

## Finalised guidance

# FG 19/5 The GI distribution chain: Guidance for insurance product manufacturers and distributors

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# 1 Introduction

## Background to this guidance

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- 1.1 Product value in general insurance (GI) is an increasing area of concern for the FCA. Customers should expect value from the products they buy, and in [our business plan](#) we said that one of our key activities would be diagnostic work on the impact of distribution costs on product value.
- 1.2 Alongside our work on overall product value, we conducted a separate market study into how GI firms charged their customers for home and motor insurance. This market study focused on the impact and customer outcomes from firms' pricing practices. We have now published the interim market study report, with discussion of potential remedies where appropriate.
- 1.3 Our diagnostic work on GI distribution chains was conducted during 2017 and 2018. In summary, the findings of that work, set out in TR19/2, are:
  - There is a potential for harm to customers arising from the product development and distribution approaches used in some sectors of the GI market.
  - Many customers paid prices which appeared significantly higher than the production and delivery costs of the products. This was due to very high levels of commission within the distribution chain.
  - Many firms did not adequately consider risks of harm to customers when developing products and their related distribution arrangements.
  - Some product manufacturers were giving control of the product design (including pricing) to other parties in the distribution chain without proper oversight and without considering the impact on the value of the product and outcomes for customers.
  - Some firms had a lack of appropriate due diligence and oversight of distribution partners. This meant they were failing to consider the suitability and ability of parties to whom authority, control or responsibility is being delegated or passed.
- 1.4 Our Principles for Businesses require firms to put in place appropriate measures to manage the risks in their business, and to treat customers fairly. In the [Responsibilities of Providers and Distributors for the Fair Treatment of Customers](#) (RPPD) Regulatory Guide we set out how these requirements applied to firms who manufacture and distribute products.
- 1.5 While we were conducting our thematic work, the Insurance Distribution Directive (IDD) was implemented in the UK through legislation and FCA rules that came into force on 1 October 2018. This included new rules:

- On product design, oversight, governance and distribution.
- Requiring firms to act honestly, fairly and professionally in line with the best interests of the customer.
- Prohibiting remuneration for insurance distributors and their employees that conflicts with their duty to comply with the customer's best interest rule.

1.6 [The Responsibilities of Providers and Distributors for the Fair Treatment of Customers](#) guidance still applies to firms in the insurance sector.

1.7 Because of the findings of our thematic work, and the requirements introduced by the IDD, we consulted on non-Handbook guidance alongside the publication of our thematic report.

### About this guidance

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- 1.8 This guidance gives further clarity on our expectations of firms in the GI and pure protection sector. In particular, how firms should consider the value that the product and distribution arrangements present to the customer.
- 1.9 The IDD requirements concerning product oversight and governance were implemented through the Product Intervention and Product Governance Sourcebook (PROD) Chapter 4. In addition, some requirements are directly applicable under the [IDD EU Regulation](#) on product oversight and governance and so do not require implementation (though are reproduced in PROD 4 for convenience). We have chosen to apply these requirements, as if they were FCA rules, to all authorised firms which are not subject to the directly applicable provisions but which manufacture or distribute insurance products. This guidance applies to both the requirements in the IDD EU Regulation and where we apply these requirements as if they were rules in the FCA Handbook.
- 1.10 The requirements concerning the customer's best interests and remuneration of insurance distributors are implemented through Chapter 2 of the Insurance: Conduct of Business Sourcebook (ICOBS) and Chapter 19F of the Senior Management Arrangements, Systems and Controls Sourcebook (SYSC). In Policy Statement [PS17/21](#), in response to feedback to the consultation (CP17/7), we said that we would consider issuing guidance on our expectations about certain aspects of these new requirements.
- 1.11 This guidance is part of a broader FCA focus on product value. While this guidance is aimed at addressing customer detriments specific to distribution chains (as identified in TR19/2), we expect firms to consider product value to the end customer (using the meaning of 'value' as described in the guidance) when applying the underlying rules in relation to all sales types, both direct and intermediated. It follows that we expect manufacturers to consider product value to their end customer regardless of the type of distribution strategy they use. The absence of guidance specific to direct sales by manufacturers, does not preclude the FCA from considering enforcing against our current rules where poor practice leading to customer detriment is detected.

