacturing insurance products has 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 EU

4(5)Manufacturers designating a third party to design products on their behalf shall remain fully responsible for compliance with the product approval process.

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

4.2.12 EU

4(6)Manufacturers shall regularly review their product approval process to ensure that that process is still valid and up to date. They shall 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 EU

3(4)An insurance intermediary and an insurance undertaking that are both manufacturers within the meaning of Article 2 of this Delegated Regulation, shall sign a written agreement which specifies their collaboration to comply with the requirements for manufacturers referred to in Article 25(1) of Directive (EU) 2016/97, the procedures through which they shall agree on the identification of the target market and 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 4.2.13EU, when *firms* collaborate to *manufacture* an insurance product, they must outline their mutual responsibilities in a written agreement.

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*]

4.2.16 EU

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

		<p>The target market shall be identified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the insurance product.</p> <p>[Note: article 5(1) of the <i>IDD POG Regulation</i>]</p>
4.2.17	EU	<p>5(2)Manufacturers 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.</p> <p>[Note: article 5(2) of the <i>IDD POG Regulation</i>]</p>
4.2.18	EU	<p>5(3)Manufacturers shall only design and market insurance products that are compatible with the needs, characteristics and objectives of the customers belonging to the target market. When assessing whether an insurance product is compatible with a target market, manufacturers shall take into account the level of information available to the customers belonging to that target market and their financial literacy.</p> <p>[Note: article 5(3) of the <i>IDD POG Regulation</i>]</p>
4.2.19	G	<p>The identification of the target market by the <i>manufacturer</i> should be understood as describing a group of <i>customers</i> sharing common characteristics at an abstract and generalised level in order to enable the <i>manufacturer</i> to adapt the features of the product to the needs, characteristics and objectives of that group of <i>customers</i>.</p>
4.2.20	G	<p>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 <i>insurance-based investment product</i> is suitable or appropriate for the individual <i>customer</i>.</p> <p>[Note: recital 5 to the <i>IDD POG Regulation</i>]</p>
4.2.21	G	<p>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 <i>customers</i> 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.</p> <p>[Note: recital 6 to the <i>IDD POG Regulation</i>]</p>
		<p>Product testing</p>
4.2.22	EU	<p>6(1)Manufacturers shall test their insurance products appropriately, including scenario analyses where relevant, before bringing that product to the market or significantly adapting it, or in case the</p>

target market has significantly changed. That product testing shall assess whether the insurance product over its lifetime meets the identified needs, objectives and characteristics of the target market. Manufacturers shall test their 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 4.2.22EU, *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 **EU** 6(2)Manufacturers shall 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 the *Principles* and *ICOB5*.
- (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 **EU** 8(1)Manufacturers shall 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*]
- 4.2.30 **EU** 8(2)Manufacturers shall provide insurance distributors 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. That information shall be clear, complete and up to date.
- [Note: article 8(2) of the *IDD POG Regulation*]
- 4.2.31 **EU** 8(3)The information referred to in paragraph 2 shall enable the insurance distributors to:
- (a)understand the insurance products;
 - (b)comprehend the identified target market for the insurance products;
 - (c)identify any customers for whom the insurance product is not compatible with their needs, characteristics and objectives;
 - (d)carry out distribution activities for the relevant insurance products in accordance with the best interests of their customers as prescribed in Article 17(1) of Directive (EU) 2016/97.
- [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).

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; and
 - (2) whether the intended distribution strategy remains appropriate.
- [Note: fourth subparagraph of article 25(1) of the *IDD*]
- 4.2.35 **EU** 7(1)Manufacturers shall continuously monitor and regularly review insurance products they have brought to the market, to identify events that could materially affect the main features, the risk coverage or the guarantees of those products. They shall 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 is reaching customers outside the target market.
[Note: article 7(1) of the *IDD POG Regulation*]
- 4.2.36 **EU** 7(2)Manufacturers shall 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, their 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*]

4.2.37 EU 7(3)Manufacturers that identify during the lifetime of an insurance product any circumstances related to the insurance product that may adversely affect the customer of that product shall take appropriate action to mitigate the situation and prevent further occurrences of the detrimental event. Manufacturers shall promptly inform concerned insurance distributors and customers about the remedial action taken.

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

4.2.38 EU 8(4)Manufacturers shall take appropriate steps to monitor that insurance distributors act in accordance with the objectives of the manufacturers' product approval process. They shall in particular verify on a regular basis whether the insurance products are distributed on the identified target market. That monitoring obligation shall not extend to the general regulatory requirements with which insurance distributors have to comply when carrying out insurance distribution activities for individual customers. The monitoring activities shall 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 EU 8(5)Manufacturers considering that the distribution of their insurance products is not in accordance with the objectives of their product approval process shall take appropriate remedial action.

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