

Insurance Distribution Directive implementation – Feedback to CP17/23 and near-final rules

Policy Statement

PS17/27

December 2017

This relates to

In this Policy Statement we report on the main issues arising from Consultation Paper 17/23 *Insurance Distribution Directive Implementation – Consultation Paper 2* and publish the near-final rules.

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1 Overview

Introduction

- 1.1** This Policy Statement (PS) sets out our response to the feedback received to Consultation Paper 17/23 (CP17/23),¹ which was the second of three consultation papers (CPs) on the Insurance Distribution Directive (IDD).² CP17/23 and this PS cover the implementation of most IDD Level 1 directive matters, including the remaining conduct requirements for life policies and information disclosure in relation to non-investment insurance contracts, that were not covered in our first CP, CP17/7.³
- 1.2** We published near-final rules as part of PS17/21 covering the matters we had consulted on in CP17/7. This was partly due to some of the proposed rules relying on domestic legislation that has not yet been made, but also due to the interdependencies on the terms within our Handbook Glossary, and certain overlapping requirements between CP17/7 and the later consultations.
- 1.3** We are now continuing that approach by publishing additional near-final rules in this PS, which also reflects that CP17/33 included additional discussion on some of the same matters as CP17/23. Publishing near-final rules now gives firms earlier sight of our final proposals, so they have more time to continue their plans for IDD implementation, and allows us to avoid making sequential changes to the same rules. We will look to finalise the rules as soon as the legislation is amended and do not expect to make any substantive changes to the near-final rules.

Who does this affect?

- 1.4** This PS will interest insurance and reinsurance companies, intermediaries, other firms and customers in the insurance market, and bodies representing these groups.
- 1.5** Customers have a clear interest in financial markets that operate fairly and transparently. This includes the way in which firms implement the new IDD-derived requirements, for example the rules about conduct of business and information disclosure.

1 CP17/23, *Insurance Distribution Directive Implementation – Consultation Paper 2*, July 2017: www.fca.org.uk/publication/consultation/cp17-23.pdf.

2 The other CPs are CP17/7, *Insurance Distribution Directive Implementation – Consultation Paper 1*, March 2017: www.fca.org.uk/publication/consultation/cp17-07.pdf and CP17/33, *Insurance Distribution Directive Implementation – Consultation Paper 3*, September 2017: www.fca.org.uk/publication/consultation/cp17-33.pdf. The PS for CP17/7 has already been published: PS17/21, *Insurance Distribution Directive implementation – Feedback to CP17/7 and near-final rules*, September 2017: www.fca.org.uk/publication/policy/ps17-21.pdf.

3 The Level 1 directive is supported by Level 2 delegated acts, which take the form of directly-applicable Regulations. These set out more detailed requirements that expand on the provisions in the Level 1 directive.

Context

- 1.6** The IDD replaces the Insurance Mediation Directive (IMD). It aims to enhance consumer protection when buying insurance (including non-investment insurance, life insurance and insurance-based investment products) and to support competition between insurance distributors by creating a level playing field.
- 1.7** We need to change various parts of our Handbook to implement the IDD in the UK. We proposed primarily to introduce the minimum standards of the IDD into our Handbook through intelligent copy-out.⁴ However, in some cases we proposed changes that go beyond the IDD minimum requirements by:
- applying the IDD standards to a wider range of firms or business than required by the directive, so that we promote effective competition in the interests of consumers, by achieving consistency of regulatory standards and avoiding arbitrage
 - maintaining standards above the IDD minimum requirements to preserve existing UK regulatory standards
 - introducing standards above the IDD minimum requirements as a result of policy decisions, particularly the decision to align with the Markets in Financial Instruments Directive II (MiFID II)
- 1.8** In this PS we summarise our approach to making:
- changes to our rules to implement the IDD requirements for life insurance business generally, including additional requirements related to the distribution of insurance-based investment products (IBIPs):⁵
 - firms' general obligations (Chapter 2)
 - information disclosure to customers (Chapter 3)
 - inducements (Chapter 4)
 - suitability (Chapter 5)
 - appropriateness (Chapter 6)
 - changes to our rules to implement requirements in the IDD that apply to life and non-investment insurance business, including:
 - conflicts of interest (Chapter 7)
 - product oversight and governance (Chapter 8)
 - requirements relating to the protection of customers' money (Chapter 9)

4 An 'intelligent copy out' approach means adhering closely to the wording of the IDD when drafting the relevant provisions in the Handbook, but using alternative wording where appropriate to align with UK law and practice.

5 An IBIP is an insurance product that offers a maturity or surrender value that is exposed to market fluctuations. Examples include endowment policies and insurance bonds. The IBIP definition in the IDD excludes most term life assurance, non-investment insurance and pension products.

- professional requirements relating to the good repute of employees of insurance distributors (Chapter 10)
- additional Handbook changes relating only to non-investment insurance business, including information disclosure requirements and the insurance product information document (IPID) (Chapter 11)
- consequential amendments to other parts of the Handbook (Chapter 12)

1.9 The third CP, CP17/33, also consulted on a number of these issues, including:

- additional changes to our rules for life insurance business, including in relation to inducements, suitability and appropriateness, and information and product disclosure
- additional changes to our rules for life and non-investment insurance business, including in relation to conflicts of interest and product oversight and governance

Summary of feedback and our response

1.10 We received 53 responses to the consultation, most of which supported our proposals or asked for further guidance. In general, we propose to implement the consultation proposals with only minor changes to the rules we consulted on. The minor changes reflect amendments we have made to implement MiFID II and the Financial Advice Market Review (FAMR).

1.11 Many respondents raised a concern about the lack of time available to firms to implement the IDD requirements. This was a particular concern in relation to the new IPID which firms have emphasised will require IT system changes. The timetable is set by the European Commission (the Commission), however, and we cannot offer an extension to it in the UK alone. We sought to give as much time as possible to firms by consulting in stages, rather than waiting for the delegated acts to be adopted. The European Parliament has suggested a delay to implementation and this is being considered at EU level. In the meantime we continue to work on the assumption that the implementation date remains 23 February 2018.

1.12 A number of proposals in CP17/23 were subject to additional proposals in CP17/33, which discussed our approach to the IDD delegated acts. We need to consider some of these issues – which include conflicts of interest, inducements and product governance – in light of feedback to CP17/33, so we are not including near-final rules or a detailed response to feedback for these matters in this PS. Instead we will cover these issues in our third PS, which will take account of relevant feedback both from CP17/23 and CP17/33. This will avoid us providing near-final rules which are then subject to additional changes in the third PS.

Next steps

1.13 We aim to publish the third PS in January 2018. Firms affected by these changes will need to ensure compliance from 23 February 2018.



Part 1: Conduct of business requirements for life insurance business

2 Conduct of business requirements for life insurance firms

- 2.1** This chapter sets out our approach for the near-final rules to implement the conduct of business requirements contained in Chapter V of the IDD.

Our proposals

- 2.2** In CP17/23 we proposed to implement the Chapter V IDD requirements within COBS and SYSC 19F alongside other related rules where possible. We explained that this will improve the ease of reference for firms that distribute both products covered by the IDD and those covered by MiFID II.

Feedback received

- 2.3** The majority of respondents made no comments on our proposals. Others were mostly supportive and welcomed the clarity provided by our proposals to implement the IDD requirements alongside other COBS rules. One respondent opposed the changes and argued that the rules in COBS should be scaled back.
- 2.4** One respondent said the rules in COBS on the means of providing information do not take account of amendments to Insurance Conduct of Business Sourcebook (ICOBs) requirements in PS17/21.
- 2.5** Some respondents requested clarification and further guidance in some areas, in particular we were asked:
- To clarify in the rules whether these requirements apply to distribution of life policies generally or just to IBIPs.
 - What constitutes marketing communications, with regard to the rule requiring them to be clearly identifiable as such?
 - For more clarification about the expectations under the advice rules and whether they always require analysis of a sufficiently large range of products to enable a personal recommendation to be made.
 - Whether our proposed rule requiring firms to send a statement of demands and needs prior to conclusion of the contract is compatible with non-interactive business, such as postal sales, and fully implements IDD requirements?

Our response

We will implement the rules broadly as proposed in CP17/23. We have made some changes to reflect changes made to relevant rules in other instruments, including revising the numbering of COBS 6.1ZA.

We will consider whether to align the COBS requirements (and guidance) on the means of providing information with those in ICOBS as set out in PS17/21. If changes are required we will look to consult on them in the new year.

Regarding the queries received, we set out the following points:

- Having reviewed the rules on which we consulted, we consider that their application is sufficiently clear. Where rules only apply to IBIPs, this is stated in the application provisions.
- In PS17/21 we explained that we considered providing a definition of 'marketing communications'. However, the term is not defined in the IDD and we are not defining it in our rules, so it has its natural meaning. We have chosen not to provide a definition because we judged that this may result in a meaning beyond that intended by the IDD. The IDD is not prescriptive and does not require every communication to specifically state that it is or is not marketing. Firms should review their communications from the perspective of the product's target market and consider whether it would be clear to them that the communication is marketing rather than pure information.
- There is no requirement for advised sales to always involve an analysis of a large range of products in the market. Firms offering products from only a single provider can offer advice. However, they must make the scope of the advice being offered clear to the customer; including the limitation on the number of products which have been considered. Firms must ensure that contracts proposed are consistent with the customer's needs and, where they give a personal recommendation, should explain why a particular product would best meet the customer's demands and needs. Where firms do inform the customer that they give a personal recommendation on the basis of a fair and personal analysis of the market, then they should follow the rules to ensure that this incorporates a sufficiently large number of products to enable them to provide a personal recommendation as to which product would best meet the customer's needs.
- Our proposals follow the same approach to implementing the IDD requirements for life insurance products that we confirmed for non-life insurance products (in relation to ICOBS) in PS17/21. Therefore our near-final rules in this PS should be read alongside PS17/21, where we confirmed these ICOBS rules (and addressed additional feedback on those rules).
- At present firms are required to specify, in particular on the basis of information provided by the customer, at least the demands and

needs of that customer prior to conclusion of the contract. The draft rule on which we consulted requires that this information must be provided in 'a statement of demands and needs'. This is in line with the existing rules. We consider that the rule on which we consulted implements the IDD requirement in article 20(1). In PS17/21, which implemented similar rules in ICOBS, we explained how we believed the IDD requirements would apply to non-interactive sales channels. Firms should refer to the comments in PS17/21 when considering the new COBS rules.

3 Information disclosure

- 3.1** This chapter sets out our approach for the near-final rules in COBS to implement the IDD requirements regarding information disclosures for IBIPs.

Our proposals

- 3.2** The IDD introduces a range of new requirements for firms distributing IBIPs including:
- a client agreement document that includes the rights and obligations agreed with customers and any other relevant terms of service
 - appropriate information including, at least, all costs and charges, risk warnings and whether the firm will conduct periodic assessments of suitability
 - adequate periodic reports to customers including, where applicable, the costs associated with the transactions and services undertaken on behalf of the customer and
 - a requirement to keep a record of customer agreements
- 3.3** For non-IBIP life business, we proposed to retain our existing rules and make some minor amendments to implement the IDD minimum requirements.

Feedback received

- 3.4** We received 20 responses on these proposals. While one respondent disagreed with our proposals to implement the IDD requirements at all, most supported the proposed approach.
- 3.5** We received a number of comments asking for further guidance on the requirement to disclose costs and charges, in particular:
- What charges should be included and how granular the disclosure needs to be?
 - Whether a standardised format for disclosures could be developed, aiming for consistency between IBIPs, MiFID II products and pensions?
 - Whether we could provide practical examples of how costs and charges are presented and if the key information document (KID) required for Packaged Retail and Insurance-based Investment Products (PRIIPs) would provide the information required by the IDD?
- 3.6** Another respondent said it may be difficult for firms, particularly small- and medium-sized firms, to meet the requirements to provide aggregated cost information where, for example, an IBIP is sold on a platform.

- 3.7** Some respondents said the IDD only requires periodic reports for contracts sold after the IDD is implemented and asked if our rules were super-equivalent on this point – one said that it would be difficult to apply the costs and charges disclosures to closed-book products. We were also asked if it is the responsibility of the product provider or the distributor to provide periodic disclosure of costs and charges for IBIPs.
- 3.8** We received some feedback on matters covered by our third CP and will respond to this in the third PS.

Our response

The near-final rules included in the Appendix to this PS take forward the proposals on which we consulted with minor changes, to implement the minimum requirements in the IDD.

Firms looking for more guidance on the KID and disclosures of costs and charges for IBIPs should review section III of Annex VII of the PRIIPs delegated regulation.⁶ As noted in the PS making final rules for MiFID II, we have not proposed a standardised format for point-of-sale or post-sale disclosures, including costs and charges disclosures, at the current time.⁷

The provision of aggregated cost information is a minimum requirement of the IDD, and we consider this is important information to allow customers to be able to understand the product and service they receive. Firms carrying on designated investment business for a retail client are already required to provide information on the costs and charges of their services, including where sales take place on a platform. Therefore, while there are new rules under the IDD, firms should already be providing similar information to clients.

The rules we are introducing for periodic reporting apply to all IBIPs including those already in force when the IDD is implemented. The obligation in COBS 16A to provide periodic reports applies to all firms, both product providers and intermediaries, carrying on insurance distribution activities for IBIPs. This is consistent with existing rules for designated investment business, which can apply to existing life policies.

In relation to the new rules, it is important for clients to receive adequate reports on the service which is provided by a firm carrying on insurance distribution activities. The rule will apply to a firm where it is providing ongoing service to the client after the conclusion of a contract, for example where it provides advice or is acting on the client's behalf. This is consistent with firms' high-level obligations under our existing rules including the requirement to consider the information needs of clients and providing them with appropriate information. We also consider that this is consistent with and builds on our expectations of certain firms under existing rules for example

⁶ Regulatory technical standards for key information documents:
<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0653&from=EN>.

⁷ PS17/14, *Markets in Financial Instruments Directive II Implementation – Policy Statement II*, July 2017:
www.fca.org.uk/publication/policy/ps17-14.pdf.



what was said in the finalised guidance for the fair treatment of long-standing customers in the life insurance sector.⁸ We set out in that guidance that relevant firms should, at least annually, provide customers with information such as the current value of the policy, the value at the date of the previous communication and charges incurred over the period.

⁸ FG16/8, *Fair treatment of long-standing customers in the life insurance sector*, December 2016: www.fca.org.uk/publication/finalised-guidance/fg16-8.pdf

4 Inducements

- 4.1** This chapter sets out our approach for the near-final rules in COBS to implement the IDD requirements regarding inducements.

Our proposals

- 4.2** In CP17/23 we proposed to:

- broadly apply the high-level inducements requirements (derived from MiFID II) in COBS 2.3A to firms conducting insurance distribution activities in relation to IBIPs
- include any new requirements within COBS 2.3A to implement the article 29(2) requirement of the IDD as outlined above, and disapply COBS 2.3 to the business to which those new requirements applied
- maintain the existing requirements in COBS 2.3 for other life policies without change and
- continue to apply the adviser charging rules in COBS 6

Feedback received

- 4.3** We received 20 responses to these proposals. Two respondents believed that the MiFID II test (that inducements must enhance the quality of the service) alone was more likely to deliver better outcomes than the IDD version (that inducements must not have a detrimental impact on the quality of the service). One of these respondents also expressed the view that the proposal to retain the IDD wording along with the MiFID II requirements may lead to confusion. In any event they supported an alignment of requirements for all retail investment products.

Our response

We are not providing near-final rules in this PS. This is because CP17/33 consulted on rule changes, including some derived from the IDD delegated acts, which introduced additional requirements to those on which we consulted in CP17/23. We would prefer to include rules only once we have considered feedback on those additional requirements. We will, therefore, only include the final rules in the third PS. In the meantime, firms should refer to the draft rules in CP17/23 and CP17/33.

We propose to retain our overall approach to the rules on inducements with one potential exception. We are still considering whether it is possible to simplify the rules for IBIPs (COBS 2.3A) to apply only the MiFID II-derived high-level requirement (ie that inducements must be designed to enhance the quality of the service). We acknowledge the issues raised in the feedback about avoiding too much complexity in the rules and that this could provide a single



standard across business to which COBS 2.3A applies, thus providing a clearly understood standard to be shared by insurance distribution in relation to IBIPs and MiFID II business. MiFID II and the IDD have similar, but not identical, requirements and so to properly implement the IDD we may need to reflect the IDD wording in our rules. As this overlaps with our proposals in CP17/33, and the IDD delegated acts which include requirements on inducements, we intend to confirm our final proposals in our third IDD PS.

5 Suitability

- 5.1** This chapter sets out our approach to implementing the IDD requirements relating to suitability, as well as the assessment of demands and needs, specifically as required where a personal recommendation is provided in relation to life insurance business.

Advice requirements

Our proposals

- 5.2** In CP17/23 we set out proposals to amend COBS 9 and 9A to implement the IDD requirements for both suitability and the assessment of demand and needs. These requirements are similar to those contained in MiFID II and our current COBS requirements. In CP17/33 we set out further proposals regarding the more detailed suitability requirements in the IDD Delegated Regulation which, as outlined in our response below, may overlap in some areas, for example in the case of record-keeping requirements.

Feedback received

- 5.3** We received 21 responses to these proposals. Some of the feedback we received was not relevant to the implementation of these IDD requirements and so is not discussed in this PS.
- 5.4** While agreeing with the proposals in general, one respondent said records should be retained for seven years as opposed to at least five years as proposed.
- 5.5** We were asked about the interaction of the IDD suitability requirements with the UK basic advice regime for IBIP stakeholder products.⁹

Our response

We are introducing near-final rules broadly in the form on which we consulted. We consulted on additional proposals relevant to the COBS suitability rules in CP17/33 and will be publishing our final position on those in the third IDD PS.

In relation to record-keeping requirements, the rule on record retention on which we consulted in CP17/23 overlaps with proposals included in CP17/33, where we consulted on rules to reproduce additional standards from the IDD delegated acts. We intend to confirm our approach to the record-keeping standards in the third IDD PS.

The basic advice regime is not fully aligned with the IDD requirements so, to implement the IDD suitability requirements in full, we are introducing a rule that prevents firms selling IBIP stakeholder products

⁹ Basic advice is a form of regulated advice for stakeholder investment products. The regime allows firms to sell products through a streamlined sales process, which is based on pre-scripted questions and warnings.

with basic advice. We appreciate the impact that this will have on firms and are prepared to work with anyone affected. If firms have concerns about the basic advice regime they should contact us to discuss it (see the contact details on page 2).

Requirements in relation to professional clients

Our proposals

- 5.6** In CP17/23, we proposed to exercise an IDD derogation so that firms advising professional clients in relation to an IBIP would not have to provide a suitability statement, although a demands and needs statement, including a personalised statement of which product best meets them, would still be required. As a result, while firms are required to assess suitability for professional clients, they would have greater flexibility about how to communicate the outcome of the assessment.

Feedback received

- 5.7** 17 respondents provided feedback on this proposal, 15 of whom agreed with the approach proposed. Of the remainder, one said that the same requirements should apply to all customers and the other said that in practice it is rare to provide IBIP advice to professional clients and it is easier to treat all clients in the same way.

Our response

We intend to go ahead with the proposal in CP17/23 not to require firms to provide a suitability statement to a professional client when providing a personal recommendation on an IBIP.

Professional clients would generally be expected to have greater knowledge and experience in the investment field in question than retail clients and the derogation should result in more scope for firms to tailor communications to the needs of these clients. However, if a firm considers that it is appropriate to provide suitability reports to professional clients, it may do so.

6 Appropriateness

- 6.1** This chapter summarises our near-final rules to implement the IDD requirements regarding the appropriateness test for IBIPs.

The appropriateness test

Our proposals

- 6.2** Where no advice is provided, the IDD requires firms to gather information to assess a customer's investment knowledge and experience to determine whether the IBIP provided is appropriate for them. This is known as an appropriateness test. We consulted on rules to implement these requirements in the UK.

Feedback received

- 6.3** We received 20 responses to these proposals. Only one respondent disagreed with our proposed approach.
- 6.4** Some respondents asked whether the appropriateness test is required in relation to existing products, such as a fund switch, top-up or the exercise of a contractual option within an existing contract.
- 6.5** We were also asked for our view on circumstances where a customer disregards a warning that they have failed an appropriateness test on a product.
- 6.6** One respondent said that records should be kept for seven years as opposed to at least five years as proposed.

Our response

In this PS we set out near-final rules in line with the draft rules on which we consulted, which implement the minimum IDD requirements.

We confirm that the appropriateness test is only required for new sales of IBIPs. It is not required in relation to transactions relating to existing contracts, including fund switches, top-ups or the exercise of a contractual option.

In line with the current guidance in COBS 10 (reproduced in COBS 10A for MiFID II business), we consider that, if a customer asks a firm to go ahead with a transaction, despite having been given a warning by the firm, it is for the firm to consider whether to do so having regard to the circumstances.

As with the suitability record-keeping requirements, the rule on which we consulted in CP17/23 overlaps with proposals in CP17/33. We propose to confirm our approach to the record-keeping standards in the third IDD PS.

Execution-only sales

Our proposals

- 6.7** The IDD provides a Member State derogation regarding the sale of IBIPs without an appropriateness test where certain conditions are met. These are often referred to as 'execution-only' sales. We proposed to exercise this derogation to allow execution-only sales where the conditions relating to the complexity of the product and the customer's initiative and awareness in relation to the transaction, as set out in the IDD, are met.

Feedback received

- 6.8** Of the 18 respondents to this question, 17 agreed that we should exercise the derogation. The respondent who disagreed said the same rules should apply to all firms and there should be no derogation to allow execution-only sales in the future.
- 6.9** Three respondents asked for clarity on the definition of 'complex products' for the purposes of the appropriateness test.¹⁰

Our response

We will exercise the derogation to allow execution-only sales where the conditions set out in the IDD are met. A range of other IDD requirements will still apply to execution-only sales, including requirements around demands and needs. We are exercising the derogation because we consider these other IDD requirements are sufficient to secure an appropriate degree of consumer protection in relation to execution-only sales.