## **Who does this guidance affect**

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- 1.12 This guidance is relevant to all firms who manufacture or distribute GI or pure protection products.
- 1.13 Detailed comments on the application of different parts of this guidance to different types of firms in the insurance sector are set out in Chapter 2.

## 2 Application of the guidance

- 2.1 This guidance has the same scope and application as the underlying rules. Annex I sets out which rules are relevant to this guidance.
- 2.2 This guidance is applicable to all firms who conduct the following regulated activities:
- insurance distribution activities
  - effecting or carrying out contracts of insurance
  - managing the underwriting capacity of a Lloyd's syndicate as a managing agent at Lloyd's
- 2.3 The application of each chapter of this guidance is set out below:
- **Chapter 3 applies to firms manufacturing insurance products ('manufacturers')**<sup>1</sup>. This includes firms which effect insurance products (including Lloyd's market participants) and other firms which are involved with creating, designing or developing insurance products. This may include some intermediaries<sup>2</sup>.
  - **Chapter 4 applies to firms conducting insurance distribution activities**. This includes authorised firms and the activities of appointed representatives. The guidance applies to insurers and intermediaries' arrangements when distributing products through firms who rely on the connected contracts exclusion<sup>3</sup>.
- 2.4 This guidance applies to all GI businesses and pure protection products.

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<sup>1</sup> Defined in relation to PROD 1.4 and 4 as creating, developing, designing and/or underwriting a contract of insurance

<sup>2</sup> For example, in the circumstances set out in PROD 1.4.4EU

<sup>3</sup> ICOBS 2.6.1R

## 3 Guidance on the responsibilities of insurance product manufacturers

- 3.1 This chapter sets out our expectations of how manufacturers should consider the value provided by their products through their product approval and review processes, and how they should oversee their distribution arrangements.
- 3.2 By 'value' we mean the interaction between the overall costs to the end customer and the quality of the product and services. This stems from the effects of the rules which apply to manufacturers and distributors and the overall consideration of what is being provided to customers.
- 3.3 This includes the manufacturer's consideration of whether the product is compatible with the objectives, interests and characteristics of the target market, as well as the cost and charges of the product itself. Product quality might include a range of benefits for the end customer, including the level of cover under the policy, how claims are handled or other services provided by the manufacture or other parties in the chain. Product quality here does not refer to separate services that distributors in the chain may choose to offer to provide customers separately to the provision of the product and under separate (for example, fee) charging arrangements.

### **Our expectations**

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- 3.4 Firms must put in place a product approval process, covering product design and review. As part of this process, we expect manufacturers to consider the value that the product presents for its intended customers (the target market) and how the distribution chain affects overall value. This should include consideration of:
- the benefits the product is intended to provide to the target market
  - the value considerations which are specific to the target market
  - how these factors are relevant to the target market.
- This will enable firms to consider whether their product is compatible with the needs, objectives and characteristics of the target market and whether the distribution strategy is consistent with the identified target market. We expect firms to be able to appropriately evidence these considerations and the conclusions reached.
- 3.5 Our rules require firms to ensure that:

- the product (including costs and charges) is compatible with the objectives, interests and characteristics of customers in the intended target market; and/or
- the distribution strategy of the product is consistent with the identified target market; and/or
- the product's manufacture and/or distribution is compliant with the customer's best interests rule

Where firms fail to meet these requirements, this is likely to indicate that the product is poor value. In these circumstances, we expect manufacturers to make changes to the product or the distribution strategy to prevent harm to customers.

- 3.6 Authorised firms retain full responsibility and accountability for discharging all their regulatory responsibilities. Firms cannot delegate any part of this responsibility to a third party.