The delegated act provides more detail on the range of products to be considered non-complex. We consulted on this in CP17/33. The European Insurance and Occupational Pensions Authority (EIOPA) has published guidelines to help determine if a product is complex or non-complex¹¹. We note there are similar guidelines in relation to MiFID II issued by ESMA and we will consider the IDD guidelines to see if they are consistent and how they may be taken into account by firms. We may include something further on this in our third IDD PS where appropriate.

¹⁰ One of the conditions to determine whether it is possible to transact business on an execution-only basis relates to whether the product can be categorised as 'non-complex'.

¹¹ <https://eiopa.europa.eu/Publications/Press%20Releases/EIOPA%20publishes%20Guidelines%20on%20e2%80%9cexecution-only%e2%80%9d%20sales.pdf>



Part 2: Other matters

7 Conflicts of interest

- 7.1** This chapter sets out our approach to implementing the IDD requirements on conflicts of interest. The IDD requirements in this area relate to IBIPs but both our current rules and our proposals in CP17/23 apply more generally, so this chapter is relevant to firms conducting all types of insurance business.

Our proposals

- 7.2** In CP17/23 we noted that existing requirements in the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) for intermediaries of all types of insurance (as well as other products) are largely consistent with the conflicts of interest provisions in articles 27 and 28 of the IDD, but are not limited only to IBIP distribution. We noted also that insurers are subject to the high-level conflicts of interest requirements in SYSC 3, which require a firm to establish and maintain such systems and controls as are appropriate to its business, rather than the more detailed requirements in SYSC 10.
- 7.3** We proposed to maintain the current approach to apply our conflicts of interest rules in SYSC 10 to distributors of all types of insurance (including all life and non-investment insurance business) rather than limiting the application to IBIP business only.
- 7.4** While the IDD requirements in articles 27 and 28 are not expressed in identical terms to the MiFID II conflicts requirements, we consider that, in many respects, the substance of the obligations are the same. Where the MiFID II requirements go beyond the IDD Level 1 requirements (for example, in relation to the disclosure of conflicts) we proposed to level up to the MiFID II requirements to create a level playing field of consumer protections and to avoid competitive distortions. We, therefore, proposed to apply relevant existing rules in SYSC 10 (as amended following MiFID II implementation) to firms carrying on insurance distribution.
- 7.5** Where the IDD requirements go beyond those in MiFID II or our current rules, we proposed to copy out those requirements. For example, by including the IDD requirement that the arrangements put in place to prevent conflicts of interest should be proportionate to the activities performed, the insurance products sold and the type of distributor.
- 7.6** For insurers, we proposed to include a new section in SYSC 3 dealing with the conflicts of interest requirements. We proposed to implement the IDD minimum requirements with the exception of proposing that the rules should apply to all types of insurance, rather than IBIP business only, as is the case with insurance intermediaries.

Feedback received

- 7.7** 33 respondents provided feedback on these proposals, 26 of whom agreed with the approach proposed.
- 7.8** Some respondents suggested that it would be better to recognise sector-specific requirements and keep a distinction between IDD and MiFID II conflicts of interest

requirements. They said we should not gold-plate the IDD by aligning the conflicts of interest provisions for insurance business with those in MiFID II. One respondent disagreed with the extension of provisions to insurers in SYSC 3 as, in their view, it was not required by IDD or existing FCA rules.

- 7.9** One respondent felt that conflicts of interest do not lead to consumer harm in the sector so the rules are unnecessary.
- 7.10** Another respondent was concerned that the proportionality principle introduced by the IDD lacks clarity, and that it would be difficult for firms to evidence compliance with the new rule.

Our response

We are not providing near-final rules in this PS. This is because in CP17/33 we consulted on rule changes in light of the IDD delegated acts, which introduced significant additional requirements to those on which we consulted in CP17/23. We consider it is preferable to include final rules only once we have considered feedback on those additional requirements, so will include the final rules in the third PS. We will also provide feedback on responses received to CP17/23, where relevant, in the third IDD PS. In the meantime, firms should refer to the draft rules in CP17/23 and CP17/33 as they prepare for IDD implementation.

8 Product oversight and governance

- 8.1** In this chapter we summarise the feedback received in relation to the implementation of the IDD product oversight and governance requirements. This chapter is relevant to firms conducting all types of insurance business.

Our proposals

- 8.2** Product governance relates to the systems and controls firms must have in place for the design, approval, marketing and ongoing management of products throughout their lifecycle.
- 8.3** In CP17/23 we consulted on introducing rules to implement the high-level measures in article 25 of the IDD:
- Firms manufacturing insurance contracts are required, for example, to specify a target market for the product, ensure all relevant risks to the target market are assessed, provide appropriate information to distributors, take reasonable steps to ensure the product is distributed to the target market and review products regularly.
 - Firms distributing products which they do not manufacture should obtain information about the product and the product approval process, and understand the identified target market.
- 8.4** We proposed to apply the product governance provisions to all insurers and insurance intermediaries where those firms manufacture or distribute insurance products. This will include applying the requirements to all insurers, whether they distribute products directly or via intermediaries. We also proposed to apply these requirements to firms within the regulatory perimeter which may not be within scope of the Directive. This was because we consider that these new requirements should apply to all firms involved in insurance product manufacture and distribution to create a level playing field, and to promote effective competition in the interests of customers by avoiding regulatory distortions.

Feedback received

- 8.5** Of the 41 responses received, over three-quarters agreed with our proposals, while most of the remainder requested more guidance to interpret the requirements.
- 8.6** Some respondents noted that the IDD requirements and draft rules do not apply to contracts of large risk and questioned the wording in the CP that we intend to apply the requirements to all insurers and insurance intermediaries where those firms manufacture or distribute insurance products. Apart from this, no respondents disagreed with the proposal to apply the requirements to firms which may not be within scope of the Directive.

- 8.7** We were asked about the use of the term 'contract of insurance' in the draft rules. Respondents said it would be better to use the term 'insurance product' to clarify that the requirements are not intended to apply to individual contracts for each customer, but rather at product level.
- 8.8** Some respondents questioned our use of the definitions of 'manufacturer' and 'distributor', drawn from MiFID II. One respondent expressed a related concern that the new rules could lead to additional responsibilities for distributor firms that have a role in product manufacture. This could have cost implications that deter new entrants and therefore affect competition within the market.
- 8.9** While welcoming the proposed rules, one respondent predicted a greater impact than implied in the CP. They said the FCA's existing guidance on product oversight and governance is only relevant to regulated firms involved in the supply of products or services to retail customers and is guidance where the new provisions are rules.¹²
- 8.10** Some respondents asked if these rules would be reviewed after the UK withdraws from the EU. One firm said that the requirements are unnecessary and would not offer more protection to customers.
- 8.11** We received a number of requests for additional guidance to help understand our expectations under the new rules. In particular:
- Guidance was requested on the requirement for product manufacturers to make available all appropriate information on products and the product approval process to distributors. Respondents were concerned that the obligation should not require too detailed information to be shared, particularly if it is market-sensitive or confidential or could give an advantage to competitors.
 - Some respondents asked for more information on the type of arrangements that should be in place to review and approve products, and in relation to the requirement that product manufacturers take reasonable steps to ensure the product is distributed to the target market. Related to this last point, there was a concern that product manufacturers should not become responsible for mis-selling by distributors.
 - We were asked whether intermediaries should be considered as manufacturers where they negotiate contracts on a bespoke basis with a customer and there is no intention to market the product more widely.
 - Two respondents asked for existing guidance on product governance to be retained as it helps to articulate the FCA's requirements.
 - Two respondents asked if the requirements will apply only to new contracts after the rules come into force.
 - We were also asked if the product governance rules apply to self-storage and freight industries. The Financial Services and Markets Act 2000 (Exemption) Order 2001 exempts from regulation certain distribution activities of freight forwarders and storage firms, for retail consumers as well as commercial customers.

¹² The existing guidance is in the *Responsibilities of Product Providers and Distributors for the Fair Treatment of Customers ('RPPD')*: www.handbook.fca.org.uk/handbook/document/rppd/RPPD_Full_20160321.pdf.

Our response

We are not providing near-final rules in this PS. This is because we consulted on further changes to the Product Intervention and Product Governance sourcebook (PROD) in CP17/33, including some derived from the IDD delegated acts, which introduced significant additional requirements to those on which we consulted in CP17/23. We would prefer to include rules only once we have considered feedback on those additional requirements. We will, therefore, only include the final rules in the third IDD PS. In the meantime, firms should refer to the draft rules in CP17/23 and CP17/33.

We believe that the product governance rules are important and will improve outcomes for customers as well as reducing the harm arising from poor product design.

We will also provide feedback on responses received to CP17/23, where relevant, in the third IDD PS. This will include our final proposals and feedback on:

- the defined terms used in PROD, for example 'manufacturer' and 'distributor'
- whether there should be more detail on how responsibilities for product oversight and governance should be allocated when firms work together to manufacture a product
- whether there will be further detail on some of the issues for which firms requested additional guidance, including product approval and review processes, disclosure of appropriate information to distributors, and the manufacturer's role in checking that products reach the target market
- the questions about the application of the product governance rules to contracts distributed prior to 23 February 2018 and to bespoke contracts developed for a single customer and
- our approach to existing guidance on product governance (the RPPD)

In response to the suggestion that the costs would be higher than estimated in CP17/23, we refer to the additional cost benefit analysis in CP17/33. To prepare that analysis, we surveyed a sample of firms on the expected impact of the new requirements. If we receive any further feedback on the cost benefit analysis in CP17/33, we will report on it in the third IDD PS.

We do not consider that the product governance rules make manufacturers directly liable for mis-selling by third-party distributors. The IDD delegated act makes it clear that distributors remain responsible for ensuring that their distribution strategy is in accordance with that of the manufacturer and with the target market identified by the manufacturer. They are also responsible for reviewing their distribution arrangements, verifying that products are distributed to

the identified target market and amending their distribution strategy where the product is not consistent with the interests, objectives and characteristics of the target market; these requirements were consulted upon in CP17/33.

We confirm that the IDD requirements and the draft rules for product governance are not intended to apply to contracts of large risks. The CP wording on the application of the requirements to all firms that manufacture or distribute insurance products was intended to explain our proposal to apply the requirements to firms which may not be within scope of the Directive but are within the regulatory perimeter and so in scope of our rules. Therefore, the product governance rules would not apply to freight forwarders and storage firms in the circumstances specified in the Financial Services and Markets Act 2000 (Exemption) Order 2001. However, firms involved with the manufacture and distribution of those contracts would be subject to the product governance requirements.

9 Client money requirements

- 9.1** This chapter summarises the feedback received in relation to implementation of the IDD client money requirements and our response to this. This chapter is relevant to all insurance intermediaries.

Our approach to implementation

- 9.2** In CP17/7, we asked discussion questions on our proposed approach to implement the IDD requirement for insurance intermediaries to protect client money. The IDD requires that, to protect customers against insurance and reinsurance intermediaries being unable to i) transfer premiums to the insurance undertaking or ii) transfer claim monies to the insured or iii) return premiums to the insured, one or more of the following options should be implemented:
- risk transfer whereby premiums paid by the customer to the intermediary are treated as having been paid to the insurance undertaking, and monies paid by the insurance undertaking are not treated as having been paid to the customer until they receive them
 - customers' monies are kept in a strictly segregated customer account
 - intermediaries have financial capacity of 4% of annual premiums received
 - a guarantee fund is set up
- 9.3** These options are the same as those in the IMD (with an increased financial capacity requirement). The feedback to these discussion questions¹³ supported retaining the existing implementation of the IMD requirements, which are a mix of risk transfer and segregation of client money, and are contained in CASS 5. We agreed with this feedback and, therefore, in CP17/23 did not propose any change to the existing requirements for insurance distribution.

Our proposals

- 9.4** The IDD also extends these same requirements for insurance distribution to include reinsurance distribution. Currently, CASS 5 can be applied to reinsurance distribution on an optional basis. Therefore, in CP17/23 we consulted on amending the application of these existing requirements to make them mandatory for reinsurance distribution, reflecting the IDD's extended scope.

¹³ See the summary published in CP17/23, page 34.

Feedback received

- 9.5** All the respondents addressing this question agreed with the proposed approach except one who said that only risk transfer should be available for reinsurance business; we addressed this point in CP17/23. One respondent understood that the existing provisions implementing the IMD were often applied to reinsurance business on an optional basis as currently provided for in CASS 5, which reaffirms the feedback received to our discussion questions in CP17/23.

Our response

Based on respondents' overwhelming agreement with our proposals, we will make the rules we consulted on in CP17/23.

10 Professional requirements

In this chapter we summarise the feedback received in relation to implementation of the IDD good reputation requirements and our response. This chapter is relevant to all insurance distributors.

Our proposals

- 10.1** The IDD requires natural persons working in an insurance or reinsurance undertaking, or insurance or reinsurance intermediary, who pursue insurance or reinsurance distribution to be of good reputation. For ancillary insurance intermediaries (AIs), these IDD requirements relate to persons responsible for insurance distribution. The IDD also requires that insurance and reinsurance undertakings establish, maintain and keep appropriate records relating to the good reputation requirements.
- 10.2** In CP17/23, we consulted on:
- retaining existing good reputation rules and updating those rules to implement the IDD requirements, including for AIs
 - moving the good reputation rules from MIPRU to SYSC so that all the relevant professional requirements are in the same sourcebook
 - maintaining the application of the provisions to all firms with a Part 4A permission to carry on insurance mediation activity (other than connected travel providers)
 - introducing a good reputation requirement for in scope AIs¹⁴ in relation to natural persons responsible for ancillary insurance distribution, in line with minimum relevant requirements in the IDD
 - transposing the relevant IDD record-keeping requirements into SYSC 28, which has been re-numbered from SYSC 23, and applying these provisions to all firms to which the good reputation requirements apply

Feedback received

- 10.3** Most respondents agreed with our good reputation proposals in CP17/23. Of the remainder, some firms sought more guidance on the requirements whilst others suggested that they agreed in principle but suggested amendments to our proposals.
- 10.4** A few respondents suggested that the good reputation requirements should apply equally to connected travel providers as well as other insurance intermediaries, to ensure a

¹⁴ For an explanation of the different categories of AIs please see paragraph 6.3 of PS17/21: www.fca.org.uk/publication/policy/ps17-21.pdf

level playing field and provide adequate protection to consumers purchasing travel insurance from different types of firm.

- 10.5** Several questions related to whether the requirements should apply to all appointed representatives (ARs) and in-scope AIs, particularly for ARs issuing temporary cover notes.
- 10.6** Two respondents questioned whether we had gone beyond the minimum IDD requirements by requiring firms to ensure the good reputation of all relevant staff, and suggested that firms must make appropriate and reasonable enquiries into relevant staff.
- 10.7** Respondents questioned whether the forthcoming General Data Protection Regulation (GDPR) would conflict with any of our good reputation proposals.
- 10.8** Several firms sought clarification as to whether annual good reputation checks were required and whether the requirements covered insurance activities such as underwriting, claims and complaints staff.

Our response

In this PS we set out near-final rules in line with the draft rules set out in CP17/23.

Scope of requirements

As set out in CP17/23 we do not believe there is sufficient evidence to extend the IDD good reputation requirements to include connected travel providers. This is consistent with our existing approach and reflects our proportionate, risk-based approach to regulation of connected travel insurance.

The application of the good reputation requirements remains unchanged. ARs that are carrying on insurance distribution activities are within the scope of IDD and the good reputation requirements apply to them. The way we have applied the good reputation requirements to ARs is consistent with the ARs regime, our existing approach and the requirements in MIPRU 2.3 and under SUP 12.4.8A R. Firms should, therefore, already be ensuring that ARs comply with the existing good reputation requirements.

GDPR

We consider that our good reputation near-final rules are compatible with the Data Protection Act 1998, and we do not consider that the current position will change when the GDPR comes into force in May 2018.

Application of the requirements

Firms questioned whether good reputation checks need to be carried out annually. The good reputation requirement creates a continuous obligation, although the requirements do not prescribe the timing or frequency of the checks. Firms would need to perform the checks ahead of a staff member becoming involved in the firm's insurance distribution activities.



The good reputation requirements will include persons in a firm's management structure or any staff directly involved in insurance distribution activities.

11 Additional changes for non-investment insurance business

11.1 This chapter responds to the feedback we have received in relation to:

- product information disclosure requirements
- the insurance product information document (IPID)

Product information disclosure requirements

Our proposals

11.2 The IDD requires firms to provide customers with objective and relevant information about the product, prior to conclusion of the insurance contract.¹⁵ This information should be presented in a comprehensible form to allow the customer buying insurance to make an informed decision.

11.3 We proposed to implement these requirements into ICOBS 6, with some additions and clarifications to our current rules. This included new requirements related to producing the IPID and providing information in a durable medium according to the new means of communications rules in ICOBS 4.1A.¹⁶

11.4 We also proposed Handbook guidance that firms need to consider their product governance arrangements when producing and providing product information, and that firms need to consider the merits of a short summary of the policy wording to commercial customers where that is not required by the IDD.¹⁷

11.5 When producing and providing product information, we also reminded firms to:

- develop product information in line with our Smarter Consumer Communications initiative¹⁸
- consider the information needs of their customers, including at which point of the sales process the information would be most useful to the customer¹⁹
- cooperate with all partners in the distribution chain to ensure that the information needs of the end customer are being met²⁰
- provide information in a targeted and balanced fashion to ensure it has relevance for customers²¹

¹⁵ See article 20(4) of the IDD.

¹⁶ See PS17/21 for ICOBS 4.1A near final rules.

¹⁷ See ICOBS 6.1.11G and 6.1.7AG.

¹⁸ See: www.fca.org.uk/publications/discussion-papers/smarter-consumer-communications-further-step-journey

¹⁹ See: current guidance of ICOBS 6.1.8G and the new ICOBS 6.1.11G in this PS.

²⁰ See CP17/33 for our detailed proposals on the IDD product oversight and governance requirements.

²¹ See ICOBS 6.1.5 R (3) in this PS and IDD article 20 (4) which requires relevant product information.

- ensure product information is honest and fair about the limitations of the product²²
- design product information to be mindful of the cumulative effects of package sales where the product is commonly sold as part of a package²³

Feedback received

11.6

Most respondents supported our proposals or made no comment in relation to the product information requirements. Some suggested further guidance would be useful in relation to the new objective and relevant information requirements. We were also asked to clarify whether the comprehensible form obligation would be considered from the perspective of a typical customer, or in relation to a specific individual, and to confirm that the product information rules do not apply in relation to 'large risks'.

Our response

We are confirming our proposed rule changes to ICOBS 6 as set out in CP17/23.

Objective and relevant information

We consider that our current appropriate information rule in ICOBS 6.1.5 already requires that product information be objective and relevant. We do not consider that further guidance in relation to the requirement to provide objective and relevant product information is required at this time. This is because the IDD requirements complement and clarify our existing product information requirements. Our current guidance at ICOBS 6.1.7G remains relevant and sets out a non-exhaustive range of factors that a firm should consider when providing product information.

Comprehensible form

Firms are required to provide appropriate product information in a comprehensible form so that the customer can make an informed decision. It follows that in circumstances where a firm is unsure whether product information is being understood by customers, it should take steps to correct this. For example, the firm may wish to undertake a test with customers to better understand their needs in line with our guidance on meeting the customers best interest rule at ICOBS 6.1.11G, or consider initiating a product review under the new product oversight and governance arrangements in PROD 4.

Generally a firm will only be able to consider a 'typical' customer in their target market when producing product information. However, when providing product information a firm may also need to consider the information needs of the individual customer, including in relation to whether the information is in a comprehensible form under the circumstances.

Large risks

In CP17/7 we highlighted that the IDD information disclosure requirements do not need to be applied in relation to large risks.

²² See ICOBS 6.1.7G in this PS and ICOBS 2.5.-1 in CP17/7. IDD article 17 (1) requires distributors to always act honestly, fairly and in the best interests of customers.

²³ See IDD article 24 cross-selling requirements and CP17/7, page 19.

However, we proposed to maintain the approach we took under the IMD, which was:

- to rely on the exemption, in its entirety, for distribution of contracts of insurance for large risks where the customer is a commercial customer
- to not rely on the exemption in relation to large risks where the customer is a retail consumer within the EEA

This means that when a retail consumer purchases a contract related to 'large risks' within the EEA, the product information requirements of ICOBS 6.1 will apply.

In CP17/23 we proposed to exclude insurance contracts related to 'large risks' from the new requirement to provide an IPID, as enabled by article 22(1) of the IDD. This proposal relates to the new IPID only and we have amended our rules to clarify this does not extend to the product information requirements of ICOBS 6.1.

Firms should also note that the ICOBS sourcebook, subject to application provisions, will generally apply to insurance contracts related to 'large risks' that are distributed to retail consumers within the EEA.

The insurance product information document (IPID)

Our proposals

- 11.7** The IDD introduces a new document called the IPID, which is a short summary of an insurance policy and presents relevant information about the policy in a standardised format. It applies as part of the requirement to provide appropriate product information and must be provided on paper or a durable medium prior to the conclusion of the contract.
- 11.8** We proposed to incorporate the new IPID requirements into ICOBS 6 and to require an IPID be provided in relation to general insurance. We excluded 'large risk' contracts from the requirement to provide an IPID and introduced new Handbook guidance clarifying that other pre-contractual disclosures may be required in addition to the IPID, such as the demands and needs statement and our existing requirements related to guaranteed asset protection (GAP) products.
- Feedback received**
- 11.9** The majority of responses we received in relation to the IPID related to the potential need to include personalised information such as the dates of the contract and the sum insured. Respondents expressed significant concern about the costs and additional complexity of this approach. It was also questioned how a product manufacturer would comply with the requirement to produce the IPID in cases where the dates and sum insured are decided with an intermediary, or in circumstances where the contract itself does not include a numerical date.



11.10 One respondent suggested that our rules should go further, by requiring firms to use standardised terminology that is consistent and jargon-free. It was also suggested the IPID should be provided at the same time as the prescribed information required by our GAP insurance deferred sales rules.

11.11 A large number of responses raised specific questions on different aspects of the IPID requirements. We were asked to clarify:

- Which firm should be named on the IPID in cases where multiple firms have collaborated on product design?
- Whether additional information, such as additional intermediary payment options, how to complain or FSCS status, could be included in the IPID if space permits?
- Whether large print or braille versions that exceed three pages would be complying with the obligations?
- If an IPID is required for mid-term adjustments or renewals?
- What is the difference between providing IPID information and the IPID itself for commercial customers?
- If a firm elected to retain their current policy summary document in addition to the IPID, whether they could continue to use the Key Facts Logo?
- How firms could be mindful of the cumulative effects of product information in package sales, when one IPID is required for each insurance contract in the package?
- Whether firms providing an IPID, instead of the current policy summary document, would be compliant with the PPI Market Investigation Order 2011?

Our response

Personalised information

The information required to be included on the IPID includes the start and end dates of the contract, as well as the sum insured among other information. We consider that providing personalised information in a generic way, for example by cross referring to another document, is consistent with the purpose of the IPID.

For example, an IPID could state "This cover lasts for one year and the dates of cover are specified on your policy schedule" and "the agreed sum insured is specified on your policy schedule". In circumstances where it is not possible to express the period of cover by way of a numerical date, we will expect firms to explain when the cover begins and ends in other clear and definitive terms so that the customer is in no doubt as to when the cover is active.

Information contained in the IPID

We agree that it is important for firms to use jargon-free language in the IPID to help consumers make an informed decision. While we have not sought to prescribe the specific language used by firms in the IPID, we

do note that the IPID must be provided in accordance with our revised product information rules outlined earlier in this chapter.

Specific questions

In relation to the specific questions raised by respondents, it is important to emphasise that the IPID Implementing Regulation is directly applicable. As a result, firms should form their own view of the specific regulatory requirements of this Regulation.²⁴ Our view is that:

- The IPID Regulation requires that the product manufacturer is named on the IPID. In cases where multiple manufacturers collaborate on product design, firms should agree the lead manufacturer to be named on the IPID. The term ‘manufacturer’ is new and firms should take into account the meaning of manufacturer in our rules and the circumstances in which an intermediary will be considered to be a manufacturer under the IDD product oversight and governance Delegated Regulation.²⁵
- Only the information listed in article 20(8) of the IDD and specified in the IPID Regulation should be included in the IPID. Firms should not include information related to separate products, such as third-party premium financing options, on the IPID. Our rules no longer prescribe the document that complaints and Financial Services Compensation Scheme (FSCS) information must be provided within. However, this information is still required to be provided and given due prominence.
- It would be consistent with the purpose of the IPID to provide the IPID in large print or in Braille, which may exceed the three-page limit of the IPID Regulation, in order to support customers with impaired vision.

When an IPID is required

An IPID must be provided prior to conclusion of a contract and this includes where a new contract is concluded at renewal. A mid-term adjustment does not normally result in a new contract, and so an IPID is unlikely to be required. In relation to frequently renewing contracts, our guidance at ICOBS 6.1.7G clarifies that the level of information required may vary according to whether the consumer has received the information previously and, if so, when.

We expect the IPID information listed in article 20 (8) to be provided to commercial customers. However, this does not necessarily need to be in the prescribed format of an IPID. Our guidance at ICOBS 6.1.7AG provides firms with the flexibility to present the IPID information in a different comprehensible form to commercial customers.

Interaction between the IPID and other product disclosure information

We expect firms to be mindful of the cumulative effect of disclosures overall and not only in relation to the IPID. For example, firms providing

²⁴ See Commission Implementing Regulation (EU) 2017/1469:
http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.209.01.0019.01.ENG

²⁵ http://ec.europa.eu/finance/docs/level-2-measures/idd-delegated-regulation-2017-6218_en.pdf



an IPID should avoid duplicating the IPID information in another similar document.

Where an IPID is required, a policy summary is no longer required. As a result firms will no longer be permitted to use the Key Facts Logo when the IPID is introduced. Firms may choose to develop new product information documents in addition to the IPID, however, these documents should not take the form of a policy summary in cases where an IPID is required.

The Competition and Markets Authority have confirmed to us that the words 'policy summary' in the Payment Protection Insurance (PPI) Market Investigation Order 2011 (the PPI Order), including references in the Schedules to it, should, from 23 February 2018, be replaced by 'Insurance Product Information Document' (IPID). In accordance with the PPI Order, PPI Providers will therefore be required to provide an IPID with PPI Annual Reviews.

Continuing European transposition of the IPID

We are publishing near-final rules in relation to the IPID in this PS. EIOPA has also published editable IPID templates which firms may choose to use when producing an IPID.²⁶ However, European transposition work in relation to the IPID is continuing. We will need to take this into account when making our final rules. For example, the Commission may publish IDD Q&As and these may give views on the IPID requirements.

²⁶ See Editable Template for the Insurance Product Information Document (IPID):
[https://eiopa.europa.eu/Pages/Supervision/Insurance/Editable-Template-for-the-Insurance-Product-Information-Docment-\(IPID\).aspx](https://eiopa.europa.eu/Pages/Supervision/Insurance/Editable-Template-for-the-Insurance-Product-Information-Docment-(IPID).aspx)

12 Consequential amendments and general comments on CP17/23

- 12.1** This chapter sets out how we will implement consequential changes to the Handbook following our implementation of the IDD, and summarises some of the general comments we received to the CP.

Our proposals

- 12.2** The consequential changes proposed in CP17/23 were largely administrative and did not reflect any change in policy. They generally consisted of incorporating cross-references to IDD requirements.

Feedback received

- 12.3** We received 23 responses in relation to the proposed consequential amendments. Most respondents supported the proposals, except one who asked instead for the Handbook to be reviewed more fully and regulation to be reduced.

Our response

We propose to take forward, as near-final rules, the consequential amendments on which we consulted. We do not propose to review our Handbook more fully as part of IDD implementation. In the FCA Mission we discussed proposals for a future review of the FCA Handbook to ensure consistency with the principles of good regulation.²⁷ We cannot progress this work until the outcomes from EU withdrawal are clear.

General comments

- 12.4** We also received some additional comments to those addressed elsewhere in this PS.
- The consultation referred to 'insurance-based pensions' and we were asked to clarify what products this covers.
- 12.5** One respondent said that rules in COBS 9 and 16 align the requirements for IBIPs with those in MiFID II and asked us to summarise the impact on MiFID II Article 3 firms

27 Our Mission 2017, How we regulate financial services, April 2017: www.fca.org.uk/publication/corporate/our-mission-2017.pdf



where an ongoing service is provided in connection with, for example, a personal pension in drawdown.

Our response

Where a pension takes the legal form of an insurance contract, such as an insurance-based group personal pension or a contract-based pension scheme it will be within scope of the IDD (carrying forward the position under IMD). It is these pensions that we referred to with the term 'insurance-based pensions'.

The rule changes on which we consulted in relation to the IDD will be relevant to MiFID II Article 3 firms if they also undertake insurance distribution business. In this case, firms need to follow the new rules derived from the IDD in relation to their insurance distribution business. Where a firm's role in relation to a personal pension in drawdown involves carrying on insurance distribution activities then a firm will need to satisfy the requirements in our Handbook attached to those activities.

Annex 1

List of non-confidential respondents

Alan Blunden & Co Ltd

Allianz Insurance plc

ARAG plc

Association of British Insurers (ABI)

Association of Financial Mutuals (AFM)

Association of Mortgage Intermediaries (AMI)

Aviva plc

AXA UK plc

British Insurance Brokers' Association (BIBA)

Broker Network

Bupa

Domestic & General Insurance PLC

Financial Services Consumer Panel

First Central Insurance Management Ltd

Foresters Financial

Group Risk Development (GRiD)

HomeServe Membership Limited

Mr I Turley

IFM Insurance Brokers Ltd

Insurance and Life Assurance Group (ILAG)

International Underwriting Association

Kingston Unity Friendly Society

Legal & General Group

Lloyd's Market Association



London and International Insurance Brokers' Association (LIIBA)

Managing General Agents' Association (MGAA)

National Franchised Dealers Association (NFDA)

P&C (Insurance Brokers) Limited

Personal Investment Management and Financial Advice Association (PIMFA)

Polaris UK Ltd

Royal & Sun Alliance Insurance plc

Simplyhealth

Society of Lloyd's

Tenet Group Limited

The Society of Pension Professionals

threesixty services LLP

Travel Insurance Facilities Plc

UK Finance

Virgin Money plc

Zeiler Consultants Limited

Annex 2

Abbreviations used in this paper

AI	Ancillary insurance intermediary
AR	Appointed representative
CASS	Client Assets sourcebook
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
the Commission	European Commission
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
GAP	Guaranteed asset protection
GDPR	General Data Protection Regulation
IBIP	Insurance-based investment product
ICOBS	Insurance Conduct of Business Sourcebook
IDD	Insurance Distribution Directive
IMD	Insurance Mediation Directive
IPID	Insurance product information document
KID	Key Information Document
MiFID	Markets in Financial Instruments Directive
MiFID II	Markets in Financial Instruments Directive II
MIPRU	Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries

PPI	Payment protection insurance
PPI Order	Payment Protection Insurance (PPI) Market Investigation Order 2011
PROD	Product Intervention and Product Governance sourcebook
PRIPs	Regulation on Packaged Retail and Insurance-based Investment Products
PS	Policy Statement
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers
SYSC	Senior Management Arrangements, Systems and Controls

We have developed the policy in this Policy Statement in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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Appendix 1

Near-final rules

[*Editor's note:* the text in this instrument takes into account the near final rules in PS17/21 'Insurance Distribution Directive implementation – Feedback to CP17/7 and near-final rules' (September 2017), as if they were made.]

INSURANCE DISTRIBUTION DIRECTIVE (CONDUCT OF BUSINESS FOR LIFE POLICIES, NON INVESTMENT INSURANCE PRODUCT INFORMATION, ORGANISATION AND OTHER REQUIREMENTS) INSTRUMENT 2018

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):
 - (a) section 137A (The FCA's general rules);
 - (b) section 137B (FCA general rules: clients' money, right to rescind, etc);
 - (c) section 137R (Financial promotion rules);
 - (d) section 137T (General supplementary powers);
 - (e) section 138C (Evidential provisions);
 - (f) section 138D (Action for damages); and
 - (g) section 139A (Power of the FCA to give guidance); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 23 February 2018.

Amendments to the Handbook

- D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below:

(1)	(2)
Glossary of definitions	Annex A
Principles for Businesses (PRIN)	Annex B
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex C
Threshold Conditions (COND)	Annex D

The Fit and Proper test for Approved Persons and specified significant-harm functions (FIT)	Annex E
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	Annex F
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex G
Conduct of Business sourcebook (COBS)	Annex H
Insurance: Conduct of Business sourcebook (ICOBS)	Annex I
Client Assets sourcebook (CASS)	Annex J
Supervision manual (SUP)	Annex K
Credit Unions sourcebook (CREDS)	Annex L

Notes

- E. In this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

European Union Legislation

- F. Although European Union legislation is reproduced in this instrument, only European Union legislation reproduced in the electronic Official Journal of the European Union is deemed authentic.

Citation

- G. This instrument may be cited as the Insurance Distribution Directive (Conduct of Business for Life Policies, Non-Investment Insurance Contracts Information, Organisation and Other Requirements) Instrument 2018.

By order of the Board
[date]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless indicated otherwise.

Insert the following new definitions in the appropriate alphabetical positions. The text is not underlined.

<i>IDD IPID Regulation</i>	Commission Implementing Regulation (EU) 2017/1469 of 11 August laying down a standardised presentation format for the insurance product information document. See http://eur-lex.europa.eu/eli/reg_impl/2017/1469/oj .
<i>insurance based investment product</i>	<p>a <i>contract of insurance</i> which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations, and does not include:</p> <ul style="list-style-type: none"> (a) non-life insurance products as listed in Annex I to Directive 2009/138/EC (Classes of non-life insurance); (b) life insurance contracts where the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or disability; (c) pension products which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement, and which entitle the investor to certain benefits; (d) officially recognised occupational pension schemes falling under the scope of Directive 2003/41/EC or Directive 2009/138/EC; (e) individual pension products for which a financial contribution from the employer is required by national law and where the employer or the employee has no choice as to the pension product or provider. <p>[Note: article 2(1)(17) of the <i>IDD</i>]</p>
<i>insurance product information document</i>	the standardised presentation format as specified in the <i>IDD IPID Regulation</i> and in <i>ICOBS 6 Annex 3R paragraph 1.1</i> .
<i>IPID</i>	<i>insurance product information document</i> .

IPID information

(in *ICOBS*) the *IDD* information to be included in the *IPID* as required by *ICOBS* 6 Annex 3R, paragraph 2.1R.

Amend the following definitions as shown.

<i>director</i>	(1)	...
	(a)	...
	(b)	...
	(c)	(in <i>SYSC</i> , <i>MIPRU</i> 2 (<u>Responsibility for insurance distribution and MCD credit intermediation</u> activity responsibility, knowledge, ability and good repute), <i>SUP</i> 10A (FCA Approved persons) and <i>SUP</i> 10C (FCA senior management regime for approved persons in relevant authorised persons) a <i>partnership</i> ;
	(d)	...

...

<i>lasting medium</i>	(a)	...
	(b)	...

In *ICOBS* and in *COBS* in relation to life policies:

- (i) the instrument used must be appropriate in the context of the business conducted between the *insurance distributor* and (for *ICOBS*) the customer or (for *COBS*) the client; and
- (ii) the *customer* (for *ICOBS*) or client (for *COBS*) must be given the choice between information on paper and the instrument used, and must specifically choose the latter medium.

For the purposes of this definition, the provision of information by means of electronic communications shall be treated as appropriate to the context in which the business between the *firm* and the *client* is, or is to be, carried on if there is evidence that the *client* has regular access to the internet. The provision by the *client* of an e-mail address for the purposes of the carrying on of that business is sufficient.

[Note: article 2(f) of, and Recital 20 to, the *Distance Marketing Directive*, articles 2(1)(18), 23(4) and 23(6) of the *IDD*, article 4(1)(62) of *MiFID* and

article 3(1) of the *MiFID Org Regulation*, articles 75(2) and 81(1) of the *UCITS Directive*, article 20(3) of the *UCITS implementing Directive* and article 7 of the *UCITS implementing Directive No 2*]

- fee*
- (1) (except in *ICOBS* and, in relation to a *life policy*, in *COBS 6.1ZA*) any payment or *remuneration* offered or made by a *client* to a *firm* in connection with *designated investment business* or with any other business of the *firm*, including (where applicable) any *mark-up or mark-down*;
 - (2) (in *ICOBS* and, in relation to a *life policy*, in *COBS 6.1ZA*) *remuneration* payable directly by a *customer* in relation to *insurance distribution activities* carried on for the *customer* that is not:
 - (a) a commission of any kind, that is the *remuneration* included in the *insurance premium*; or
 - (b) any other type of *remuneration* (i.e. that is not directly payable by the *customer*), including an economic benefit of any kind or any other financial or non-financial advantage or incentive offered or given in connection with the *insurance contract*.

[Note: article 19(1)(e)(i),(ii) and (iii) of the *IDD*]

[*Editor's note*: the next amendment is dependent on legislative amendments to section 137R of the Financial Services and Markets Act 2000 to take account of article 17(2) of the *IDD* being made and will only be made the amending legislation has been made.]

*financial
promotion*

...

- (4) (in *ICOBS* and in relation to a *life policy*, in *COBS 3.2.1R(3)* and *4.3.1R*), in addition to (1), any marketing communication within the meaning of article 17(2) of the *IDD*.

[Note: articles 10 and 11 of the *MCD* and article 17(2) of the *IDD*]

*reinsurance
contract*

(in *COBS 21*, *ICOBS*, *CASS 1*, *CASS 5* and *COMP*) a *contract of insurance* covering all or part of a risk to which a *person* is exposed under a *contract of insurance*.

remuneration

- (1) (except in *ICOBS* and where (2) or (3) ~~applies~~ apply) any form of remuneration, including salaries, *discretionary pension benefits* and benefits of any kind;

[Note: article 92(2) of the *CRD*]

(2) ...

[Note: article 2(5) of the *MiFID Org Regulation*]

(3) (in *ICOBS* and, in relation to a *life policy*, in *COBS 6.1ZA*) any commission, *fee*, charge or other payment, including an economic benefit of any kind or any other financial or non-financial advantage or incentive offered or given in respect of *insurance distribution activities*.

[Note: article 2(1)(9) of the *IDD*]

*suitability
report*

a report which a *firm* must provide to its *client* which, among other things, explains why the *firm* has concluded that a recommended transaction is suitable for the *client* and which is provided pursuant to:

- (a) *COBS 9.4* (Suitability reports) where the *firm* is carrying on *designated investment business* other than any *MiFID*, *equivalent third country or optional exemption business* or in relation to an insurance based investment product;
- (b) article 54(12) of the *MiFID Org Regulation* where the *firm* is carrying on *MiFID business*;
- (c) *GEN 2.2.22AR* and *COBS 9A.3.3EU* where the *firm* is carrying on the *equivalent business of a third country investment firm*;
- (d) *COBS 9A.1.2R* and *COBS 9A.3.3EU* where the *firm* is carrying on *MiFID optional exemption business*; or
- (e) *COBS 9A.3.2R* where the *firm* is carrying on *insurance distribution activities in relation to an insurance based investment product*.

Annex B

Amendments to the Principles for Businesses sourcebook (PRIN)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Rules about application

...

3.2 What?

3.2.1A R *PRIN* applies with respect to the carrying on of:

...

- (3) *ancillary activities* in relation to *designated investment business*, *home finance activity*, *credit-related regulated activity*, ~~*insurance mediation activity*~~ *insurance distribution activity* and *accepting deposits*.

...

Annex C

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 **Application and purpose**

...

1 Annex 1 Detailed application of SYSC

Table A: Application of the common platform requirements in SYSC 4 to SYSC 10

...

Provision SYSC 4	COLUMN A Application to a common platform firm other than to a UCITS investment firm	COLUMN A+ Application to a UCITS management company	COLUMN A++ Application to a full- scope UK AIFM of an authorised AIF	COLUMN B Application to all other firms apart from insurers, managing agents, the Society, full- scope UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms
...				

SYSC 4.4.1AR	Not applicable	Not applicable	Not applicable	<p>Rule applies this section only to:</p> <p>(1)...</p> <p>(2) activities carried on by a <i>firm</i> whose principal purpose is to carry on activities other than <i>regulated activities</i> and which is:</p> <p>...</p> <p>(e) a <i>firm</i> with <i>permission</i> to carry on <i>insurance mediation activity</i> <u><i>insurance distribution activity</i></u> in relation to <i>non-investment insurance contracts</i> but no other <i>regulated activity</i> except <i>advising on P2P agreements</i>;</p> <p>(2A)...</p> <p>...</p>
...				

Amend the following as shown.

4 General organisational requirements

...

4.4 Apportionment of responsibilities

Application

...

4.4.1A R This section applies to:

- (1) ...
- (2) activities carried on by a *firm* whose principal purpose is to carry on activities other than *regulated activities* and which is:
 - (a) ...
 - ...
 - (e) a *firm* with *permission* to carry on ~~*insurance mediation activity*~~ *insurance distribution activity* in relation to *non-investment insurance contracts* but no other *regulated activity* (except *advising on P2P agreements*);

...

...

13 Operational risk: systems and controls for insurers

...

13.3 Other related Handbook sections

...

13.3.1A G The following is a non-exhaustive list of *rules* and *guidance* in the *Handbook* that are relevant to a *firm's* management of operational risk:

- (1) *COBS* contains *rules* and *guidance* that can relate to the management of operational risk; for example, *COBS* 2 (Conduct of business obligations), *COBS* 4 (Communicating with clients, including financial promotions), *COBS* 6 (Information about the firm, its services and remuneration), *COBS* 7 (Insurance ~~*mediation*~~ *distribution*), *COBS* 9 (Suitability (including basic advice) other

than MiFID and insurance based investment products)), COBS 9A (Suitability (MiFID and insurance based investment products provisions), COBS 10A Appropriateness (for non-advised services) (MiFID provisions and insurance based investment products), COBS 11 (Dealing and managing), COBS 12 (Investment research), COBS 14 (Providing product information to clients) and COBS 19 (Pensions: supplementary provisions).

...

19F Remuneration and performance management of sales staff

...

19F.2 IDD remuneration incentives

Application

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

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

Remuneration and the customer's best interests

- 19F.2.2 R (1) *Insurance distributors* must not:
- (a) be *remunerated*; or
 - (b) *remunerate* or assess the performance of their *employees*,
- in a way that conflicts with their duty to comply with the ~~*customer's best interests rule*~~ *customer's best interests rules (ICOBS 2.5.-1R, in relation to a non-investment insurance contract, or COBS 2.1.1R, in relation to a life policy).*
- (2) In particular, an *insurance distributor* must not make any arrangements by way of *remuneration*, sales target or otherwise that could provide an incentive to itself or its *employees* to recommend a particular *contract of insurance* to a *customer* when the *insurance distributor* could offer a different *insurance contract* which would better meet the *customer's* needs.

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

...

[*Editor's note*: the numbering for SYSC 28 takes into account the renumbering for SYSC proposed in CP17/25 'Individual Accountability: Extending the Senior Managers & Certification Regime to all FCA firms' (July 2017).]

28 Insurance distribution: specific knowledge, ability and good repute requirements

28.1 Minimum knowledge ~~and~~, ability and good repute requirements for carrying out insurance distribution activities

Application

28.1.1 R This chapter applies to a *firm* with *Part 4A permission* to carry on *insurance distribution activities*.

...

...

28.1.4 G *Rules specified in ~~this section~~ sections SYSC 28.2 (knowledge and ability), SYSC 28.4 (record-keeping) and SYSC 28.5 (other requirements to consider) relate to the requirements in:*

...

...