### Relevant considerations for insurance product manufacturers

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#### Product design process

- 3.7 Manufacturers should use the full suite of data and information available to them to assess the value their products' offer to customers. This should include:
- Information available to the firm internally. This could include customer research, claims and complaints data.
  - Information available externally. This could include analysis of competitor products and where relevant data published as part of the FCA's work on value measures in the general insurance market.
- 3.8 When considering the value of an insurance product, manufacturers should consider the difference between the risk price and the end premium paid by the customer including any commission received by other parties in the distribution chain. Where manufacturers also have or can reasonably obtain information on relevant fees charged by other parties in the chain, they should also consider the impact of these fees on the value of the product. This might include information on the final selling price of the insurance, including all relevant fees charged in the chain.
- 3.9 Where potential poor value, as a result of selected distribution arrangements, is detected, the manufacturer should consider what further information it is necessary or reasonable to obtain to enable them to assess how the distribution strategy affects overall value to the customer. This could include obtaining relevant cost/remuneration information from other parties in the chain and/or asking other parties in the chain to demonstrate how their remuneration is consistent with the distributor's obligations around remuneration and the customers' best interests rule.



- 3.10 When obtaining information from other parties in the distribution chain, manufacturers should consider what information is necessary and reasonable in order to enable them to satisfy their obligations. Firms should take into account what is necessary to satisfy PROD requirements together with any wider legal obligations, for example, competition law to which they are subject.
- 3.11 A difference between risk premium and the end premium or final selling price that bears no reasonable relationship to the cost of the benefits or services provided by firms in the distribution chain, can indicate that the level of value that product is offering is causing harm to customers. Where this is the case, manufacturers should consider how the distribution strategy is affecting the overall value to the customer, and consider whether the product or distribution strategy may need to be changed. This is regardless of whether the differential results from a single firm in the distribution chain receiving the remuneration in question, or it is split between multiple firms in the distribution arrangement.

For example, TR19/2 highlighted an example of a travel insurance product sold by a coach tour operator where the operator's remuneration made up approximately 73% of the end premium paid by its customers. The operator was given a net rate by the managing general agent who managed the product on behalf of the insurer. In situations of this type we would expect the manufacturer to take steps to ensure that the product provides value to the end customer.

### **Product distribution strategy**

- 3.12 Manufacturers have an obligation to ensure the distribution strategy is consistent with the identified target market. As part of this, they may need to consider the role of each of the parties in the distribution chain, particularly where they have concerns about the value of the product to the end customer. This does not mean that manufacturers are responsible for distributors' activities, but they may need to understand those activities in order to meet their own obligations under PROD.
- 3.13 If a manufacturer delegates activities to other parties within the distribution chain, including to firms which are not regulated, they must have adequate systems and controls to ensure that these activities are delivered in line with the manufacturer's obligations. This should include having appropriate ongoing management information and processes to monitor the value provided by the product, to ensure that the product performs in a way that is compatible with the needs, objectives and characteristics of the intended customers.

### **Product review process**

- 3.14 As part of their product reviews, manufacturers should ensure that they have sufficient, good quality management information to enable them to consider the value provided by the product and the impact the distribution chain has on this.

- 3.15 Manufacturers must respond appropriately when the product review process indicates a risk of harm to customers, including the risk that products are no longer providing the intended value or where the product is distributed to customers outside the intended target market. Manufacturers must have processes in place for taking corrective action where products are detrimental to customers, including appropriate mitigation and remediation of the harm. This may require changes to the product, the target market, the distribution strategy or the remuneration structures for which it is responsible. Ultimately, in some situations it may require withdrawing the product from the market, or significantly changing the distribution method.

## 4 Guidance on the responsibilities of insurance product distributors

4.1 This chapter sets out our expectations of how distributors should consider the impact their processes have on the value the customer receives from the products they offer. It sets out important considerations for firms when complying with the requirement not to be remunerated in a way that conflicts with the customer's best interests.