28.3 Good repute

Good repute requirements

28.3.1 R *A firm (other than a connected travel insurance intermediary) must ensure that all the persons in its management structure and any staff directly involved in insurance distribution activities are of good repute.*

[Note: article 10(3) paragraphs 1 to 3 of the IDD]

28.3.2 G *This includes but is not limited to those natural persons:*

(1) that are directly involved in insurance distribution activities; or

(2) within the management structure responsible for insurance distribution activities; or

(3) within the management structure responsible for any staff directly involved in insurance distribution activities.

[Note: article 10(3) paragraphs 1 and 3 of the IDD]

28.3.3 R *An IDD ancillary insurance intermediary must ensure that natural persons working in the firm, responsible for ancillary insurance*

distribution activities, are of good repute.

[**Note:** article 10(3) paragraph 4 of the *IDD*]

28.3.4 R In considering a *person*'s repute the *firm* must at a minimum ensure that the *person*:

(1) has a clean criminal record or any other national equivalent in relation to serious criminal offences linked to crimes against property or other crimes related to financial activities; and

(2) has not previously been declared bankrupt,

unless they have been rehabilitated in accordance with national law.

[**Note:** article 10(3) paragraph 1 of the *IDD*]

28.3.5 G (1) In the *United Kingdom* the following *persons* will be considered to have been rehabilitated:

(a) in relation to a serious criminal offence, where the conviction is considered 'spent' under the Rehabilitation of Offenders Act 1974;

(b) in relation to bankruptcy, where the bankruptcy has been discharged.

(2) References to "serious criminal offences" is not restricted to offences considered to have been committed in or under the law of the *United Kingdom*.

(3) A *firm* should give particular consideration to offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services, companies, insurance and consumer protection.

28.3.6 G A *firm*'s systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (see SYSC 3.2.13G and SYSC 5.1.2G). This includes, among other things, the assessment of an individual's honesty.

...

Sch 1 Record keeping requirements

...

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
--------------------	-------------------	--------------------	--------------------------	------------------

SYSC 28.4.1R	Arrangements made to demonstrate compliance with knowledge and competence, <u>ability and good repute</u> requirements in relation to the carrying out of <i>insurance distribution activities</i>	As required to demonstrate compliance.	As required to demonstrate compliance	As required to demonstrate compliance
SYSC 28.4.2R	...			

[*Editor's note*: this Annex is dependent on legislative amendments to paragraph 2B of Schedule 6 (Threshold conditions) to the Financial Services and Markets Act 2000 which will substitute 'mediation' with 'distribution' in paragraphs (4) and (5).]

Annex D

Amendments to the Threshold Conditions (COND)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 The threshold conditions

...

2.2 Location of offices

Paragraph 2B of Schedule 6 to the Act

2.2.1A UK ...

- (4) If A is seeking to carry on, or is carrying on, an insurance ~~mediation~~ distribution activity -

...

- (5) "Insurance ~~mediation~~ distribution activity" means any of the following activities -

...

...

...

2.2.2 G Paragraph 2B(1) of Schedule 6 to the *Act* implements article 7(1)(d) of the *UCITS Directive*, paragraphs 2B(1) to 2B(23) of Schedule 6 to the *Act* implement article 5(4) of *MiFID*, paragraph 2B(4) of Schedule 6 to the *Act* implements article ~~2.9~~ 2(1)(10) of the ~~*Insurance Mediation Directive*~~ *IDD* and paragraph 2B(7) of Schedule 6 to the *Act* implements article 8(1)(e) of *AIFMD*, although the *Act* extends the *threshold condition* set out in paragraph 2B of Schedule 6 of the *Act* to *authorised persons* that are not *PRA-authorised persons* who are outside the scope of these *Single Market Directives*.

2.2.3 G Neither the *UCITS Directive*, *MiFID*, the ~~*Insurance Mediation Directive*~~ *IDD*, *AIFMD* nor the *Act* define what is meant by a *firm's* 'head office'. This is not necessarily the *firm's* place of incorporation or the place where its business is wholly or mainly carried on. Although the *FCA* will judge each application on a case-by-case basis, the key issue in identifying the

head office of a *firm* is the location of its central management and control, that is, the location of:

...

...

2.5 Suitability

...

Paragraph 3D to Schedule 6 of the Act

2.5.1C UK ...

...

2.5.6 G Examples of the kind of particular considerations to which the *FCA* may have regard when assessing whether a *firm* will satisfy, and continue to satisfy, this *threshold condition* include, but are not limited to, whether:

(1) ...

...

(18) in the case of a *firm* that carries on insurance ~~mediation~~ distribution activity:

(a) ~~a reasonable proportion of the persons~~ employees or other persons within its management structure who are responsible for the ~~insurance mediation activity~~ firm's insurance distribution activities; and

(b) ~~all employees or other persons~~ directly involved in its insurance mediation activity ~~the carrying on of the firm's~~ insurance distribution activities; and

(ba) employees or other persons responsible for the supervision of a relevant employee acting in the capacity as set out in (b),

demonstrate the appropriate knowledge and ability necessary in order to complete their tasks and for the performance of perform their duties adequately (see *competent employee rule* and *SYSC 28 (Insurance distribution: specific knowledge; ability and good repute requirements)*); and

(c) all the *persons* in the *firm's* management structure and any staff directly involved in insurance ~~mediation~~ distribution activity are of good repute (see *MIPRU 2.3.1R (Knowledge and ability and good repute SYSC 28.3 (Good repute))*); and

- (d) natural persons working in the *firm*, responsible for ancillary insurance distribution activities are of good repute (see SYSC 28.3.3R); and

...

...

Annex E

Amendments to The Fit and Proper test for Approved Persons and specified significant-harm functions (FIT)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 General

...

1.2 Introduction

...

1.2.4A G (1) ...

(2) Where the function relates to:

(a) ...

(b) business outside the scope of the *MiFID* business of an *incoming EEA firm*, for example ~~*insurance mediation activities*~~ *insurance distribution activities* in relation to *life policies*; or

(c) ...

...

...

1.2.4C G Under article 10(1) and (2) of the *IDD* appropriate knowledge and ability is reserved to the *firm's Home State* (see *SUP 13A Annex 2G*).

Annex F

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

For “*Insurance Mediation Directive*”, substitute “*IDD*” in the following provision. The new text is not shown as underlined and the deleted is not shown as struck through.

4.1.2G one instance

For “*mediation*”, substitute “*distribution*” in the following provisions. The new text is not shown as underlined and the deleted is not shown as struck through.

1.1.1R(1)	one instance
2.1.1R	one instance
2.2.2R	one instance
2.2.3G(1)	one instance
2.2.3G(1B)	two instances
2.2.3G(2)	two instances
2.2.3G(3)	one instance
2.2.4G	three instances
3.1.1R(1A)	one instance
3.1.1R(3)	one instance
3.1.2G	one instance
3.2.2G	two instances
3.2.4R(5)	one instance
4.1.1R(1)	one instance
4.1.3G	one instance
4.2.10R(1)	one instance
4.2.10R(4)	one instance
4.2.20R, heading	one instance
4.2.20R	two instances
4.4.8R(1)(a)(i)	one instance

2 **Insurancee Responsibility for insurance distribution and MCD mediation** **credit intermediation activity: responsibility and good repute**

2.1 **Application and purpose**

...

Purpose

2.1.2 G The main purpose of this chapter is to implement in part the provisions of the ~~*Insurance Mediation directive*~~ IDD and the ~~*MCD as these apply to*~~

~~firms regulated by the appropriate regulator.~~

2.2 Allocation of the responsibility for insurance ~~mediation~~ distribution activity or MCD credit intermediation activity

Responsibility for insurance ~~mediation~~ distribution activity or MCD credit intermediation activity

- 2.2.1 R A *firm*, other than a sole trader, must allocate the responsibility for the *firm's* ~~insurance mediation activity~~ insurance distribution activity or MCD credit intermediation activity to a director or senior manager.

[**Note:** Article 3(1), fourth paragraph, of the *Insurance Mediation Directive* article 3(1), eighth paragraph of the *IDD* and article 29(4)(a), first sentence, of the *MCD*.]

...

- 2.2.5 G The *FCA* will specify in the *Financial Services Register* the name of the *persons* to whom the responsibility for the *firm's* ~~insurance mediation activity~~ insurance distribution activity or MCD credit intermediation activity has been allocated by inserting after the relevant controlled function the words “(insurance ~~mediation~~ distribution)” or “(MCD intermediation)”. In the case of a sole trader, the *FCA* will specify in the *Financial Services Register* the name of the sole trader as the ‘contact person’ in the *firm*.

2.3 Good repute ~~[deleted]~~

- 2.3.1 R A *firm* (other than a ~~connected travel insurance intermediary~~) must establish on reasonable grounds that all the *persons* in its management structure and any staff directly involved in ~~insurance mediation activity~~ are of good repute.

- 2.3.2 G ~~[deleted]~~

- 2.3.3 R In considering a *person's* repute the *firm* must ensure that the *person*:
- (1) has not been convicted of any serious criminal offences linked to crimes against property or other crimes related to financial activities (other than spent convictions under the Rehabilitation of Offenders Act 1974 or any other national equivalent); and
 - (2) has not been adjudged bankrupt (unless the bankruptcy has been discharged);

under the law of any part of the *United Kingdom* or under the law of a country or territory outside the *United Kingdom*.

[~~Note: Article 4(2) of the *Insurance Mediation Directive*~~]

- 2.3.4 G ~~The *firm* should give particular consideration to offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services, companies, insurance and consumer protection.~~
- 2.3.5 G ~~*Firms* are reminded that *Principle 3* requires *firms* to take reasonable care to organise and control their affairs responsibly and effectively. *Principle 3* is amplified by the *rule* which requires *firms* to take reasonable care to establish and maintain such systems and controls as are appropriate to its business (SYSC 3.1.1R and SYSC 4.1.1R). A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (SYSC 3.2.13G and SYSC 5.1.2G). This includes the assessment of an individual's honesty and competence.~~

...

4 Capital resources

...

4.2 Capital resources requirements

...

- 4.2.8 G If a *social housing firm* is carrying on *home financing* or *home finance administration* (and no other *regulated activity*), its net tangible assets must be greater than zero. However, if it carries on ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity*, there is no special provision and the capital resources requirement for *firms* carrying on *designated investment business*, ~~or *insurance distribution activity* or *mediation activities*~~ *home finance mediation activity* only applies to it as appropriate.

...

Capital resources requirement: *insurance distribution activity* or *home finance mediation activity* only

- 4.2.11 (1) If a *firm* carrying on ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity* (and no other *regulated activity*) does not hold *client money* or other *client* assets in relation to these activities, its capital resources requirement is the higher of:
- (a) ...
- (b) 2.5% of the *annual income* from its ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity* (or both).

- (2) If a *firm* carrying on ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity* (and no other *regulated activity*) holds *client money* or other *client* assets in relation to these activities, its capital resources requirement is the higher of:

- (a) ...
- (b) 5% of the *annual income* from its ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity* (or both).

...

Capital resources requirement: home finance mediation activity and home financing or home finance administration

- 4.2.21 R (1) ...
- (2) If the *firm* holds *client money* or other *client* assets in relation to its *home finance mediation activity*, the capital resources requirement is:
- (a) ...
- (b) the amount which is applied to a *firm* carrying on ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity* (and no other *regulated activity*) that holds *client money* or other *client* assets in relation to these activities (see *MIPRU* 4.2.11R(2)).

...

4.3 Calculation of annual income

...

- 4.3.3 R For a *firm* which carries on ~~*insurance mediation activity*~~ *insurance distribution activity* or *home finance mediation activity*, *annual income* is the amount of all brokerage, fees, *commissions* and other related income (for example, administration charges, overrides, profit shares) due to the *firm* in respect of or in relation to those activities. But it does not include income generated from carrying on any *home finance mediation activity* for:

- (1) ...

...

4.4 Calculation of capital resources

...

Subordinated loans

- 4.4.7 R A subordinated debt must not form part of the capital resources of the *firm* unless it meets the following conditions:
- (1) (for a *firm* which carries on ~~*insurance mediation activity*~~ *insurance distribution activity*, *home finance mediation activity* (or both) but not *home financing* or *home finance administration*) it has an original maturity of:
 - (a) ...
 - ...
 - ...

Annex G

**Amendments to the Interim Prudential sourcebook for Investment Business
(IPRU(INV))**

In this Annex, underlining indicates new text and striking through indicates deleted text.

13 Financial Resource Requirements for Personal Investment Firms

...

13.13 Capital resources requirement for an exempt CAD firm and a category B firm

...

13.13.3 R ...

...

Table 13.13.3(2)(b)(ii)

This table forms part of *IPRU-INV* 13.13.3R.

Activity	Provision	Fixed amount
<i>Insurance mediation activity</i> <u><i>Insurance distribution activity</i></u> or <i>home finance mediation activity</i>	<i>MIPRU</i> 4.2.11R(1)(a) (<i>firm not holding client money or assets</i>)	£5,000
	<i>MIPRU</i> 4.2.11R(2)(a) (<i>firm holding client money or assets</i>)	
...		

...

13.14 Calculation of annual income for an exempt CAD firm and a category B firm

...

- 13.14.6 G A *firm* should not include in its *annual income* those amounts due to it that are used in the calculation of its capital resources requirement under *MIPRU* 4.2.11R (Capital resources requirement: insurance distribution activity or home finance mediation activity only) or *MIPRU* ~~4.2.19R~~ 4.2.20R (Capital resources requirement: ~~insurance mediation distribution activity~~ and home financing; or home finance administration).

Annex H

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Annex 1 Application (see COBS 1.1.2R)

Part 1: What?

Modifications to the general application of COBS according to activities

1.	Eligible counterparty business		
1.1	R	The <i>COBS</i> provisions shown below do not apply to <i>eligible counterparty business</i> <u>except, where the <i>eligible counterparty business</i> is in scope of the <i>IDD</i>, those provisions which implement the <i>IDD</i> continue to apply.</u>	
		COBS provision	Description
		...	
		COBS 6.1	Information about the firm, its services and remuneration (non-MiFID <u>and non insurance distribution</u> provisions)
		...	
		COBS 10	Appropriateness (for non-MiFID <u>and non-insurance based investment products</u> non-advised services)
		COBS 10A	Appropriateness (for non-advised services) (MiFID <u>and insurance based investment products</u> provisions)
		...	
...			
6.	Use of third party processors in life insurance mediation <u>distribution</u> activities		
6.1	R	If a <i>firm</i> (or its <i>appointed representative</i> or, where applicable, its <i>tied agent</i>) outsources <i>insurance mediation activities</i> <u><i>insurance distribution activities</i></u> to a <i>third party processor</i> :	
		...	

...				
Part 2: Where?				
Modifications to the general application according to location				
...				
Part 3: Guidance				
1.	The main extensions, modifications and restrictions to the general application			
...				
1.3	G	In particular, certain chapters of this sourcebook apply only to <i>firms</i> in relation to their <i>MiFID</i> , <i>equivalent third country</i> or <i>optional exemption business</i> and, in some of these chapters, specified <i>insurance distribution activities</i> (sometimes only in relation to <i>insurance based investment products</i>) while others apply only to <i>firms' designated investment business</i> which is not <i>MiFID</i> , <i>equivalent third country</i> or <i>optional exemption business</i> or, in some of these chapters, certain <i>insurance distribution activities</i> .		
...				
2.	The Single Market Directives and other directives			
...				
4.	Insurance Mediation Directive <u>Insurance Distribution Directive</u>: effect on territorial scope			
4.1	G	The <i>Insurance Mediation Directive's</i> <i>IDD's</i> scope covers most <i>firms</i> carrying on most types of <i>insurance mediation</i> <i>insurance distribution</i> in relation to risks and commitments located in an <i>EEA State</i> .		
<u>4.1A</u>	<u>G</u>	The <i>rules</i> in this sourcebook within the Directive's scope are those relating to <i>life policies</i> that require the provision of pre-contract information or the provision of advice on the basis of a fair analysis. The <i>rules</i> implementing that implement the minimum information and other requirements in articles 42 and 43 1(4), 17, 18, 19, 20, 21, 23, 24(1) to (3) and (6), 29, and 30 of the Directive <i>IDD</i> are set out in:		
		(1)	<u><i>COBS 2.1.1R, COBS 2.2A and COBS 2.3A (Conduct of business obligations);</i></u>	
		(2)	<u><i>COBS 4 (Communicating with clients, including financial promotions);</i></u>	
		(3)	<u><i>COBS 6.1ZA (Information about the firm and compensation</i></u>	

			information (MiFID and insurance distribution provisions));
		(4)	<u>COBS 7 (Insurance mediation distribution); and</u>
		(5)	<u>COBS 8 (Client agreements);</u>
		(6)	<u>COBS 9 (Suitability (including basic advice) (other than MiFID and insurance based investment products provisions)) and COBS 9A (Suitability (MiFID and insurance based investment products provisions));</u>
		(7)	<u>COBS 10A (Appropriateness (for non-advised services));</u>
		(8)	<u>COBS 14.2 (Providing product information to clients); and</u>
		(9)	<u>COBS 16A.2 (General client reporting and record keeping requirements).</u>
4.1B	G	<u>A Member State is entitled to impose additional requirements within the IDD's scope in the 'general good' (see recital 52 to, and article 22 of, the IDD).</u>	
4.2	G	<u>In the FCA's view, the responsibility for these minimum requirements rests with the Home State, but a Host State is entitled to impose additional requirements within the Directive's scope in the 'general good'. The IDD places responsibility for requirements in this sourcebook within the Directive's scope (both minimum and additional requirements) on the Home State, except:</u>	
		(1)	<u>in relation to business conducted through a branch, in which case the responsibility rests with the EEA State in which the branch is located (this is sometimes referred to as a 'country of origin' or 'country of establishment' basis) (see recital 22 to, and article 7(2) of, the IDD). So firms operating under the freedom of establishment in the UK must adhere to the requirements in the UK, regardless of the habitual residence of the customer (other than in the situations described in (2)); and</u>
		(2)	<u>where a Member State has:</u>
		(a)	<u>introduced the stricter requirements in article 29(3) of the IDD; or</u>
		(b)	<u>introduced requirements which have not made use of the derogation in article 30(3) of the IDD to allow firms not to carry out an appropriateness assessment in relation to a non-advised sale of an insurance based investment product,</u>
			<u>firms concluding contracts with customers having their habitual residence or establishment in that Member State must adhere to the more onerous requirements in (a) or (b) in force in that State.</u>

4.3	G	Accordingly, the general <i>rules</i> on territorial scope are <u>not</u> modified so that by the <i>IDD</i> except:	
		(1)	for a UK firm providing passported activities through a branch in another EEA State under the Directive, the rules implementing the Directive's minimum requirements apply but the territorial scope of the additional rules within the Directive's scope is not modified;
		(2)	for an EEA firm providing passported activities under the Directive in the United Kingdom, the rules implementing the Directive's minimum requirements do not apply, but the additional rules within the Directive's scope have their unmodified territorial scope unless the Home State imposes measures of like effect. (See recital 19 and article 12(5) of the Insurance Mediation Directive)
		(2)	<u>for insurance distribution business carried on by insurers:</u>
		(a)	<u>minimum and additional requirements apply to a UK firm unless responsibility for any matter it covers is reserved by the Solvency II Directive to the firm's Host State regulator; and</u>
		(b)	<u>paragraph (1), and paragraphs (3), (4) and 4.4G, below, apply in the same way unless the responsibility for any matter it covers is reserved by the Solvency II Directive to the firm's Home State regulator.</u>
		(3)	<u>for a UK firm concluding contracts with customers having their habitual residence or establishment another Member State, it must comply with the requirements of that Member State falling within 4.2G(2);</u>
		(4)	<u>for an EEA firm providing passported activities in the United Kingdom under the IDD the rules in COBS which give effect to article 29(3) apply, where the client has their habitual residence or establishment in the UK, when it is operating under the freedom to provide services.</u>
4.4	G	<u>An EEA firm acting as the principal of an appointed representative carrying on insurance distribution activities from an establishment in the UK is required to ensure that its appointed representative complies with this sourcebook.</u>	
5.	Solvency II Directive: effect on territorial scope		
5.1	G	The <i>Solvency II Directive's</i> scope covers <i>long-term insurers</i> . The <i>rules</i> in this sourcebook within the Directive <i>Solvency II Directive's</i> scope are the cancellation <i>rules</i> (COBS 15) and those <i>rules</i> requiring the provision of pre-contract information or information during the term of the contract concerning the <i>insurer</i> or the <i>contract of insurance</i> . The Directive <i>Solvency II Directive</i> specifies minimum information and cancellation requirements and permits <i>EEA States</i> to adopt additional information requirements that	

		are necessary for a proper understanding by the <i>policyholder</i> of the essential elements of the commitment.	
5.2	G	If the <i>State of the commitment</i> is an <i>EEA State</i> , the Directive <i>Solvency II Directive</i> provides that the applicable information rules and cancellation rules shall be laid down by that state. Accordingly, if the <i>State of the commitment</i> is the <i>United Kingdom</i> , the relevant rules in this sourcebook apply. Those rules do not apply if the <i>State of the commitment</i> is another <i>EEA State</i> . The territorial scope of other rules, in particular the <i>financial promotion rules</i> , is not affected since the Directive <i>Solvency II Directive</i> explicitly permits <i>EEA States</i> to apply rules, including advertising rules, in the ‘general good’. (See articles 156, 180, 185 and 186 of the <i>Solvency II Directive</i>)	
6.	Distance Marketing Directive: effect on territorial scope		
...			
6.5	G	In the <i>FCA</i> ’s view:	
		(1)	the ‘country of origin’ basis of the Directive is in line with that of the <i>Electronic Commerce Directive</i> and the <i>IDD</i> ; (See recital 6 of the <i>Distance Marketing Directive</i>)
		...	
		(3)	for business within the scope of both the <i>Distance Marketing Directive</i> and the <i>Insurance Mediation Directive</i>, the minimum information and other requirements in the <i>Insurance Mediation Directive</i> continue to be those applied by the ‘Home State’, but the minimum requirements in the <i>Distance Marketing Directive</i> and any additional pre-contract information requirements are applied on a ‘country of origin’ basis. (The basis for this is that the <i>Insurance Mediation Directive</i> was adopted after the <i>Distance Marketing Directive</i> and is not expressed to be subject to it.) [deleted]
7.	Electronic Commerce Directive: effect on territorial scope		
...			
7.4	G	In the <i>FCA</i> ’s view, the Directive’s effect on the territorial scope of this sourcebook (including the use of the ‘insurance derogation’):	
		(1)	is in line with the <i>Distance Marketing Directive</i> and the <i>IDD</i> ; and
		(2)	overrides that of any other Directive discussed in this Annex to the extent that it is incompatible.
7.5	G	The ‘derogations’ in the Directive may enable other <i>EEA States</i> to adopt a different approach to the <i>United Kingdom</i> in certain fields. (See recital 19 of the <i>Insurance Mediation Directive</i> <i>IDD</i> , recital 6 of the <i>Distance</i>	

		<i>Marketing Directive</i> , article 3 and Annex of the <i>Electronic Commerce Directive</i>)
...		

...

2 Conduct of business obligations

2.1 Acting honestly, fairly and professionally

The client's best interests rule

- 2.1.1 R (1) A *firm* must act honestly, fairly and professionally in accordance with the best interests of its *client* (the *client's best interests rule*).
- (2) This *rule* applies:
- (a) in relation to *designated investment business* carried on for a *retail client*; ~~and~~
 - (b) in relation to *MiFID*, *equivalent third country or optional exemption business*, for any *client*; and
 - (c) in relation to insurance distribution, for any client.

...

[**Note:** article 24(1) of *MiFID*, article 17(1) of the *IDD* and article 14(1)(a) and (b) of the *UCITS Directive*]

...

2.2 Information disclosure before providing services (~~non-~~ other than MiFID provisions and insurance distribution)

Application

- 2.2.-1 R ...
- (2) This section applies in relation to *designated investment business* (other than *MiFID*, *equivalent third country or optional exemption business* or insurance distribution activities), carried on for a *retail client*:
- (a) in relation to a *derivative*, a *warrant*, a *non-readily realisable security*, a *P2P agreement*, or *stock lending activity*, but as regards the matters in *COBS 2.2.1R(1)(b)* only; and

- (b) in relation to a *retail investment product*, but as regards the matters in COBS 2.2.1R(1)(a) and (d) only.

2.2.-1A G COBS 2.2A (Information disclosure before providing services (MiFID ~~provisions and insurance distribution~~)) contains the information disclosure requirements applying to a *firm* carrying on *MiFID, equivalent third country or optional exemption business* and insurance distribution activities.

...

2.2A Information disclosure before providing services (MiFID and insurance distribution provisions)

Application

- 2.2A.1 R This section applies to a *firm*:
- (1) in relation to its *MiFID, equivalent third country or optional exemption business*;
 - (2) carrying on insurance distribution activities in relation to:
 - (a) an insurance based investment product for any client;
 - (b) any other life policy for a retail client but as regards the matters in COBS 2.2A.2R(1)(a) and (d) only.

Information disclosure in good time

- 2.2A.2 R (1) A *firm* must provide appropriate information in good time to a *client* with regard to:
- (a) the *firm* and its services;
 - (b) (for financial instruments) the financial instruments and, proposed investment strategies and execution venues;
 - (c) ~~execution venues~~ (for insurance based investment products) the distribution of insurance based insurance products including at least appropriate guidance on, and warnings of, the risks associated with the insurance based investment product or in respect of particular investment strategies proposed; and
 - (d) all costs and related charges.

[**Note:** article 24(4) of *MiFID* and article 29(1)(b) of the IDD]

- (2) That information may be provided in a standardised format.

2.2A.2A R For an insurance based investment product, a firm must provide the

information in good time prior to the conclusion of the contract.

[Note: first paragraph of article 29(1) of the IDD]

- 2.2A.3 R (1) A *firm* must provide the information required by this section in a comprehensible form in such a manner that a *client* is reasonably able to understand the nature and risks of the *investment service* and of the specific type of *financial instrument or life policy* that is being offered and, consequently, to take investment decisions on an informed basis.
- (2) That information may be provided in a standardised format.

[Note: article 24(5) of MiFID and last paragraph of article 29(1) the IDD]

Related rules

- 2.2A.4 G A *firm* to which the *rule* on providing appropriate information (COBS 2.2A.2R) applies should also consider the *rules* on disclosing information about a *firm*, its services, costs and associated charges, ~~and financial instruments and life policies~~ in COBS 6.1ZA, COBS 9A.3, COBS 14.3 and COBS 14.3A.

...

4 Communicating with clients, including financial promotions

4.1 Application

...

- 4.1.4 G (1) In COBS 4.3.1R, the defined term “*financial promotion*” includes:
- (a) in relation to *MiFID*, *equivalent third country or optional exemption business*, all communications that are marketing communications within the meaning of *MiFID*; and
 - (b) in relation to insurance distribution, all communications that are marketing communications within the meaning of IDD.

...

...

4.2 Fair, clear and not misleading communications

The fair, clear and not misleading rule

- 4.2.1 R (1) A *firm* must ensure that a communication or a *financial promotion* is fair, clear and not misleading.
- (2) This *rule* applies to:

- (a) a communication by the *firm* to a *customer* in relation to *designated investment business* which is not *MiFID*, *equivalent third country or optional exemption business*, other than a *third party prospectus*;
- (aa) a communication to an *eligible counterparty* that is in relation to:
 - (i) *MiFID or equivalent third country business* other than a *third party prospectus*; or
 - (ii) *insurance distribution*;
- (ab) ...
- (b) a *financial promotion communicated* by the *firm* that is not:
 - (i) an *excluded communication*;
 - (ii) a *non-retail communication*;
 - (iii) a *third party prospectus*; and
- (c) a *financial promotion* approved by the *firm*.
- (3) As part of complying with (1), a *firm* must take into account the nature of the *client*.

[**Note:** article 24(3) and article 30(1) of *MiFID*, article 17(2) of the *IDD* and article 77 of the *UCITS Directive*]

4.2.2 G ...

[**Note:** article 30(1) of *MiFID* and recital 65 to the *MiFID Org Regulation*, article 17(2) of the *IDD*]

...

4.3 Financial promotions to be identifiable as such

- 4.3.1 R (1) A *firm* must ensure that a *financial promotion* addressed to a *client* is clearly identifiable as such.

[**Note:** article 24(3) of *MiFID*, article 17(2) of the *IDD* and article 77 of the *UCITS Directive*]

...

- (3) ...

- (e) ~~to the extent that it relates to a *pure protection contract* that is a *long-term care insurance contract*. [deleted]~~

(4) In the case of a marketing communication that relates to:

(a) a *UCITS scheme* or an *EEA UCITS scheme*, or

(b) *insurance distribution*.

(2) and (3) do not limit the application of this *rule*.

...

6 Information about the firm, its services and remuneration

6.1 Information about the firm and compensation information (non-MiFID and non-insurance distribution provisions)

Application

6.1.1 R (1) This section applies to a *firm* that carries on *designated investment business*, other than *MiFID*, *equivalent third country or optional exemption business* or insurance distribution activities, for a *retail client*.

...

...

6.1ZA Information about the firm and compensation information (MiFID and insurance distribution provisions)

Application

6.1ZA.1 R (1) Subject to (2) and (3), this section applies to a *firm*;

(a) in relation to its *MiFID*, *equivalent third country or optional exemption business*; or

(b) carrying on insurance distribution activities.

(2) *COBS 6.1ZA.13R* does not apply to a *firm* in respect of its *MiFID optional exemption business*.

(3) Where a *firm* is carrying on insurance distribution activities for a professional client only those rules which implement the requirements of the *IDD* apply.

6.1ZA.1A G For the purposes of *COBS 6.1ZA.1R(3)* if a *rule* implements a requirement of the *IDD*, a note (“**Note:**”) follows the *rule* indicating which provision is being implemented.

...

Information about a firm and its services: MiFID business

6.1ZA.4 EU ...

...

Status disclosure general information: insurance distribution

6.1ZA.7 R In good time before the conclusion of a *life policy* and, if necessary, on its
A amendment:

- (1) a *firm* must provide the *client* with at least the following information:
 - (a) its identity, address and whether it is an *insurance intermediary* or an *insurance undertaking*;
 - (b) whether it provides a *personal recommendation* about the insurance products offered;
 - (c) the procedures allowing *clients* and other interested parties to register *complaints* about the *firm* with the *firm* and the *Financial Ombudsman Service* or, if the *Financial Ombudsman Service* does not apply, information about the out-of-court complaint and redress procedures available for the settlement of disputes between the *firm* and its *clients*;
and
- (2) an *insurance intermediary* must also provide the *client* with the following information:
 - (a) the fact that it is included in the *Financial Services Register* (or if it is not on the *Financial Services Register*, the register in which it has been included) and the means for verifying this;
 - (b) whether it has a direct or indirect holding representing 10% or more of the voting rights or capital in a given *insurance undertaking* (that is not a *pure reinsurer*);
 - (c) whether a given *insurance undertaking* (that is not a *pure reinsurer*) or its *parent undertaking* has a direct or indirect holding representing 10% or more of the voting rights or capital in the *firm*; and
 - (d) whether it is representing the *client* or is acting for and on behalf of the *insurer*.

[Note: articles 18 and 19(1)(a) and (b) of the *IDD*]

6.1ZA.7 R Where an *insurance intermediary* proposes or advises on a *life policy*, in
B good time before the conclusion of a *life policy* and, if necessary, on its
amendment, an *insurance intermediary* must provide the *client* with at least

information on whether the *firm*:

- (1) gives a *personal recommendation*, on the basis of a fair and personal analysis; or
- (2) is under a contractual obligation to conduct *insurance distribution* exclusively with one or more *insurance undertakings*, in which case it must provide the names of those *insurance undertakings*; or
- (3) (a) is not under a contractual obligation to conduct *insurance distribution* exclusively with one or more *insurance undertakings*; and
 (b) does not give a *personal recommendation* on the basis of a fair and personal analysis;

in which case it must provide its *client* with the name of those *insurance undertakings* with which the *insurance intermediary* may and does conduct business.

[Note: article 19(1)(c) of the *IDD*]

6.1ZA.7 R If an *insurance intermediary* informs a *client* that it gives a *personal*
 C *recommendation* on the basis of a fair and personal analysis, it must give that *personal recommendation* on the basis of an analysis of a sufficiently large number of insurance contracts available on the market to enable it to make a *personal recommendation* in accordance with professional criteria, regarding which *life policy* would be adequate to meet the *client's* needs.

[Note: article 20(3) of the *IDD*]

...

Information about costs and associated charges: MiFID and insurance distribution

6.1ZA.1 R ~~*COBS 2.2A.2R* requires a *firm* to~~ must provide a *client* with at least the
 1 following information about all costs and related charges (see also *COBS 2.2A.2R*). That information must include:

- (1) information relating to:
 - (a) both *investment services* and *ancillary services*; and
 - (b) the distribution of an *insurance based investment product*;
- (2) where relevant, the cost of any *investment advice*;
- (3) the cost of the *financial instrument* or *insurance based investment product* recommended or marketed to the *client*;
- (4) information on how the *client* may pay; and

- (5) details of any third party payments.

[**Note:** article 24(4)(c) of *MiFID*, article 29(1)(c) of the *IDD*]

- 6.1ZA.1 R (1) A *firm* must aggregate the information about costs and charges
2 required by *COBS* 2.2A.2R and *COBS* 6.1ZA.11R, where those costs and charges are not caused by the occurrence of underlying market risk. This is to allow the *client* to understand the overall cost, and the cumulative effect on the return, of the investment.
- (2) A *firm* must provide the *client* with an itemised breakdown of the costs and charges information required by (1) and *COBS* 6.1ZA.11R when requested by the *client*.
- (3) The information must, where applicable, be provided to the *client* on a regular basis, and at least annually, during the life of the investment.

[**Note:** article 24(4) of *MiFID*, second paragraph of article 29(1) of the *IDD*]

- 6.1ZA.1 R (1) A *firm* must provide the information required by *COBS* 6.1ZA.11R
3 and *COBS* 6.1ZA.12R in a comprehensible form in such a manner that the *client* is reasonably able to understand the nature and risks of the *investment service* and of the specific type of *financial instrument or insurance based investment product* that is being offered and, consequently, to take investment decisions on an informed basis.
- (2) That information may be provided in a standardised format.

[**Note:** article 24(5) of *MiFID*, third paragraph of article 29(1) of the *IDD*]

Costs and associated charges disclosure: MiFID

6.1ZA.1 EU ...
4

...

Remuneration received by firm disclosure: insurance intermediaries

6.1ZA.1 R In good time before the conclusion of the *life policy* and if necessary, on its
4A amendment, an *insurance intermediary* must provide the *client* with
information:

- (1) on the nature of the *remuneration* received in relation to the *life policy*;
- (2) about whether in relation to the *life policy* it works on the basis of:
- (a) a *fee*, that is *remuneration* paid directly by the *client*; or

- (b) a commission of any kind, that is the remuneration included in the premium; or
- (c) any other type of remuneration, including an economic benefit of any kind offered or given in connection with the contract; or
- (d) on the basis of a combination of any type of remuneration set out above in (a), (b) and (c).

[Note: article 19(1)(d) and (e) of the IDD]

Remuneration of employees disclosure: insurers

- 6.1ZA.1 4B R In good time before the conclusion of a life policy, an insurance undertaking must provide the client with information on the nature of the remuneration received by its employees in relation to the life policy.

[Note: article 19(4) of the IDD]

General remuneration disclosure: insurance distributors

- 6.1ZA.1 4C R The remuneration referred to in this section includes remuneration that is not guaranteed or which is contingent on meeting certain targets.
- 6.1ZA.1 4D G The information required to be disclosed by COBS 6.1ZA.14AR and COBS 6.1ZA.14BR includes the type of the remuneration and, taking into account the clear, fair and not misleading rule (COBS 4.2.1R), should also include the source of the remuneration.
- 6.1ZA.1 4E G When considering what information to provide about the remuneration, a firm should include all remuneration which the firm or the employee of an insurance undertaking, receives or may receive in relation to the distribution of the life policy. This includes remuneration:
- (1) provided indirectly by the insurer or another firm within the distribution chain; or
 - (2) provided by way of a bonus (whether financial or non-financial) paid to the firm by the insurer or another firm, or provided by the firm to its employees, where this bonus is contingent on the achievement of a target to which the distribution of the particular life policy could contribute. For example, this can include cash bonuses paid for achieving a sales target and additional annual leave for achieving a high customer service score on sales calls, profit share arrangements, overrides or other enhanced commissions.
- 6.1ZA.1 4F R If any payments, other than ongoing premiums and scheduled payments, are made by the client under the life policy after its conclusion, a firm must make the disclosures under COBS 6.1ZA.14AR or COBS 6.1ZA.14BR, for each such payment.

[Note: articles 19(3) and (5) of the *IDD*]

6.1ZA.1 G Examples of the type of payments made are those for mid-term adjustments,
4G administration fees and cancellation fees.

Insurance distributors fee disclosure: additional requirements

6.1ZA.1 R (1) Where a fee is payable in relation to a life policy, the firm must inform its client of the amount of the fee.

4H

(2) The information in (1) must be given before the client incurs liability to pay the fee, or before conclusion of the life policy, whichever is earlier.

(3) To the extent that it is not possible for an amount to be given, a firm must give the basis for its calculation.

[Note: articles 19(2) and (5) of the *IDD*]

6.1ZA.1 R The *fee* disclosure requirement extends to all such *fees* that may be charged
4I during the life of a *policy*.

[Note: article 19(3) of the *IDD*]

• • •

Information about costs and charges of different services or products: MiFID business

6.1ZA.1 R (1) This *rule* applies to a *firm* that offers an *investment service* with
6 another service or product or as part of a package or as a condition of the same agreement or package.

(2) The *firm* must inform the *client* whether it is possible to buy the different components separately and must provide information on the costs and charges of each component.

(3) If the agreement or package is offered to a *retail client*, the *firm* must:

(a) inform that *retail client* if the risks resulting from the agreement or package are likely to be different from the risks associated with the components when taken separately; and

(b) provide that *retail client* with an adequate description of the different components of the agreement or package and the way in which its interaction modifies the risks.

[**Note:** article 24(11) of *MiFID*]

Cross selling requirements where insurance is the primary product

- 6.1ZA.1 R When offering a non-insurance ancillary product or service as part of a package or the same agreement with a *life policy*, a *firm* must:
6A
- (1) inform the *client* whether it is possible to buy the different components separately; and if so
 - (2) provide the *client* with an adequate description of:
 - (a) the different components;
 - (b) where applicable, any way in which the risk or *insurance* coverage resulting from the agreement or package differs from that associated with the components taken separately; and
 - (c) the separate evidence of the costs and charges of each component.

[Note: article 24(1) and (2) of the *IDD*]

Cross selling requirements where insurance is the ancillary product

- 6.1ZA.1 R When offering a *life policy* ancillary to and as part of a package or in the same agreement with a non-insurance product or service, a *firm* must offer the *client* the option of buying the non-insurance goods or services separately.
6B
- 6.1ZA.1 R The requirement to offer components separately in *COBS* 6.1ZA.16BR does not apply where the non-insurance product or service is any of the following:
6C
- (1) *investment services or activities*; or
 - (2) a credit agreement as defined in point 3 of article 4 of the *MCD* which is:
 - (a) an *MCD credit agreement*; or
 - (b) an *exempt MCD credit agreement*; or
 - (c) a *CBTL credit agreement*; or
 - (d) a credit agreement referred to in articles 72G(3B) and (4) of the *Regulated Activities Order*; or
 - (3) a payment account as defined in regulation 2(1) of the *Payment Accounts Regulations*.

[Note: article 24(3) of the *IDD*]

- 6.1ZA.1 R *COBS* 6.1ZA.16AR to *COBS* 6.1ZA.16CR do not prevent the distribution of insurance products which provide coverage for various types of risks (multi-risk insurance policies).
6D

[Note: article 24(5) of the IDD]

- 6.1ZA.1 G In addition to the *rules* in COBS 6.1ZA.16AR and 6.1ZA.16BR *firms*
6E should still comply with the other rules in COBS relating to the offer and sale of insurance products that form part of the package or agreement, such as COBS 2.5 (Optional additional products).

[Note: article 24(6) of the IDD]

Timing of disclosure: MiFID business

...

Medium of disclosure: MiFID business

...

Medium of disclosure: insurance distribution

- 6.1ZA.1 R Where this section requires an *insurance distributor* to provide information
9A to clients in relation to a life policy it must do so in accordance with COBS 7.4 (Means of communication to clients).

[Note: article 23 of the IDD]

Keeping the client up to date: MiFID business

...

Existing clients: MiFID business

...

Compensation information: MiFID business

...

Record keeping: information about the firm and compensation information;
MiFID business and insurance distribution

- 6.1ZA.2 G *Firms* are reminded of the general record-keeping requirements in SYSC 3.2
3 (for insurers and managing agents) and SYSC 9 (for other firms).

...

7 Insurance ~~mediation~~ distribution

7.1 Application

- 7.1.1 R This chapter applies to a *firm* carrying on ~~insurance mediation~~ insurance distribution activities in relation to a *life policy*, but only if the *State of the commitment* is an *EEA State*.

[**Note:** articles 1 and 12 (4) and (5) , 20(1) and 23 of the *Insurance Mediation Directive IDD*]

COBS 7.2 (Information to be provided by an insurance intermediary) is deleted in its entirety. The deleted text is not shown.

7.2 Information to be provided by an insurance intermediary [deleted]

After the deleted COBS 7.2 (Information to be provided by an insurance intermediary) insert the following new section. The text is not underlined.

7.3 Additional insurance distribution obligations

Demands and needs

- 7.3.1 R (1) Prior to the conclusion of a *life policy*, a *firm* must specify, on the basis of the information obtained from the *client*, the demands and needs of that *client*.
- (2) The details must be modulated according to the complexity of the *life policy* proposed and the type of *client*.
- (3) A statement of the demands and needs must be communicated to the *client* prior to the conclusion of a *life policy*.
- (4) This *rule* does not apply when a *firm* makes a *personal recommendation* in relation to a *life policy*.

[**Note:** first paragraph of article 20(1) and article 20(2) of the *IDD*]

- 7.3.2 G *Firms* are reminded that they are obliged to take reasonable steps to ensure that a *personal recommendation* is suitable for the *client* and that, whenever a *personal recommendation* relates to a *life policy*, a *suitability report* is required (see *COBS 9* or *9A*).
- 7.3.3 G A *firm* may obtain information from the *client* in a number of ways including, for example, by asking the *client* questions in person or by way of a questionnaire prior to any *life policy* being proposed.
- 7.3.4 R When proposing a *life policy* a *firm* must ensure it is consistent with the *client's* insurance demands and needs.

[**Note:** recital 44 to, and second paragraph of article 20(1) of, the *IDD*]

- 7.3.5 R The sale of a *life policy* must always be accompanied by a demands and

needs test on the basis of information obtained from the *client*.

[**Note:** recital 44 to, and article 20(1) of, the *IDD*]

Distribution of connected contracts through exempt persons

- 7.3.6 R (1) Where an *insurance distributor* is distributing through a *person* relying on the connected contracts exemption in article 72B of the *Regulated Activities Order* the *insurance distributor* must ensure that the requirements in (2) are met.
- (2) The requirements referred to in (1) are:
- (a) SYSC 19F.2 (Remuneration and insurance incentives)
 - (b) COBS 4 (Communicating with clients, including fair financial promotions);
 - (c) COBS 2.1.1R (client's best interests);
 - (d) COBS 6.1ZA.7AR(1)(a) and (c) (Status disclosure general information: insurance distribution);
 - (e) COBS 7.3.1R to COBS 7.3.5R (Additional insurance distribution obligations: demands and needs); and
 - (f) COBS 6.1ZA.16AR to 6.1ZA.16DR (cross-selling).

[**Note:** article 1(4) of the *IDD*]

- 7.3.7 G To comply with the relevant chapter of SYSC or *Principle 3*, an *insurance distributor* will need to have appropriate arrangements in place to ensure compliance with COBS 7.3.6R.