### Our expectations

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- 4.2 We expect firms to consider the impact that their distribution strategy and remuneration has on the overall value of the product to the customer. Firms must ensure that the remuneration they receive for their insurance distribution activity does not conflict with their duty to comply with the customer's best interests rule. Firms are reminded that this applies to all remuneration, including fees and charges.
- 4.3 We expect distributors to monitor the products they offer, and their distribution arrangements, on an ongoing basis. This enables them to act if they identify situations where the product is not providing the intended value to customers, resulting in customer harm. This includes situations where they become aware that the level of remuneration they are receiving is unlikely to be consistent with the customer's best interest rule, because of its impact on the value of a product.
- 4.4 We expect distributors to be well placed to identify initial signs of a product resulting in customer harm because of the value it is providing. For example, this could be:
- through their direct interactions with customers
  - through their assessments of customers' demands and needs
  - by referencing the data published as part of the FCA's work on value measures in general insurance
  - through analysis of claims or complaints
- 4.5 When distributors identify that the product is resulting in customer harm, they should inform the manufacturer and, if necessary, amend the way they distribute the product. This might include stopping the use of a particular distribution method (for example, through aggregators), reducing the amount of remuneration they receive or ceasing to distribute the product entirely.
- 4.6 Distributors are reminded of their obligation to provide to manufacturers, upon request, relevant sales information, including, where appropriate information on the regular

reviews of the product distribution arrangements, to support product reviews carried out by manufacturers. This information may include information the manufacturer might reasonably request pursuant to the expectations set out in Chapter 3 of this guidance.

- 4.7 Authorised firms retain full responsibility and accountability for discharging all their regulatory responsibilities. Firms cannot delegate any part of this responsibility to a third party.

### Relevant considerations for insurance distributors

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#### Remuneration

- 4.8 Distributors should be aware that the definition of 'remuneration' is very broad and includes revenue from commission, profit share agreements, fees and all other economic or non-economic benefits received as part of the distribution of an insurance product.
- 4.9 Remuneration that could conflict with the customer's best interests rule includes:
- Remuneration which incentivises the firm to offer a product which is not consistent with the customer's demands and needs.
  - Remuneration which incentivises the firm to offer a product due to the remuneration being inconsistent with or not bearing a reasonable relationship to the costs of the benefits/services that the distributor provides to the customer.
- 4.10 While the product may provide benefits to the customer, the level of distributors' remuneration may mean the product fails to provide the intended value identified in the product approval process. This would mean that distributing the product would conflict with the customer's best interests rule. This could be the case regardless of whether the remuneration is included in the total premium or is paid separately by the customer. Examples of situations where firms should be particularly vigilant are:
- **A distributor receiving a level of remuneration which bears no reasonable relationship to their costs or workload to distribute the product.** This imbalance between remuneration and cost/effort could incentivise the firm to sell a product which does not provide value to the customer.
  - **A distributor receiving significant remuneration, but where their involvement in the distribution chain provides little or no benefit beyond that which the customer would receive from the product anyway.** This imbalance could indicate that the customer is being charged for a service that provides little benefit.
  - **A distributor receiving remuneration which incentivises them to propose or recommend a product which either does not meet the customer's needs, or does not meet them as well as another product would do.**

- **A distributor receives a net rate from the product manufacturer, and is able to set their own remuneration by determining the final selling price themselves.** Where a firm can, in effect, set their own remuneration level, this could incentivise the firm to set it at a level which means the product does not provide value to the customer. A difference between net premium and the final selling price which bears no reasonable relationship to the cost of the benefits or services provided by firms in the distribution chain can indicate that the product value is causing harm to the customer.

For example, TR19/2 found multiple examples of products such as GAP and 'scratch and dent' insurance sold as add-ons by motor vehicle retailers who received a very substantial commission. However, the customer received no additional benefit from buying the product through the retailer rather than directly from an insurer or specialist insurance intermediary where prices were lower.

The example referenced in paragraph 3.11 above is likely to be relevant.