After COBS 7.3 (Additional insurance distribution obligations) insert the following new section. The text is not underlined.

7.4 Insurance distribution: Means of communication to clients

- 7.4.1 R This section applies to all information required to be provided to a *client* in COBS 7.3 and where it is stated to apply in other sections or chapters.

Means of communication to customers: Non-telephone sales

- 7.4.2 R (1) A *firm* must communicate information to a *client* using any of the following:
- (a) paper; or

- (b) a *durable medium* other than paper; or
 - (c) a website (where it does not constitute a *durable medium*) where the *website conditions* are satisfied.
- (2) The *firm* must communicate the information in (1):
- (a) in a clear and accurate manner, comprehensible to the *client*;
 - (b) in an official language of the *State of the risk* or in any other language agreed by the parties; and
 - (c) free of charge.

[**Note:** article 23(1), (2), (4) and (5) of the *IDD*]

- 7.4.3 R Where the information is communicated using a *durable medium*, other than paper or by means of a website, the *firm* must, upon request and free of charge, also send the *customer* a paper copy.

[**Note:** article 23(3) of the *IDD*]

Means of communications to clients: Telephone sales

- 7.4.4 R In the case of telephone selling:
- (1) the information must be given in accordance with the distance marketing disclosure *rules* (see *COBS 5*); and
 - (2) if prior to the conclusion of the contract the information is provided:
 - (a) orally; or
 - (b) on a *durable medium* other than paper,

the *firm* must also provide the information to the *client* in accordance with *COBS 7.4.2R* and *COBS 7.4.3R* immediately after the conclusion of the *life policy*.

[**Note:** article 23(7) of the *IDD*]

...

Amend the following as shown.

8 Client agreements (non-MiFID provisions)

8.1 Client agreements: non-MiFID designated investment business

Application

- 8.1.1 R (1) This chapter applies to a *firm* in relation to *designated investment business* carried on for a *retail client*.

...

- (2A) COBS 8.1.4R and COBS 8.1.5R also apply to a *firm* carrying on *insurance distribution* in relation to *insurance based investment products* for a *professional client*.

...

...

Record keeping: client agreements

- 8.1.4 R (1) A *firm* must establish a record that includes the document or documents agreed between it and a *client* which set out the rights and obligations of the parties, and the other terms on which it will provide services to the *client*.

...

[Note: article 30(4) of the IDD]

- 8.1.5 R For the purposes of this chapter, a *firm* may incorporate the rights and duties of the parties into an agreement by referring to other documents or legal texts.

[Note: article 30(4) of the IDD]

- 8.1.6 G When considering its approach to client agreements, a *firm* should be aware of other obligations in the *Handbook* which may be relevant. These include the *fair, clear and not misleading rule*, the *rules* on disclosure of information to a *client* before providing services, the *rules* on distance communications (principally in COBS 2.2, 5, 6 and 13) and the provisions on record keeping (principally in SYSC 3, for *insurers* and *managing agents*, and SYSC 9, for other *firms*).

...

9 **Suitability (including basic advice) (~~non-~~ other than MiFID provisions and insurance based investment products)**

9.1 **Application and purpose provisions**

Application

- 9.1.1 R This chapter applies to a *firm* which:
- (a) makes a *personal recommendation* to a *retail client* in relation to a

designated investment; or

- (b) *manages investments of a retail client of the firm;*
- (c) *manages the assets of an occupational pension scheme, stakeholder pension scheme or personal pension scheme,*

other than in relation to its MiFID, equivalent third country or optional exemption business or to an insurance based investment product.

- 9.1.1A G *COBS 9A contains suitability requirements which apply in respect of insurance based investment products, or in respect of a firm's MiFID, equivalent third country or optional exemption business involving the provision of investment advice or portfolio management.*

Providing basic advice on a stakeholder product

- 9.1.2 R *If a firm makes a personal recommendation in relation to a stakeholder product, other than in the course of MiFID or equivalent third country business or where the stakeholder product is an insurance based investment product, it may choose to give basic advice under the rules in section 9.6 of this chapter instead of the rules in the remainder of this chapter.*

...

Life policies for professional clients

- 9.1.5 R *If the firm makes a personal recommendation to a professional client to take out a life policy which is not an insurance based investment product, this chapter applies, but only those rules which implement the requirements of the Insurance Mediation Directive IDD.*
- 9.1.6 G *If a rule implements a requirement of the Insurance Mediation Directive IDD, a note ("Note:") follows the rule indicating which provision is being implemented. COBS 7 (Insurance mediation) 2.1 (acting honestly fairly and professionally), COBS 2.6 (additional insurance distribution obligations), COBS 4 (communicating with clients), COBS 6 (information about the firm, its services and remuneration) and COBS 14 (product information) contains contain further rules implementing the Insurance Mediation Directive IDD.*
- 9.1.7 G *The effect of these application rules and the fact that the Insurance Mediation Directive does not apply to an insurer (unless it is involved in mediation activities) is that this chapter does not apply applies to an insurer when it is making a personal recommendation to a professional client to take out a life policy. [deleted]*

...

- 9.1.9 G *COBS 7 (Insurance mediation) 6.1ZA contains requirements relating to the basis on which certain recommendations may be made, including*

requirements relating to fair analysis and range and scope.

9.2 Assessing suitability

Assessing suitability: the obligations

- 9.2.1 R (1) A *firm* must:
- (a) take reasonable steps to ensure that a *personal recommendation*, or a decision to trade, is suitable for its *client*; and
 - (b) ensure that any *life policy* proposed is consistent with the *client's* insurance demands and needs.
- (2) When making the *personal recommendation* or *managing a client's investments*, the *firm* must obtain the necessary information regarding the *client's*:
- (a) knowledge and experience in the investment field relevant to the specific type of *designated investment* or service;
 - (b) financial situation; and
 - (c) investment objectives,
- so as to enable the *firm* to make the recommendation, or take the decision, which is suitable for the *client* and for a *life policy*, to propose a contract that is consistent with the *client's* insurance demands and needs.

[**Note:** ~~article 12(2) of the *Insurance Mediation Directive*~~ recital 44 to, and second paragraph of article 20(1), of the *IDD*]

- 9.2.1A G A *client's* insurance demands and needs are those which would need to be obtained under COBS 7.3 where a contract is sold without the provision of a *personal recommendation*.

...

- 9.2.7 G Although a *firm* may not be permitted to make a *personal recommendation* or take a decision to trade because it does not have the necessary information, its *client* may still ask the *firm* to provide another service such as, for example, to arrange a deal or to deal as agent for the *client*. If this happens, the *firm* should ensure that it receives written confirmation of the instructions. The *firm* should also bear in mind the *client's best interests rule* and any obligation it may have under the *rules* relating to appropriateness when providing the different service (see COBS 10, Appropriateness (for non-advised services)) and COBS 10A, Appropriateness (for non-advised services) (MiFID and insurance based

investment products provisions)).

...

9.4 Suitability reports

...

- 9.4.2 R If a *firm* makes a *personal recommendation* in relation to a *life policy*, it must provide the *client* with a *suitability report*.

[Note: ~~article 12(3) of the Insurance Mediation Directive~~ first and third paragraphs of article 20(1) of the IDD]

- 9.4.3 R The obligation to provide a *suitability report* does not apply:

...

(3) ~~to any personal recommendation by a friendly society for a small life policy sold by it with a premium not exceeding £50 a year or, if payable weekly, £1 a week~~ [deleted];

(4) if the *personal recommendation* is to increase a regular *premium* to an existing contract;

...

Timing

- 9.4.4 R A *firm* must provide the *suitability report* to the *client*:

(1) in the case of a *life policy*, before the contract is concluded ~~unless the necessary information is provided orally or immediate cover is necessary~~; or

(2) in the case of a *personal pension scheme* or *stakeholder pension scheme* that is not a life policy, where the *rules* on cancellation (COBS 15) require notification of the right to cancel, no later than the fourteenth day after the contract is concluded; or

(3) in any other case, when or as soon as possible after the transaction is effected or executed.

[Note: ~~article 12(3) of the Insurance Mediation Directive~~ first and third paragraphs of article 20(1) of the IDD]

- 9.4.5 R ~~If, in respect of a life policy, the firm gives necessary information orally or gives immediate cover, it must provide a suitability report to the client in a durable medium immediately after the contract is concluded.~~ [deleted]

[Note: ~~article 13(2) of the Insurance Mediation Directive~~]

9.4.6 R In the case of telephone selling of a *life policy* (when the only contact between a *firm* and its *client* before conclusion of a contract is by telephone), the *suitability report* must be given in accordance with COBS 7.4. ÷

- (1) ~~comply with the distance marketing disclosure rules (COBS 5.1);~~
- (2) ~~be provided immediately after; and~~
- (3) ~~be in a *durable medium*.~~

[**Note:** ~~article 13(3) of the *Insurance Mediation Directive*~~ article 23(7) of the *IDD*]

Contents

9.4.7 R The *suitability report* must, at least:

- (1) specify, on the basis of the information obtained from the *client*, the *client's* demands and needs;
- (2) explain why the *firm* has concluded that the recommended transaction is suitable for the *client* having regard to the information provided by the *client*; ~~and~~
- (3) explain any possible disadvantages of the transaction for the *client*; and
- (4) in the case of a *life policy*, include a personalised recommendation explaining why a particular *life policy* would best meet the *client's* demands and needs.

[**Note:** ~~article 12(3) of the *Insurance Mediation Directive*~~ first and third paragraphs of article 20(1) of the *IDD*]

9.4.8 G A *firm* should must give the *client* such details as are appropriate ensure
 R the details are modulated according to the complexity of the transaction or the proposed *contract of insurance* and the type of *client*.

[**Note:** ~~article 12(3) of the *Insurance Mediation Directive*~~ article 20(2) of the *IDD*]

9.4.8A R Where a *friendly society* has given a *personal recommendation* on a small *life policy* in COBS 9.2.9R(2), the *suitability report* must include, at least, the information required by COBS 9.4.7R(1) and (4).

[**Note:** first and third paragraphs of article 20(1) of the *IDD*]

Means of communication (life policies)

9.4.9 R If a *firm* is providing a *suitability report* in the course of ~~*insurance mediation activity*~~ *insurance distribution activity*, the information must be

provided in accordance with COBS 7.4.÷

- (1) ~~in a *durable medium* which is available and accessible to the *client*;~~
- (2) ~~in a clear and accurate manner, comprehensible to the *client*; and~~
- (3) ~~in an official language of the *State of the commitment* in which the *contract of insurance* is made or in any other language agreed by the parties.~~

[**Note:** ~~article 13 of the *Insurance Mediation Directive*~~ article 23 of the *IDD*]

...

9.6 Special rules for giving basic advice on a stakeholder product

...

- 9.6.18A R (1) A firm providing basic advice on a *stakeholder product* that is a *life policy* must, in addition to providing the statement of demands and needs required under *COBS 7.3.1R*, provide the *client* with a personalised explanation of why a particular *life policy* would best meet the *client's* demands and needs.
- (2) The details must be modulated according to the complexity of the *life policy* proposed and the type of *client*.
- (3) The information in (1) must be provided in accordance with *COBS 7.4*.

[**Note:** third paragraph of article 20(1) and 20(2) of the *IDD*]

...

9 Annex Basic advice initial disclosure information 1R

This Annex belongs to *COBS 9.6.5R(1)*

Information that comprises the following:	
...	...
[Note: in respect of 1, 2, 4, 5, and 6, Articles 12 and 13 of the <i>Insurance mediation directive</i> and in respect of 7, Article <u>article 10 of the <i>Investors compensation directive</i></u>]	

...

9A Suitability (MiFID provisions)

9A.1 Suitability (MiFID and insurance based investment products provisions)

...

Application

- 9A.1.1 R This chapter applies to a *firm* which provides:
- (1) *investment advice or portfolio management in the course of MiFID, equivalent third country or optional exemption business; or*
 - (2) *investment advice in relation to an insurance based investment product.*

...

9A.2 Assessing suitability**Assessing suitability: the obligations**

- 9A.2.1 R When providing *investment advice or portfolio management* a *firm* must:
- (1) obtain the necessary information regarding the *client's*:
 - (a) knowledge and experience in the investment field relevant to the specific type of *financial instrument, insurance based investment product* or service;
 - (b) financial situation including his ability to bear losses; and
 - (c) investment objectives including his risk tolerance,
 so as to comply with (2);
 - (2) only recommend *investment services*, and *financial instruments* and *insurance based investment products*, or take ~~the decision~~ *decisions* to trade, which ~~is~~ are suitable for the *client* and, in particular, in accordance with the *client's* risk tolerance and ability to bear losses.

[**Note:** first paragraph of article 25(2) of *MiFID*, first paragraph of article 30(1) of the *IDD*]

...

- 9A.2.3A R When proposing an *insurance based investment product* a *firm* must ensure it is consistent with the *client's* insurance demands and needs.

[**Note:** recital 44 to, and second paragraph article 20(1) of, the *IDD*]

...

Insufficient information

- 9A.2.14 G Although a *firm* may not be permitted to ~~make a personal recommendation~~ provide investment advice or take a decision to trade because it does not have the necessary information, its *client* may still ask the *firm* to provide another service such as, for example, to arrange a deal or to deal as agent for the *client*. If this happens, the *firm* should ensure that it receives written confirmation of the instructions. The *firm* should also bear in mind the *client's best interests rule* and any obligation it may have under the *rules* relating to appropriateness when providing the different service (see COBS 10A (Appropriateness (for non-advised services in relation to MiFID provisions or non-advised sales of insurance based investment products)).

...

Bundled packages

- 9A.2.16 R Where a *firm* provides ~~a personal recommendation~~ investment advice recommending a package of services or products bundled pursuant to COBS 6.1ZA.16R (for MiFID business) or COBS 6.1ZA.16AR to COBS 6.1ZA.16ER (for *insurance based investment products*), the *firm* must ensure that the overall bundled package is suitable for the *client*.

[**Note:** second paragraph of article 25(2) of *MiFID* and second paragraph of article 30(1) of the IDD]

- 9A.2.17 G When considering the suitability of a particular *financial instrument* or insurance based investment product which is linked directly or indirectly to any form of loan, mortgage or *home reversion plan*, a *firm* should take account of the suitability of the overall transaction. The *firm* should have regard to any applicable suitability *rules* in MCOB.

...

Investments subject to restrictions on retail distribution: MiFID business and insurance based investment products

- 9A.2.22 G (1) *Firms* should note that restrictions and specific requirements apply to the retail distribution of certain ~~financial instruments~~ investments:
- (a) ...
- ...
- (2) A *firm* should be satisfied that an exemption is available before recommending a ~~financial instrument~~ an investment subject to a restriction on distribution to a *retail client*, noting in particular that a *personal recommendation* to invest will generally incorporate a *financial promotion*.
- (3) In addition to assessing whether the promotion is permitted, a *firm*

giving advice on a ~~financial instrument~~ an investment subject to a restriction on distribution should comply with their obligations in COBS 9A and ensure any *personal recommendation* is suitable for its *client*.

- (4) In considering its obligations under COBS 9A, a *firm* purchasing a ~~financial instrument~~ an investment subject to a restriction on distribution on behalf of a *retail client* as part of a discretionary management agreement should exercise particular care to ensure the transaction is suitable and in the *client's* best interests, having regard to the *FCA's* view that such ~~financial instruments~~ investments pose particular risks of inappropriate distribution.
- (5) A restriction on promotion does not affect a transaction where there has been no prior communication with the *client* in connection with the investment by the *firm* or a person connected to the *firm*. Nonetheless, if promotion of a ~~financial instrument~~ an investment to a *retail client* would not have been permitted, then the discretionary manager's decision to purchase it on behalf of the *retail client* should be supported by detailed and robust justification of his assessment of suitability.

...

9A.3 Information to be provided to the client

...

Suitability reports

- 9A.3.2 R (1) [deleted]
- (2) When providing *investment advice* to a retail client, a *firm* must, before the transaction is concluded, provide the *client* with a *suitability report* in a *durable medium*:
- (a) specifying the advice given and how that advice meets the preferences, objectives and other characteristics of the *client*;
 - (b) (for an insurance based investment product):
 - (i) specifying, on the basis of the information obtained from the *client*, the *client's* demands and needs; and
 - (ii) including a personalised recommendation explaining why a particular insurance based investment product would best meet the *client's* demands and needs.

The details in (i) and (ii) must be modulated according to the complexity of the contract of insurance proposed and

the type of *client*.

- (3) Where the ~~agreement to buy or sell a *financial instrument*~~ transaction is concluded using a means of distance communication which prevents the prior delivery of the *suitability report*, the *firm* may provide the *suitability report* in a *durable medium* immediately after the *client* is bound by ~~any such agreement~~ the transaction, provided both the following conditions are met:

- (a) the *client* has consented to receiving the *suitability report* without undue delay after the conclusion of the transaction; and
- (b) the *firm* has given the *client* the option of delaying the transaction in order to receive the *suitability report* in advance.

...

[**Note:** second, third and fourth paragraphs of article 25(6) of, and recital (82) to, *MiFID*; article 20(1), article 20(2), second paragraph of article 22(1) and second and third paragraphs of article 30(5) of the *IDD*]

9A.3.2A R Where a *firm* gives a *personal recommendation* to a *professional client* on an *insurance based investment product* it must, prior to the conclusion of the contract, provide to the client the information in *COBS 9A.3.2R(2)(b)* in accordance with *COBS 7.4*.

[**Note:** article 20(1) and 20(2) of the *IDD*]

...

Periodic assessments: MiFID business and insurance based investment products

9A.3.6 R A *firm* must;

- (1) in relation to an *insurance based investment product*, at least in good time prior to the conclusion of the contract;
- (2) otherwise, in good time before it provides its *investment advice*;

inform the *client* whether it will provide the *client* with a periodic assessment of the suitability of the *financial instruments* or the *insurance based investment products* recommended to the *client*.

[**Note:** article 24(4)(a)(iii) of *MiFID*, article 29(1)(a) of the *IDD*]

9A.3.7 G *COBS 9A.3.6R* supplements *COBS 2.2A.2R* (information disclosure before providing services (*MiFID* provisions and insurance distribution)).

...

9A.4 Record keeping and retention periods for suitability recordsRecord keeping

- 9A.4.1 G A *firm* to which SYSC 9 applies is required to keep orderly records of its business and internal organisation (see SYSC 9, General rules on record-keeping). The records may be expected to reflect the different effect of the requirements in this chapter depending on whether the *client* is a *retail client* or a *professional client*; for example, in respect of information about the *client* which the *firm* must obtain and whether the *firm* is required to provide a *suitability report*.
- 9A.4.2 G A *firm* should refer to SYSC 3.2 and SYSC 3.3 (for insurers and managing agents) and SYSC 9 (for other *firms*) for its obligations in relation to record keeping.

[Note: article 16(7) of *MiFID*]

...

10 Appropriateness (for non-MiFID and non-insurance based investment products non-advised services) (non-MiFID and non-insurance based investment products provisions)

...

10A Appropriateness (for non-advised services) (MiFID and insurance based investment products provisions)

10A.1 Application

...

Application

- 10A.1.1 R This chapter applies to a *firm* which:
- (1) provides *investment services* in the course of *MiFID* or equivalent *third country business*; or
 - (2) carries on insurance distribution in relation to an insurance based investment product,
- other than ~~making~~ when the *firm* makes a *personal recommendation* or ~~carrying~~ carries out *portfolio management*.

...

10A.2 Assessing appropriateness: the obligations

- 10A.2.1 R ~~When providing a service to which this chapter applies, a~~ A *firm* must ask the *client* to provide information regarding that *client's* knowledge and

experience in the investment field relevant to the specific type of product or service offered or demanded to enable the *firm* to assess whether the service or product envisaged is appropriate for the *client*.

[**Note:** article 25(3) of *MIFID*, first paragraph of article 30(2) of the *IDD*]

- 10A.2.1 A G A *firm* carrying on *insurance distribution* is also required to comply with the requirements in *COBS* 7.3 (additional insurance distribution obligations: demands and needs).

[**Note:** first paragraph of article 30(2) of the *IDD*]

Bundled packages

- 10A.2.2 R Where a bundle of services or products is envisaged pursuant to *COBS* 6.1ZA.16R (for MiFID business) or *COBS* 6.1ZA.16AR to *COBS* 6.1ZA.16E (for *insurance based investment products*), the assessment made pursuant to *COBS* 10A.2.1R must consider whether the overall bundled package is appropriate.

[**Note:** article 25(3) of *MiFID*, first paragraph of article 30(2) of the *IDD*]

...

No duty to communicate firm's assessment of knowledge and experience

- 10A.2.1 0 G If a *firm* is satisfied that the *client* has the necessary experience and knowledge in order to understand the risks involved in relation to the product or service, there is no duty to communicate this to the *client*. If the *firm* does so, it must not do so in a way that amounts to making a *personal recommendation* unless it complies with the *rules* in *COBS* 9A (*MiFID and insurance based investment products* provisions).

10A.3 Warning the client

- 10A.3.1 R (1) If a *firm* considers, on the basis of information received to enable it to assess appropriateness, that the product or service is not appropriate for the *client*, the *firm* must warn the *client*.

(2) This warning may be provided in a standardised format.

[**Note:** article 25(3) of *MiFID*, second paragraph of article 30(2) of the *IDD*]

- 10A.3.2 R (1) If the *client* does not provide the information to enable the *firm* to assess appropriateness, or if the *client* provides insufficient information regarding their knowledge and experience, the *firm* must warn the *client* that the *firm* is not in a position to determine whether the service or product envisaged is appropriate for the *client*.

(2) This warning may be provided in a standardised format.

[**Note:** article 25(3) of *MiFID*, third paragraph of article 30(2) of the *IDD*]

...

10A.4 Assessing appropriateness: when it need not be done due to type of investment

- 10A.4.1 R (1) A *firm* is not required to ask its *client* to provide information or assess appropriateness if either (a) or (aa), and both (b) and (c), are met:
- (a) the service:
 - (i) only consists of execution or reception and transmission of *client* orders, with or without *ancillary services*, excluding *ancillary service* (2) in section B of Annex I to *MiFID* (granting of credits or loans), where the relevant credits or loans do not comprise existing credit limits of loans, current accounts and overdraft facilities of *clients*;
 - (ii) relates to particular *financial instruments* (see (2)); and
 - (iii) is provided at the initiative of the *client*; or
 - (aa) the *insurance distribution* activity:
 - (i) relates to particular types of *insurance based investment products* (see (2A)); and
 - (ii) is carried out at the initiative of the *client*; and
 - (b) the *client* has been clearly informed (whether in a standardised format or not) that, in the provision of ~~this~~ the service or *insurance distribution* activity, the *firm* is not required to assess the appropriateness of the *financial instrument* or service or *insurance based investment product* provided or offered and that therefore the *client* does not benefit from the protection of the *rules* on assessing appropriateness; and
 - (c) the *firm* complies with its obligations in relation to conflicts of interest.
- (2) The *financial instruments* referred to in (1)(a)(ii) are any of the following:
- (a) shares in companies admitted to trading on:
 - (i) a *regulated market*; or
 - (ii) an equivalent third country market; or

(iii) an *MTF*,

except shares that embed a derivative and *units* in a collective investment undertaking that is not a *UCITS*; or

(b) bonds or other forms of securitised debt admitted to trading on:

(i) a *regulated market*; or

(ii) an equivalent third country market; or

(iii) an *MTF*,

except those that embed a derivative or incorporate a structure which makes it difficult for the *client* to understand the risk involved; or

(c) *money market instruments*, excluding those that embed a derivative or incorporate a structure which makes it difficult for the *client* to understand the risk involved; or

(d) shares or *units* in a *UCITS*, excluding structured *UCITS* as referred to in the second subparagraph of article 36(1) of the *KII Regulation*; or

(e) *structured deposits*, excluding those that incorporate a structure which makes it difficult for the *client* to understand the risk of return or the cost of exiting the product before term; or

(f) other non-complex *financial instruments*.

(2A) The insurance based investment products referred to in (1)(aa) are:

(a) insurance based investment products which only provide investment exposure to financial instruments referred to in (2) and do not incorporate a structure which makes it difficult for the client to understand the risks involved; or

(b) other non-complex insurance based investment products.

(3) ...

[**Note:** article 25(4) of *MIFID*, article 30(3) of the *IDD*]

...

~~Non-complex~~ Other non-complex financial instruments

...

10A.5 Assessing appropriateness: guidance

The initiative of the client

- 10A.5.1 G A service should be considered to be provided, or carried out, at the initiative of a *client* (see *COBS* 10A.4.1R(1)(a)(iii) and (aa)(ii)), unless the *client* demands it in response to a personalised communication from or on behalf of the *firm* to that *client* which contains an invitation or is intended to influence the *client* in respect of a specific *financial instrument*, *insurance based investment product* or specific transaction.

[Note: recital 85 to *MIFID*]

- 10A.5.2 G A service can be considered to be provided, or carried out, at the initiative of a *client* notwithstanding that the *client* demands it on the basis of any communication containing a promotion for, or offer of, *financial instruments or insurance based investment products* made by any means and that by its very nature is general and addressed to the public or a larger group or category of *clients*.

[Note: recital 85 to *MIFID*]

...

10A.6 When a firm need not assess appropriateness due to suitability assessment

- 10A.6.1 G A *firm* need not assess appropriateness if it is receiving or transmitting an order ~~in relation to which~~ or carrying on *insurance distribution* in relation to an *insurance based investment product*, for which it has assessed suitability under *COBS* 9A (Suitability (*MiFID* and insurance based investment products provisions)).

...

10A.7 Record keeping and retention periods for appropriateness records

...

Record keeping: MiFID business

...

Record keeping: MiFID business and insurance based investment products

- 10A.7.3 G A *firm* should refer to *SYSC* 3.3 (for insurers and managing agents) and *SYSC* 9 (for other firms) for its obligations in relation to record keeping. ~~This~~ These provisions ~~requires~~ require records kept for the purposes of this chapter to be retained for a period of at least five years.

...

14 Providing product information to clients

...

14.2 Providing product information to clients

Providing information about PRIIPs

14.2.-1 G (1) ...

...

- (3) A *firm* that sells a *life policy* that is also a *PRIIP* must provide the ~~*Solvency II Directive information*~~, as information required by *COBS* 14.2.1R(2). Some or all of this information may be included in a *key information document* if this is required to be provided by, and such inclusion is permitted under, the *PRIIPs Regulation*.

The provision rules for products other than PRIIPS

14.2.1 R A *firm* that sells:

(1) ...

(2) a *life policy* to a *client*, must provide:

- (a) the *Solvency II Directive information* to that *client*;
- (b) a *client* with objective and relevant information about the *policy*:
 - (i) in a comprehensible form to allow the *client* to make an informed decision;
 - (ii) modulated in a way that takes into account the complexity of the *policy* and the type of *client*;
 - (iii) whether or not the *firm* gives a *personal recommendation*; and
 - (iv) irrespective of whether the *policy* is part of a package pursuant to *COBS* 6.1ZA.16AR to *COBS* 6.1ZA.16ER;
- (c) the information in (b) must be provided prior to the conclusion of the *life policy* and in accordance with *COBS* 7.4, rather than in accordance with the other *rules* in this section.

...

[Note: in respect of (2) article 185(1) of the *Solvency II Directive* and in respect of (2)(b) articles 20(1) first paragraph, 20(2), 20(4) and 23 of the *IDD*]

...

...

16A Reporting information to clients (MiFID and insurance based investment products provisions)

16A.1 Application

- 16A.1.1 R This chapter applies to a *firm* in relation to:
- (1) its *MiFID, equivalent third country or optional exemption business*; or
 - (2) carrying on insurance distribution activities relating to an insurance based investment product.

...

16A.2 General client reporting and record keeping requirements

- 16A.2.1 R (1) A *firm* must provide a *client* with adequate reports on the service provided in a *durable medium*.
- (2) The reports must include:
- (a) periodic communications to the *client*, taking into account the type and the complexity of the *financial instruments or insurance based investment products* involved and the nature of the service provided to the *client*; and
 - (b) where applicable, the costs associated with the transactions and services undertaken on behalf of the *client*.

[**Note:** article 25(6) of *MIFID*, article 30(5) of the *IDD*]

- 16A.2.2 G A *firm* should refer to SYSC 3.2 (for insurers and managing agents) and SYSC 9 (Record keeping) (for other firms) for the requirements that apply in relation to the retention of records.

16A.3 Occasional reporting: MiFID business

...

16A.4 Periodic reporting

Provision by a firm and contents: MiFID business

...

TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)		(5)	(6)
	Material to which the transitional provision applies		Transitional provision		Transitional provision: dates in force	Handbook provisions: coming into force
...						
2.- 2B	COBS 2.3A	R	The <i>rules</i> and <i>guidance</i> on inducements in COBS 2.3A:		From 3 January 2018	3 January 2018 (and in relation to an <u>insurance based investment product</u> , 23 February 2018)
			(1)	apply to fees, commission, monetary and non-monetary benefits which are paid, provided or received by a <i>firm</i> in respect of:		
			(a)	<u>(unless (b) applies)</u> services that are provided to a <i>client</i> on or after 3 January 2018;		
			(b)	<u>(in relation to an insurance based investment product)</u> services that are provided to a <i>client</i> on or after 23 February 2018; and		
			(2)	do not apply to fees, commission, monetary or non-monetary benefits which are paid, provided or received in respect of:		
			(a)	<u>(unless (b) applies)</u> services that are provided to a <i>client</i> before 3 January 2018;		
			(b)	<u>(in relation to an insurance based investment product)</u>		

					<u>services that are provided to a <i>client</i> on or after 23 February 2018.</u>		
...							

Annex I

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless indicated otherwise.

1 Annex 1 Application (see ICOBS 1.1.2R)

Part 1: Who?			
Modifications to the general application rule according to type of firm			
...			
3	Authorised professional firms		
	R	This sourcebook (except for <i>ICOBS</i> 4.6) does not apply to an <i>authorised professional firm</i> with respect to its <i>non-mainstream regulated activities</i> except for:	
		(1)	...
		...	
		(4)	provisions implementing articles 1(4), 17, 18, 19, 20(1) to (3) <u>20</u> , 23, and 24 of the <i>IDD</i> (see <i>ICOBS</i> 2.2.2R (communication to customers and financial promotions), <i>ICOBS</i> 2.2.2AR (marketing communications), <i>ICOBS</i> 2.5.-1R (the customer’s best interests rule), <i>ICOBS</i> 2.6 (Distribution of connected contracts through exempt persons), <i>ICOBS</i> 4.1 (Information about the firm, its services and remuneration), <i>ICOBS</i> 4.1A (Means of communicating to customers), <i>ICOBS</i> 4.3 (remuneration disclosure), <i>ICOBS</i> 5.2 (Demands and needs), <i>ICOBS</i> 5.3.3R (Advice on the basis of a fair analysis), <i>ICOBS</i> 5.3.4R (Personalised explanation), <i>ICOBS</i> 6A.1.4R (Ensuring the customer can make an informed decision) and, <i>ICOBS</i> 6A.3 (Cross-selling)), except to the extent that the <i>firm</i> is subject to equivalent rules of its <i>designated professional body</i> approved by the <i>FCA</i> .
...			
Part 2: What?			
Modifications to the general application rule according to activities			
...			
2	Contracts of large risks		

2.1	R	Subject to Part 3 of this Annex:	
		(1)	this sourcebook does not apply to a <i>firm</i> distributing a <i>contract of large risks</i> where the risk is located outside the <i>European Economic Area</i> ; and
		(2)	only <i>ICOBS</i> 2 (General matters) and <i>ICOBS</i> 6A.3 (Cross-selling) apply to a <i>firm</i> distributing a <i>contract of large risks</i> for a <i>commercial customer</i> where the risk is located within the <i>European Economic Area</i> ; <u>and</u>
		(3)	<u>the <i>IPID</i> requirement in <i>ICOBS</i> 6.1.10A (How must <i>IPID</i> information be provided?) and <i>ICOBS</i> 6 Annex 3 (Providing product information by way of a standardised insurance information document) do not apply to a <i>firm</i> distributing a <i>contract of large risks</i>.</u>
		[Note: article 22(1) of the <i>IDD</i>]	
...			
Part 4: Guidance			
1	The main extensions and restrictions to the general application rule		
...			
3.2	G	The <i>rules</i> in this sourcebook within the Directive’s scope are those implementing the minimum requirements in articles 1(4), 17, 18, 19, 20, <u>21</u> , 23 and 24(1) to (3) and (6) of the <i>IDD</i> set out in:	
		(1)	...
		...	
		(3A)	<u><i>ICOBS</i> 6.1 (Providing product information to customers: general) and <i>ICOBS</i> 6 Annex 3 (Providing product information by way of a standardised insurance information document); and</u>
		(4)	<i>ICOBS</i> 6A.1.4R (Ensuring the customer can make an informed decision) and <i>ICOBS</i> 6A.3 (Cross-selling).
3.2A	...		
3.2B	G	The additional requirements within the scope of the <i>IDD</i> and found in this sourcebook are those that:	

		...	
		(2)	require the <u>production and</u> provision of pre-contract information or the provision of advice on the basis of a fair and personal analysis (see <i>ICOBS</i> 4 (Information about the firm, its services and remuneration), <i>ICOBS</i> 5.2 (Demands and needs), <i>ICOBS</i> 5.3.3R (Advice on the basis of a fair analysis), <i>ICOBS</i> 6.1A.5R (Responsibility for producing the <u>standardised insurance product information document</u>), <i>ICOBS</i> 6.1 (Providing product information to customers: general); <i>ICOBS</i> 6A.1.4R (Ensuring the customer can make an informed decision) and <i>ICOBS</i> 6A.3 (Cross-selling)).
...			

2 General matters

...

2.6 Distribution of connected contracts through exempt persons

- 2.6.1 R (1) Where an *insurance distributor* is distributing through a *person* relying on the connected contracts exemption in article 72B of the *Regulated Activities Order*, the *insurance distributor* must ensure that the requirements in (2) are met;
- (2) The requirements referred to in (1) are:
- (a) SYSC 19F.2 (Remuneration and insurance distribution activities);
 - (b) *ICOBS* 2.2.2R and *ICOBS* 2.2.2AR (Clear, fair and not misleading rule and marketing communication);
 - (c) *ICOBS* 2.5.-1R (Customer's best interests);
 - (d) *ICOBS* 4.1.2R(1)(a) and (c) (Status disclosure: general information provided by insurance intermediaries or insurers);
 - (e) *ICOBS* 5.2 (Demands and needs);
 - (f) *ICOBS* 6.1.5R(4) (Ensuring customers can make an informed decision: the appropriate information rule);
 - (g) *ICOBS* 6.1.10AR (How must IPID information be provided?);
and
 - ~~(f)~~ *ICOBS* 6A.3 (Cross-selling).
 - (h)

[**Note:** article 1(4) ~~first paragraph and article 1(4)(a) and (b)~~ of the *IDD*]

...

3 Distance communications

3.1 Distance marketing

...

Guidance on the Distance Marketing Directive

- 3.1.2 G *Guidance* on expressions derived from the *Distance Marketing Directive* and on the Directive's application in the context of ~~insurance mediation activity~~ insurance distribution activity can be found in *ICOBS 3 Annex 1G*.

...

3 Annex 1 Guidance on the Distance Marketing Directive

This Annex belongs to *ICOBS 3.1.2G*

...

Q7. How does the Directive apply to insurance intermediaries services?

The *FCA* expects the *Distance Marketing Directive* to apply to *insurance intermediaries'* services only in the small minority cases where:

- the *firm* concludes a *distance contract* with a *consumer* covering its ~~insurance mediation activities~~ insurance distribution activities which is additional to any insurance contract which it is marketing; and
- ...

Q8. Can you give examples of when the Directive would and would not apply to insurance intermediaries services?

The *rules* implementing the *Distance Marketing Directive* will not apply in the typical case where an *insurance intermediary* sells an insurance contract to a *consumer* on a one-off basis, even if the *insurance intermediary* is involved in the *renewal* of that contract and handling claims under it.

Nor will the Directive apply if an *insurance intermediary*, in its terms of business, makes clear that it does not, in conducting ~~insurance mediation activities~~ insurance distribution activities, act contractually on behalf of, or for, the *consumer*.

...

...

Insert, as the first section of chapter 6 (Product Information) the following new section *ICOBS* 6.-1. The new section amends the text formerly in *ICOBS* 6.1.1R to *ICOBS* 6.1.4R. All the text is re-stated in this position and is not underlined. The underlining indicates new text.

6 Product Information

6.-1 Producing and providing product information

Responsibilities for producing and providing information as between insurers and insurance intermediaries: general

- 6.-1.1 R An *insurer* is responsible for producing, and an *insurance intermediary* for providing to a *customer*, the information required by this chapter and by the distance communication *rules* (see *ICOBS* 3.1). However, an *insurer* is responsible for providing information required on mid-term changes, and an *insurance intermediary* is responsible for producing price information if it agrees this with an *insurer*.
- 6.-1.2 R If there is no *insurance intermediary*, the *insurer* is responsible for producing and providing the information.
- 6.-1.3 R An *insurer* must produce information in good time to enable the *insurance intermediary* to comply with the *rules* in this chapter, or promptly on an *insurance intermediary's* request.
- 6.-1.4 R These general *rules* on the responsibilities of *insurers* and *insurance intermediaries* are modified by *ICOBS* 6 Annex 1 if one of the *firms* is not based in the *United Kingdom*, and in certain other situations.

Responsibility for producing the standardised insurance product information document

- 6.-1.5 R The *IPID* must be drawn up by the manufacturer of the *policy*.

[Note: article 20(6) of the *IDD*]

6.1 General Providing product information to customers: general

~~Responsibilities on insurers and insurance intermediaries~~

- 6.1.1 R ~~An insurer is responsible for producing, and an insurance intermediary for providing to a customer, the information required by this chapter and by the distance communication rules (see *ICOBS* 3.1). However, an insurer is responsible for providing information required on mid-term changes, and an insurance intermediary is responsible for producing price information if it~~

~~agrees this with an insurer. [deleted]~~

- 6.1.2 R ~~If there is no insurance intermediary, the insurer is responsible for producing and providing the information. [deleted]~~
- 6.1.3 R ~~An insurer must produce information in good time to enable the insurance intermediary to comply with the rules in this chapter, or promptly on an insurance intermediary's request. [deleted]~~
- 6.1.4 R ~~These general rules on the responsibilities of insurers and insurance intermediaries are modified by ICOBS 6 Annex 1 if one of the firms is not based in the United Kingdom, and in certain other situations. [deleted]~~

Ensuring customers can make an informed decision: the appropriate information rule

- 6.1.5 R (1) ~~A firm must take reasonable steps to ensure that a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed.~~
- (2) The information must be provided to the customer:
- (a) whether or not a personal recommendation is given; and
- (b) irrespective of whether a policy is offered as part of a package with:
- (i) a non-insurance product or service (see ICOBS 6A.3 (Cross-selling)); or
- (ii) another policy.
- (3) Appropriate information is both objective and relevant information, and includes IPID information.
- (4) Where the firm is proposing a policy (including if appropriate on renewal) 'in good time' means in good time prior to the conclusion of the policy.

[Note: articles 20(1) first paragraph and 20(4) of the IDD]

- 6.1.6 G The appropriate information rule applies:
- (1) at all of the different stages of a contract and includes pre-conclusion and post-conclusion, and so includes matters such as and also when mid-term changes and renewals are proposed. It also applies to the price of the policy;
- (2) in the same way to any policy, regardless of whether that policy is sold on its own, in connection with another policy, or in connection with

other goods or services; and

(3) to the price of the *policy*.

- 6.1.6A G ~~The appropriate information *rule* applies in the same way to any *policy*, regardless of whether that *policy* is sold on its own, in connection with another *policy*, or in connection with other goods or services. [deleted]~~

What level of information needs to be provided?

- 6.1.6B R A *firm* must ensure that the level of appropriate information provided takes into account the complexity of the *policy* and the type of *customer*.

[Note: article 20(4) of the *IDD*]

- 6.1.7 G The level of information required will vary according to matters such as:
- (1) the knowledge, experience and ability of a typical *customer* for the *policy*;
 - (2) the *policy* terms, including its main benefits, exclusions, limitations, conditions and its duration;
 - (3) the *policy*'s overall complexity;
 - (4) whether the *policy* is bought in connection with other goods and services including another *policy* (also see *ICOBS* 6A.3 (cross selling));
 - (5) distance communication information requirements (for example, under the distance communication *rules* less information can be given during certain telephone sales than in sales made purely by written correspondence (see *ICOBS* 3.1.14R); and
 - (6) whether the same information has been provided to the *customer* previously and, if so, when.

Appropriate information for commercial customers

- 6.1.7A G A *firm* dealing with a *commercial customer*:
- (1) may choose to provide some of or all of the appropriate information in an *IPID* (see *ICOBS* 6.1.10AR), a *policy summary* or a similar summary if it considers this to be a comprehensible form in which to provide that information; and
 - (2) should include the *IPID* information (regardless of whether an *IPID* itself is provided).
- 6.1.8 G ~~In determining what is “in good time”, a *firm* should consider the importance of the information to the *customer*'s decision-making process and at the point~~

~~at which the information may be most useful. Distance communication timing requirements are also relevant (for example the distance communication rules enable certain information to be provided post conclusion in telephone and certain other sales (see *ICOBS* 3.1.14R and *ICOBS* 3.1.15R)). [deleted]~~

...

- 6.1.10 G ~~A firm dealing with a consumer may wish to provide information in a policy summary or as a key features document (see *ICOBS* 6 Annex 2). [deleted]~~

How must IPID information be provided?

- 6.1.10A R A firm, when dealing with a consumer must provide the IPID information by way of an IPID for each policy (other than a pure protection contract).

[Note: articles 20(4) and 20(5) of the IDD]

- 6.1.10B G The IPID information:

- (1) needs to be provided on paper or on another durable medium;
- (2) in the case of telephone selling, a firm may provide the IPID in accordance with the distance communication timing requirements and provide the IPID to the customer immediately after the conclusion of the policy.

in accordance with *ICOBS* 6.6 (Means of communication).

[Note: article 23(7) of the IDD]

How must appropriate information other than IPID information be provided?

- 6.1.10C G (1) Appropriate information other than IPID information includes, among other matters, any other information required by the appropriate information rule (*ICOBS* 6.1.5R), specific price disclosure requirements (*ICOBS* 6.1.13R), guaranteed assets protection (GAP) products (*ICOBS* 6A.1.4G), *Solvency II Directive* disclosure requirements (*ICOBS* 6.2.2R) and renewals (*ICOBS* 6.5).
- (2) A firm needs to consider the form in which it provides appropriate information (see *ICOBS* 6.1.5R).
- (3) A firm can provide the other information in (1) together with the IPID as long as the IPID remains a stand-alone document.

[Note: article 20(4) and article 20(7) last paragraph of the IDD]

Providing evidence of cover Interaction between information provision requirements and the customer's best interests rule and Principle 7

- 6.1.11 G To comply with the *customer's best interest rule* and *Principle 7* (communication with clients) a *firm* should:
- (1) include consideration of the information needs of the *customers* including:
 - (a) what they need to understand the relevance of any information provided by the *firm*; and
 - (b) at which point in the sales process will the information be most useful to the *customer* to enable them to make an informed decision;
 - (2) Under *Principle 7* a *firm* should provide evidence of cover promptly after inception of a *policy*. ~~Firms will need to take into account the type of customer and the effect of other information requirements, for example those under the distance communication rules (*ICOBS* 3.1).~~
taking into account the type of *customer* and the effect of other information requirements, for example, those under the distance communication rules (*ICOBS* 3.1); and
 - (3) in relation to a *group policy*, provide appropriate information to the *customer*, telling the *customer* to pass on to each *policyholder*.