- 4.11 Some insurance distributors may only offer a single product, or a range of products from a single provider. The points above are also relevant to these firms, as it may be that their remuneration incentivises them to sell a product when it would be better for the customer not to buy any product (or not buy a product offered by that firm).
- 4.12 Distributors should ensure that they understand the product manufacturer's assessment of the value the product should provide.
- 4.13 If, after considering the factors set out in this guidance, a firm concludes that its remuneration arrangements conflict with their duty to act in accordance with the customer's best interests rule, then we expect the firm to amend its remuneration arrangements. Unlike situations which give rise to potential conflicts of interest identified in relation to insurance distribution activities, disclosure cannot be relied on as a satisfactory means of discharging the firm's obligations under SYSC 19F.2.
- 4.14 Our expectations apply to fees paid directly by the customer to the distributor. Distributors should be particularly mindful of fees which may become payable after the customer is 'tied in' to a contract (such as administration fees for mid-term adjustments). Where a distributor charges different levels of fee to different customers, the firm will need to ensure that the method for determining those fees is fair and in line with the customer's best interests rule. TR19/2 found that firms are often not able to demonstrate or evidence how the fees being charged can be explained and rationalised in the context of relevant costs.

### Distribution process

- 4.15 Firms must regularly review their distribution processes to ensure that they are in line with the intended target market of the product, and that they are not adversely affecting customers. This should include considering whether their distribution processes risk

customer harm, for example, where the product could reach customers outside the identified target market or to whom it does not provide value. Firms should ensure that they have sufficient, good quality management information to enable them to understand the value provided by the distribution process.

- 4.16 If a distributor delegates activities to other parties within the distribution chain, including to firms which are not FCA authorised (such as retail brands), they must have adequate systems and controls to ensure that these activities are delivered in line with the needs and objectives of the customer. This should include ensuring they have appropriate ongoing management information and processes in place to monitor and assess customer outcomes.



# Annex I – Mapping of this guidance to the applicable Handbook provisions

Guidance	Applicable provisions
<b>For insurance product manufacturers</b>	
<p>Firms must put in place a product approval process, covering product design and review. As part of this process, we expect manufacturers to consider the value that the product presents for its intended customers (the target market) and how the distribution chain affects overall value. This should include consideration of:</p> <ul style="list-style-type: none"> <li>the benefits the product is intended to provide to the target market</li> <li>the value considerations which are specific to the target market</li> <li>the overall cost to the end customer, including product costs and charges and (the effects of) remuneration received by other parties in the distribution chain</li> </ul> <p>This will enable firms to consider whether their product is compatible with the needs, objectives and characteristics of the target market and whether the distribution strategy is consistent with the identified target market. We expect firms to be able to appropriately evidence these considerations and the conclusions reached</p>	<p>ICOBS 2.5.-1R            PROD 4.2.5EU            PROD 4.2.7EU            PROD 4.2.8EU            PROD 4.2.15R            PROD 4.2.18EU            PROD 4.2.22EU            PROD4.2.24EU            PROD 4.2.25R</p>
<p>Our rules require firms to ensure that:</p> <ul style="list-style-type: none"> <li>the product (including costs and charges) is compatible with the objectives, interests and characteristics of customers in the intended target market and/or</li> <li>the distribution strategy of the product is consistent with the identified target market and/or</li> <li>the product’s manufacture and/or distribution is compliant with the customer’s best interests rule</li> </ul> <p>Where firms fail to meet these requirements, this is likely to indicate that the product is poor value. In these circumstances, we expect manufacturers to make changes to the product or the distribution strategy to prevent harm to customers.</p>	<p>ICOBS 2.5.-1R            PROD 4.2.8EU            PROD 4.2.15R            PROD 4.2.18EU            PROD 4.2.22EU            PROD4.2.24EU            PROD 4.2.25R            PROD 4.2.26G            PROD 4.2.27EU</p>
<p>Manufacturers should use the full range of data and information available to them to assess the value their products’ offer to customers. This should include:</p> <ul style="list-style-type: none"> <li>Information available to the firm internally. This could include customer research, claims and complaints data.</li> </ul>	<p>SYSC 3.1.1R            SYSC 3.2.6R            ICOBS 2.5.-1R            PROD 4.2.5EU            PROD 4.2.8EU            PROD 4.2.15R</p>



<ul style="list-style-type: none"> <li>Information available externally. This could include analysis of competitor products and where relevant data published as part of the FCA's work on value measures in the general insurance market.</li> </ul>	PROD 4.2.18EU PROD 4.2.22EU PROD 4.2.34R PROD 4.2.35EU
<p>When considering the value of an insurance product, manufacturers should consider the difference between the risk price and the end premium paid by the customer including any commission received by other parties in the distribution chain. Where manufacturers also have or can reasonably obtain information on relevant fees charged by other parties in the chain, they should also consider the impact of these fees on the value of the product. This might include information on the final selling price of the insurance, including all relevant fees charged in the chain.</p>	PROD 4.2.5EU PROD 4.2.8EU PROD 4.2.15R PROD 4.2.22EU PROD 4.2.24EU PROD 4.2.25R PROD 4.2.27EU
<p>Where potential poor value, as a result of selected distribution arrangements, is detected, the manufacturer should consider what further information it is necessary or reasonable to obtain to enable them to assess how the distribution strategy affects overall value to the customer. This could include obtaining relevant cost/remuneration information from other parties in the chain and/or asking other parties in the chain to demonstrate how their remuneration is consistent with the distributor's obligations around remuneration and the customers' best interests rule.</p>	SYSC 19F.2.2R ICOBS 2.5.-1R PROD 4.2.5EU PROD 4.2.8EU PROD 4.2.18EU PROD 4.2.25R PROD 4.2.35EU PROD 4.2.38EU
<p>When obtaining information from other parties in the distribution chain, manufacturers should consider what information is necessary and reasonable in order to enable them to satisfy their obligations. Firms should take into account what is necessary to satisfy PROD requirements together with any wider legal obligations, for example, competition law to which they are subject.</p>	PROD4.2.35EU PROD 4.2.38EU
<p>A difference between risk premium and the end premium or final selling price that bears no reasonable relationship to the cost of the benefits or services provided by firms in the distribution chain, can indicate that the level of value that product is offering is causing harm to customers. Where this is the case, manufacturers should consider how the distribution strategy is affecting the overall value to the customer, and consider whether the product or distribution strategy may need to be changed. This is regardless of whether the differential results from a single firm in the distribution chain receiving the remuneration in question, or it is split between multiple firms in the distribution arrangement.</p>	ICOBS 2.5.-1R PROD 4.2.5EU PROD 4.2.8EU PROD 4.2.15R PROD 4.2.18EU PROD 4.2.25R PROD 4.2.34R PROD 4.2.35EU
<p>Manufacturers have an obligation to ensure the distribution strategy is consistent with the identified target market. As part of this, they may need to consider the role of each of the parties in the distribution chain, particularly where they have concerns about the value of the product to the end customer. This does not mean</p>	PROD 4.2.15R PROD 4.2.27EU PROD 4.2.28G PROD 4.2.34R PROD 4.2.38EU

<p>that manufacturers are responsible for distributors' activities, but they may need to understand those activities in order to meet their own obligations under PROD.</p>	
<p>If a manufacturer delegates activities to other parties within the distribution chain, including to firms which are not regulated, they must have adequate systems and controls to ensure that these activities are delivered in line with the manufacturer's obligations. This should include having appropriate ongoing management information and processes to monitor the value provided by the product, to ensure that the product performs in a way that is compatible with the needs, objectives and characteristics of the intended customers.</p>	<p>SYSC 3.1.1R SYSC 4.1.1R PROD 4.2.11EU PROD 4.2.13EU PROD 4.2.14R PROD 4.2.27EU PROD 4.2.38EU</p>
<p>As part of their product reviews, manufacturers should ensure that they have sufficient, good quality management information to enable them to consider the value provided by the product and the impact the distribution chain has on this.</p>	<p>SYSC 3.1.1R SYSC 4.1.1R PROD 4.2.34R PROD 4.2.35EU PROD 4.2.38EU</p>
<p>Manufacturers must respond appropriately when the product review process indicates a risk of harm to customers, including the risk that products are no longer providing the intended value or where the product is distributed to customers outside the intended target market. Manufacturers must have processes in place for taking corrective action where products are detrimental to customers, including appropriate mitigation and remediation of the harm. This may require changes to the product, the target market, the distribution strategy or the remuneration structures for which it is responsible. Ultimately, in some situations it may require withdrawing the product from the market, or significantly changing the distribution method.</p>	<p>SYSC 3.1.1R SYSC 4.1.1R PROD 4.2.33R PROD 4.2.34EU PROD 4.2.35EU PROD 4.2.36EU PROD 4.2.37EU PROD4.2.38EU PROD 4.2.39EU</p>
<p><b>For insurance product distributors</b></p>	
<p>We expect firms to consider the impact that their distribution strategy and remuneration has on the overall value of the product to the customer. Firms must ensure that the remuneration they receive for their insurance distribution activity does not conflict with their duty to comply with the customer's best interests rule. Firms are reminded that this applies to all remuneration, including fees and charges.</p>	<p>SYSC 10.1.3R SYSC 10.1.7R SYSC 19F.2.2R ICOBS 2.5.-1R PROD 4.3.6EU PROD 4.3.8EU PROD 4.3.10EU PROD 4.3.11EU PROD 4.3.12G</p>
<p>We expect distributors to monitor the products they offer, and their distribution arrangements, on an ongoing basis. This enables them to act if they identify situations where the product is not providing the intended value to customers, resulting in customer harm. This includes situations where they become aware that the level of remuneration they are receiving is unlikely to be consistent with the customer's best interest rule, because of its impact on the value of a product.</p> <p>We expect distributors to be well placed to identify initial signs of a product resulting in customer harm because of the value it is providing. For example, this could be:</p> <ul style="list-style-type: none"> <li>through their direct interactions with customers</li> </ul>	<p>SYSC 19F.2.2R ICOBS 2.5.-1R PROD 4.3.10EU PROD 4.3.11EU PROD 4.3.12G PROD 4.3.13EU</p>

<ul style="list-style-type: none"> <li>• through their assessments of customers' demands and needs</li> <li>• by referencing the data published as part of the FCA's work on value measures in general insurance</li> <li>• through analysis of claims or complaints</li> </ul>	
<p>When distributors identify that the product is resulting in customer harm, they should inform the manufacturer and, if necessary, amend the way they distribute the product. This might include stopping the use of a particular distribution method (for example, through aggregators), reducing the amount of remuneration they receive or ceasing to distribute the product entirely.</p>	<p>SYSC 4.1.1R          ICOBS 2.5.-1R          PROD 4.3.10EU          PROD 4.3.11EU          PROD 4.3.12G          PROD 4.3.13EU</p>
<p>Distributors are reminded of their obligation to provide to manufacturers, upon request, relevant sales information, including, where appropriate information on the regular reviews of the product distribution arrangements, to support product reviews carried out by manufacturers. This information may include information the manufacturer might reasonably request pursuant to the expectations set out in Chapter 3 of this guidance.</p>	<p>PROD 4.3.10EU</p>
<p>Distributors should be aware that the definition of 'remuneration' is very broad and includes revenue from commission, profit share agreements, fees and all other economic or non-economic benefits received as part of the distribution of an insurance product.</p>	<p>Handbook Glossary</p>
<p>Remuneration that could conflict with the customer's best interests rule includes:</p> <ul style="list-style-type: none"> <li>• Remuneration which incentivises the firm to offer a product which is not consistent with the customer's demands and needs.</li> <li>• Remuneration which incentivises the firm to offer a product due to the remuneration being inconsistent with or not bearing a reasonable relationship to the costs of the benefits/services that the distributor provides to the customer.</li> </ul>	<p>SYSC 19F.2.2R          ICOBS 2.5.-1R</p>
<p>While the product may provide benefits to the customer, the level of distributors' remuneration may mean the product fails to provide the intended value identified in the product approval process. This would mean that distributing the product would conflict with the customer's best interests rule. This could be the case regardless of whether the remuneration is included in the total premium or is paid separately by the customer. Examples of situations where firms should be particularly vigilant are:</p> <ul style="list-style-type: none"> <li>• <b>A distributor receiving a level of remuneration which bears no reasonable relationship to their costs or workload to distribute the product.</b> This imbalance between remuneration and cost/effort could incentivise the firm to sell a product which does not provide value to the customer.</li> <li>• <b>A distributor receiving significant remuneration, but where their involvement in the distribution chain provides little or no benefit beyond that which the customer would receive from the product</b></li> </ul>	<p>SYSC 10.1.3R          SYSC 10.1.4R          SYSC 10.1.4BR          SYSC 10.1.4CR          SYSC 19F.2.2R          ICOBS 2.5.-1R          PROD 4.3.6EU</p>

<p><b>anyway.</b> This imbalance could indicate that the customer is being charged for a service that provides little benefit.</p> <ul style="list-style-type: none"> <li>• <b>A distributor receiving remuneration which incentivises them to propose or recommend a product which either does not meet the customer’s needs, or does not meet them as well as another product would do.</b></li> <li>• <b>A distributor receives a net rate from the product manufacturer, and is able to set their own remuneration by determining the final selling price themselves.</b> Where a firm can, in effect, set their own remuneration level, this could incentivise the firm to set it at a level which means the product does not provide value to the customer. A difference between net premium and the final selling price which bears no reasonable relationship to the cost of the benefits or services provided by firms in the distribution chain can indicate that the product value is causing harm to the customer.</li> </ul>	
<p>Some insurance distributors may only offer a single product, or a range of products from a single provider. The points above are also relevant to these firms, as it may be that their remuneration incentivises them to sell a product when it would be better for the customer not to buy any product (or not buy a product offered by that firm).</p>	<p>SYSC 19F.2.2R ICOB 2.5.-1R PROD 4.3.6EU PROD 4.3.8EU</p>
<p>Distributors should ensure that they understand the product manufacturer’s assessment of the value the product should provide.</p>	<p>PROD 4.3.2R PROD 4.3.3R PROD 4.3.5EU</p>
<p>If, after considering the factors set out in this guidance, a firm concludes that its remuneration arrangements conflict with their duty to act in accordance with the customer’s best interests rule, then we expect the firm to amend its remuneration arrangements. Unlike situations which give rise to potential conflicts of interest identified in relation to insurance distribution activities, disclosure cannot be relied on as a satisfactory means of discharging the firm’s obligations under SYSC 19F.2.</p>	<p>SYSC 19F.2.2R ICOB 2.5.-1R PROD 4.3.10EU PROD 4.3.11EU PROD 4.3.12G</p>
<p>Our expectations apply to fees paid directly by the customer to the distributor. Distributors should be particularly mindful of fees which may become payable after the customer is ‘tied in’ to a contract (such as administration fees for mid-term adjustments). Where a distributor charges different levels of fee to different customers, the firm will need to ensure that the method for determining those fees is fair and in line with the customer’s best interests rule. TR19/2 found that firms are often not able to demonstrate or evidence how the fees being charged can be explained and rationalised in the context of relevant costs.</p>	<p>SYSC 19F.2.2R ICOB 2.5.-1R</p>
<p>Firms must regularly review their distribution processes to ensure that they are in line with the intended target market of the product, and that they are not adversely affecting customers. This should include considering whether their distribution processes risk customer harm, for example, where the product could reach customers outside the identified target market or to whom it does not provide value. Firms should ensure that they have sufficient, good quality management information to enable them to understand the value provided by the distribution process.</p>	<p>SYSC 4.1.1R SYSC 19F.2.2R ICOB 2.5.-1R PROD 4.3.10EU PROD 4.3.11EU PROD 4.3.12G</p>

<p>If a distributor delegates activities to other parties within the distribution chain, including to firms which are not FCA authorised (such as retail brands), they must have adequate systems and controls to ensure that these activities are delivered in line with the needs and objectives of the customer. This should include ensuring they have appropriate ongoing management information and processes in place to monitor and assess customer outcomes.</p>	<p>SYSC 4.1.1R            ICOBS 2.5.3G            PROD 4.3.6EU            PROD 4.3.8EU            PROD 4.3.10EU</p>
<p><b>For all firms</b></p>	
<p>Authorised firms retain full responsibility and accountability for discharging all their regulatory responsibilities. Firms cannot delegate any part of this responsibility to a third party.</p>	<p>SYSC 3.1.1R            SYSC 4.1.1R            SYSC 8.1.6R            PROD 4.2.11EU (for manufacturers)</p>