Group policies

- 6.1.12 G ~~Under *Principle 7*, a *firm* that sells a *group policy* should provide appropriate information to the *customer* to pass on to other *policyholders*. It should tell the *customer* that he should give the information to each *policyholder*. [deleted]~~

[*Editor's note*: The renewal provisions in *ICOBS* 6.1.12AR and *ICOBS* 6.1.12BG are moved to a new section, *ICOBS* 6.5.]

Renewals

- 6.1.12A R (1) ~~This rule applies when a *firm* proposes to a *consumer* the renewal of a *general insurance contract*, which is not a *group policy*, and which has a duration of 10 months or more. [deleted]~~
- (2) ~~In this rule, 'renewal' means carrying forward a *policy*, at the point of expiry and as a successive or separate operation of the same nature and duration as the *policy*, with the same *insurance intermediary* or the same *insurer*.~~
- (3) ~~The *firm* must provide to the *consumer* the following information in~~

good time before the renewal:

- (a) ~~the *premium* to be paid by the *consumer* on renewal;~~
 - (b) ~~in a way that is consistent with the presentation of (a) so that they can be easily compared:~~
 - (i) ~~except where (ii) applies, the *premium* for the *policy* which the *firm* proposes to renew, as set out at the inception of that *policy*;~~
 - (ii) ~~where one or more mid-term changes were made to the *policy* which the *firm* proposes to renew, an amount calculated by annualising (or otherwise adjusting as appropriate to the duration of the proposed *policy*) the *premium* in effect following the most recent mid-term change, excluding all fees or charges associated with those mid-term changes;~~
 - (c) ~~a statement alongside (a) and (b) indicating that the *consumer*:~~
 - (i) ~~should check that the level of cover offered by the renewal is appropriate for their needs; and~~
 - (ii) ~~is able, if they so wish, to compare the prices and levels of cover offered by alternative providers.~~
- (4) ~~Where the proposed renewal will be the fourth or subsequent renewal the *consumer* has entered into in respect of the *policy*, the *firm* must include the following statement, to appear alongside the matters required by (3)(a), (b) and (c)(i) (but omitting (c)(ii)): “You have been with us a number of years. You may be able to get the insurance cover you want at a better price if you shop around.”~~
- (5) ~~The *firm* must communicate the information in (3) and (4):~~
- (a) ~~clearly and accurately;~~
 - (b) ~~in writing or another *durable medium*; and~~
 - (c) ~~in a way that is accessible and which draws the *consumer’s* attention to it as key information.~~

6.1.12B G A *firm* should have regard to the record keeping obligations referred to in ICOPS 2.4.1G and ensure that it has appropriate systems and controls in place with respect to: [deleted]

- (a) ~~the adequacy of its records so it may fulfil its regulatory and statutory obligations; and~~

- (b) ~~the sufficiency of its records to enable the FCA to monitor the firm's compliance with the requirements under the regulatory system.~~

~~Price disclosure: connected goods and services~~ What additional information must be disclosed for packaged products and other relevant requirements?

- 6.1.13 R (1) If a *policy* is bought by a *consumer* in connection with other goods or services a *firm* must, before conclusion of the contract, disclose its *premium* separately from any other prices and whether buying the *policy* is compulsory.
- (2) In the case of a *distance contract*, disclosure of whether buying the *policy* is compulsory may be made in accordance with the timing requirement under the distance communication *rules* (see *ICOBS* 3.1.8R, *ICOBS* 3.1.14R and *ICOBS* 3.1.15R).
- (3) This *rule* does not apply to policies bought in connection with other goods or services provided as part of a *packaged bank account*.

6.1.13A G ~~*Firms*~~ In addition to the requirements in *ICOBS* 6.1 (Product information) *firms* are reminded that:

- (1) when offering a *policy* as part of a *packaged bank account* the *firm* may be subject to the requirements of regulation 13 (payment accounts packages with another product or service) of the *Payment Accounts Regulations*;
- (2) *ICOBS* 6A.3 (Cross-selling) contains *rules* in relation to packages which include both *insurance* and non-insurance products or services.

~~Exception to the timing rules: distance contracts and voice telephony communications~~

- 6.1.14 R ~~Where a *rule* in this chapter requires information to be provided in writing or another durable medium before the conclusion of a contract, a *firm* may instead provide that information in accordance with the distance communication timing requirements (see *ICOBS* 3.1.14R and *ICOBS* 3.1.15R).~~ [deleted]

...

6.4 Pre- and post-contract information: protection policies

...

Policy summary

- 6.4.4 R A *firm* must provide a *consumer* with a *policy summary* in good time before the conclusion of a ~~contract~~ *pure protection contract*.

Complaints and compensation information

- 6.4.4A R In relation to a *payment protection contract*, a *firm* must provide a *consumer* with information about:
- (1) how the *consumer* can complain to the *insurance undertaking* and that complaints may subsequently be referred to the *Financial Ombudsman Service* (or other applicable named complaints scheme); and
 - (2) the *consumer's* entitlement to compensation from the *compensation scheme* (or other applicable compensation scheme), or that there is no compensation scheme, in the event where the *insurance undertaking* is unable to meet its liabilities;
- in good time before the conclusion of the *policy*.

...

After *ICOBS* 6.4 (Pre-and post-contract information: protection policies) insert the following new section *ICOBS* 6.5. The new section amends the text formerly in *ICOBS* 6.1.12AR and *ICOBS* 6.1.12BG. All the text is re-stated in this position and is not underlined. Underlining indicates new text.

6.5 Renewals

Renewals

- 6.5.1 R (1) This ~~rule~~ section applies when a *firm* proposes to a *consumer* the renewal of a *general insurance contract*, which is not a *group policy*, and which has a duration of 10 months or more.
- (2) In this ~~rule~~ section, ‘renewal’ means carrying forward a *policy*, at the point of expiry and as a successive or separate operation of the same nature and duration as the *policy*, with the same *insurance intermediary* or the same *insurer*.
- (3) The *firm* must provide to the *consumer* the following information in good time before the renewal:
- (a) the *premium* to be paid by the *consumer* on renewal;
 - (b) in a way that is consistent with the presentation of (a) so that they can be easily compared:
 - (i) except where (ii) applies, the *premium* for the *policy* which the *firm* proposes to renew, as set out at the inception of that *policy*;

- (ii) where one or more mid-term changes were made to the *policy* which the *firm* proposes to renew, an amount calculated by annualising (or otherwise adjusting as appropriate to the duration of the proposed policy) the *premium* in effect following the most recent mid-term change, excluding all fees or charges associated with those mid-term changes;
 - (c) a statement alongside (a) and (b) indicating that the *consumer*:
 - (i) should check that the level of cover offered by the renewal is appropriate for their needs; and
 - (ii) is able, if they so wish, to compare the prices and levels of cover offered by alternative providers.
 - (4) Where the proposed renewal will be the fourth or subsequent renewal the *consumer* has entered into in respect of the policy, the *firm* must include the following statement, to appear alongside the matters required by (3)(a), (b) and (c)(i) (but omitting (c)(ii)): “You have been with us a number of years. You may be able to get the insurance cover you want at a better price if you shop around.”
 - (5) The *firm* must communicate the information in (3) and (4):
 - (a) clearly and accurately;
 - (b) in writing or another *durable medium*; and
 - (c) in a way that is accessible and which draws the *consumer’s* attention to it as key information.
- 6.5.2 G A *firm* should have regard to the record-keeping obligations referred to in *ICOBS* 2.4.1G and ensure that it has appropriate systems and controls in place with respect to:
- (1) ~~(a)~~ the adequacy of its records so it may fulfil its regulatory and statutory obligations; and
 - (2) ~~(b)~~ the sufficiency of its records to enable the *FCA* to monitor the *firm’s* compliance with the requirements under the *regulatory system*.
- 6.5.3 G A *firm* should ensure it complies with the other requirements in *ICOBS* that are relevant, such as providing product information to *customers* (see *ICOBS* 6.1), including the requirement to provide an *IPID* (see *ICOBS* 6.1.10AR).

After *ICOBS* 6.5 (Renewals) insert the following new section *ICOBS* 6.6. The text is not underlined.

6.6 Means of communication

Means of communication

- 6.6.1 R The information in *ICOBS* 6, unless modified in this chapter, must be given in accordance with *ICOBS* 4.1A (Means of communication to customers).

[**Note:** article 23(1) of the *IDD*]

Amend the following as shown.

6 Annex 1R Responsibilities of insurers and insurance intermediaries in certain situations

This annex belongs to ~~*ICOBS* 6.1.4R~~ *ICOBS* 6.-1.4R

The table in this annex modifies the general rule on the responsibilities of *insurers* and *intermediaries* for producing and providing to a *customer* the information required by this chapter. The table does not include the responsibilities of *insures* and *intermediaries* for producing the *IPID* (*ICOBS* 6.-1.4R).

	Situation	<i>Insurance intermediary's</i> responsibility	<i>Insurer's</i> responsibility
(1)	...		
(2)	<p><i>Insurance intermediary</i> does not operate from <i>UK</i> establishment, is not <i>authorised</i>, is selling <i>connected contracts</i> or is <i>authorised professional firm</i> carrying on <i>non-mainstream regulated activities</i>.</p> <p><i>Insurer</i> operates from <i>UK</i> establishment.</p> <p><i>Customer</i> habitually</p>	None	Production and providing (but <u>for <i>pure protection contracts</i></u> no <i>policy summary</i> is required unless the <i>insurance intermediary</i> does not operate from a <i>UK</i> establishment)

	<i>resident in the EEA</i>		
...			
(6)	Where <i>ICOBS</i> 6.1.12AR <i>ICOBS</i> <u>6.5.1R</u> applies

6 Annex 2R Policy summary for consumers (pure protection contracts and or commercial customers)

This annex belongs to ~~ICOBS 6.1.10G~~ *ICOBS 6.1.7AG* and *ICOBS 6.4.4R*

1	Format		
1.1	R	(1)	
		(2)	A <i>policy summary</i> must be in a separate document, or within a prominent separate section of another document clearly identifiable as containing key information that the <i>consumer</i> should read.
1.2	G	...	
<u>1.3</u>	<u>G</u>	<u>A reference to <i>consumer</i> has the meaning <i>commercial customer</i> if a <i>policy summary</i> is used for the purposes set out in <i>ICOBS 6.1.7AG</i> (appropriate information for commercial customers).</u>	
...			

Insert the following new Annex after *ICOBS 6 Annex 2 (Policy summary for consumers)*.
The text is not underlined.

6 Annex 3R Providing product information by way of a standardised insurance information document:

[**Note:** the *IDD IPID Regulation* is directly applicable to *IDD insurance intermediaries*, *IDD insurance undertakings* and *IDD ancillary insurance intermediaries*.]

This annex belongs to *ICOBS 6.1.10AR*.

1 Effect of provisions marked ‘EU’

1.1 R Provisions in this section marked “EU” apply in relation to a *firm* to which

the *IPID Regulation* is not directly applicable, as if they were *rules*.

2 What information needs to be contained in the *IPID*?

2.1 R The *IPID* must contain the following information:

- (1) information about the type of *insurance*;
- (2) a summary of the *insurance* cover, including the main risks insured, the insured sum and, where applicable, the geographical scope and summary of excluded risks;
- (3) the means of payment of premium and the duration of payments;
- (4) main exclusions where claims cannot be made;
- (5) obligations at the start of the contract;
- (6) obligations during the term of the contract;
- (7) obligations in the event that a claim is made;
- (8) the term of the contract including the start and end dates of the contract;
- (9) the means of terminating the contract.

[**Note:** article 20(8) of the *IDD*]

2.2 G A *firm*, when providing the information in the *IPID* should consider:

- (1) the *rules* and *guidance* on providing appropriate information to *customers* in *ICOBS* 6.1;
- (2) the order of the information and priority of the information to be provided; and
- (3) the information needs of the *firm's* typical *customer* for the *policy*.

2.3 G A *firm* that manufactures the *policy* should, when drawing up the *IPID*, have regard to the target market and intended distribution strategy.

Name and company logo of the manufacturer

2.4 EU 1(1) The name of the manufacturer of the non-life insurance product, the Member State where that manufacturer is registered, its regulatory status, and, where relevant, its authorisation number shall immediately follow the title 'insurance product information

- document' at the top of the first page.
- 2.5 EU 1(2) The manufacturer may insert its company logo to the right of the title.

[**Note:** article 1 of the *IDD IPID Regulation*]

Reference to complete pre-contractual and contractual information

- 2.6 EU 2 The insurance product information document shall state prominently that complete pre-contractual and contractual information about the non-life insurance product is provided to the customer in other documents. That statement shall be placed immediately below the name of the manufacturer of the non-life insurance product.

[**Note:** article 2 of the *IDD IPID Regulation*]

3 How must the IPID be presented and formatted?

- 3.1 R The *IPID* must:
- (1) be a short and stand-alone document;
 - (2) be presented and laid out in a way that is clear and easy to read, using characters of a readable size;
 - (3) be no less comprehensible in the event that, having been originally produced in colour, it is printed or photocopied in black and white;
 - (4) be written in the official languages, or in one of the official languages, used in the part of the Member State where the *policy* is offered or, if agreed by the *consumer* and the *insurance distributor*, in another language;
 - (5) be accurate and not misleading;
 - (6) contain the title 'insurance product information document' at the top of the first page;
 - (7) include a statement that complete pre-contractual and contractual information on the product is provided in other documents.

[**Note:** article 20(7)(a) to (g) of the *IDD*]

Length

3.2	EU	3	The insurance product information document shall be set out on two sides of A4-sized paper when printed. Exceptionally, if more space is needed, the insurance product information document may be set out on a maximum of three sides of A4-sized paper when printed. Where a manufacturer uses three sides of A4-sized paper, it shall, upon request by the competent authority, be able to demonstrate that more space was needed.
-----	----	---	---

[**Note:** article 3 of the *IDD IPID Regulation*]

Presentation and order of content

3.3	EU	4(1)	The information of the insurance product information document listed in in Article 20(8) of Directive (EU) 2016/97 shall be presented in different sections and in accordance with the structure, lay-out, headings and sequence as set out in the standardised presentation format in the Annex to this Regulation, using a font size with an x-height of at least 1,2 mm.
3.4	EU	4(2)	The length of the sections may vary, depending on the amount of information that is to be included in each section. Information about add-ons and optional covers shall not be preceded by ticks, crosses or exclamation marks.
3.5	EU	4(3)	Where the insurance product information document is presented using a durable medium other than paper, the size of the components in the layout may be changed, provided that the layout, headings and sequence of the standardised presentation format, as well as the relative prominence and size of the different elements, are retained.
3.6	EU	4(4)	Where the dimensions of the durable medium other than paper are such that a layout using two columns is not feasible, a presentation using a single column may be used, provided that the sequence of the sections is as follows: <ul style="list-style-type: none"> (a) ‘What is this type of insurance?’ (b) ‘What is insured?’ (c) ‘What is not insured?’ (d) ‘Are there any restrictions on cover?’ (e) ‘Where am I covered?’ (f) ‘What are my obligations?’ (g) ‘When and how do I pay?’

- 3.7 EU 4(5) (h) 'When does the cover start and end?'
- (i) 'How do I cancel the contract?'
- The use of digital tools, including layering and pop-ups shall be permitted, provided that all the information referred to in Article 20(8) of Directive (EU) 2016/97 is provided in the main body of the insurance product information document and that the use of such tools does not distract the customer's attention from the content of the main document.
- Information provided through layering and pop-ups shall not include marketing or advertising material.

[**Note:** article 4 of the *IDD IPID Regulation*]

Plain language

- 3.8 EU 5 The insurance product information document shall be drafted in plain language, facilitating the customer's understanding of the content of that document, and shall focus on key information which the customer needs to make an informed decision. Jargon shall be avoided.

[**Note:** article 5 of the *IDD IPID Regulation*]

Headings and information thereunder

- 3.9 EU 6(1) The sections of the insurance product information document shall have the following headings and the following information thereunder:
- (a) the information on the type of insurance referred to in Article 20(8)(a) of Directive (EU) 2016/97 shall be included under the heading 'What is this type of insurance?', at the top of the document;
 - (b) the information on the main risks insured referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be included under the heading 'What is insured?'. Each piece of information listed in this section shall be preceded by a green 'tick' symbol;
 - (c) the information on the insured sum referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be included under the heading 'What is insured?';
 - (d) the information on geographical scope, where applicable, referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be included under the heading 'Where am I covered?'. Each piece of information listed in this section shall be

preceded by a blue ‘tick’ symbol;

- (e) the information on a summary of the excluded risks referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be included under the heading ‘What is not insured?’. Each piece of information in this section shall be preceded by a red ‘X’ symbol;
- (f) the information on the main exclusions referred to in Article 20(8)(d) of Directive (EU) 2016/97 shall be included under the heading ‘Are there any restrictions on cover?’. Each piece of information listed in this section shall be preceded by an orange exclamation mark symbol;
- (g) the information on the relevant obligations referred to in points (e), (f) and (g) of Article 20(8) of Directive (EU) 2016/97 shall be included under the heading ‘What are my obligations?’;
- (h) the information on the means and duration of payment of premiums referred to in Article 20(8)(c) of Directive (EU) 2016/97 shall be included under the heading ‘When and how do I pay?’;
- (i) the information on the term of the contract referred to in Article 20(8)(h) of Directive (EU) 2016/97 shall be included under the heading ‘When does the cover start and end?’;
- (j) the information on the means of terminating the contract referred to in Article 20(8)(i) of Directive (EU) 2016/97 shall be included under the heading ‘How do I cancel the contract?’.

6(2) The use of sub-headings is permitted, where necessary .

[**Note:** article 6 of the *IDD IPID Regulation*]

Use of icons

- | | | |
|------|----|--|
| 3.10 | EU | <p>7(1) Each section shall further be headed by icons that visually represent the content of the respective section heading, as follows:</p> <ul style="list-style-type: none"> (a) the information on the main risks insured referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be headed by an icon of an umbrella, which shall be white on a green background or green on a white background; (b) the information on the geographical scope of the insurance cover referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be headed by an icon of a globe, which shall be white on a blue background or blue on a white |
|------|----|--|

		background;
		(c) the information on excluded risks referred to in Article 20(8)(b) of Directive (EU) 2016/97 shall be headed by an icon of an X symbol within a triangle, which shall be white on a red background or red on a white background;
		(d) the information on the main exclusions referred to in Article 20(8)(d) of Directive (EU) 2016/97 shall be headed by an exclamation mark ('!') within a triangle, which shall be white on an orange background or orange on a white background;
		(e) the information on the obligations at the start of the contract, during the term of the contract and in the event that a claim is made, referred to in points (e), (f) and (g) of 20(8) of Directive (EU) 2016/97, respectively, shall be headed by an icon of a handshake, which shall be white on a green background or green on a white background;
		(f) the information on the means and duration of payments referred to in Article 20(8)(c) of Directive (EU) 2016/97 shall be headed by an icon of coins, which shall be white on a yellow background or yellow on a white background;
		(g) the information on the term of the contract referred to in Article 20(8)(h) of Directive (EU) 2016/97 shall be headed by an icon of an hourglass, which shall be white on a blue background or blue on a white background;
		(h) the information on the means of terminating the contract referred to in Article 20(8)(i) of Directive (EU) 2016/97 shall be headed by an icon of a hand with an open palm on a shield, which shall be white on a black background, or black on a white background.
3.11	EU	7(2) All icons shall be displayed in a manner consistent with the standardised presentation format in the Annex.
3.12	EU	7(3) The icons referred to in paragraphs 1 and 2 may be presented in black and white where the insurance product information document is printed or photocopied in black and white.

[**Note:** article 7 of the *IDD IPID Regulation*]

Template for the standardised presentation format

3.13	EU	ANNEX
------	----	-------

Xxxxxx Insurance

Insurance Product Information Document

Company: <Name> Insurance Company

Product: <Name> Policy

[Statement that complete pre-contractual and contractual information on the product is provided in other documents]

What is this type of insurance?

[Description of Insurance]



What is insured?

- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx
- ✓ Xxxxx



What is not insured?

- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx
- ✗ Xxxxx



Are there any restrictions on cover?

- ! Xxxxx
- ! Xxxxx
- ! Xxxxx
- ! Xxxxx
- ! Xxxxx



Where am I covered?

- ✓ Xxxxxx



What are my obligations?

- Xxxxxx
- Xxxxxx
- Xxxxxx
- Xxxxxx



When and how do I pay?

Xxxxxx



When does the cover start and end?

Xxxxxx



How do I cancel the contract?

Xxxxxx

[**Note:** Annex to the *IDD IPID Regulation*]

Annex J

Amendments to the Client Assets sourcebook (CASS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless indicated otherwise.

For “ <i>mediation</i> ”, substitute “ <i>distribution</i> ” in the following provisions. The new text is not shown as underlined and the deleted is not shown as struck through..	
1A.1.1R(2)	one instance
1A.2.2R(2)(c)	one instance
5.1.6R	one instance
5.2.3R(1)(a)	one instance
5.5.30R(2)	one instance
5.8.2G	one instance
7.10.8R, heading	one instance
7.10.9G	one instance
7.10.10R	one instance
7.10.12R	one instance
7.10.32G(1)(a)	one instance
7.10.32G(2)	one instance
7.17.2R(2)(a)	one instance
7.17.2R(2)(b)(i)	one instance
7.17.2R(3)	one instance
8.1.1R(2)	one instance
8.2.1R(2)	one instance
9.1.1R(4)	one instance

1 Application and general provisions

...

1.2 General application: who? what?

...

1.2.5 R The *insurance client money chapter* does not apply to an authorised professional firm with respect to its *non-mainstream regulated activities*, which are ~~*insurance mediation activities*~~ *insurance distribution activities*, if:

- (1) the firm’s designated professional body has made rules which implement article ~~41~~10.6 of the ~~*Insurance Mediation Directive*~~ *IDD*;

...

1.2.5A G (1) In the client money chapter and the insurance client money chapter, an insurance undertaking acts as such when it carries on the business of effecting or carrying out contracts of insurance.

- (2) An insurance undertaking does not act as such when it enters into a reinsurance contract as a client of the reinsurer.

...

5 Client money: insurance ~~mediation~~ distribution activity

5.1 Application

Application

- 5.1.1 R (1) CASS 5.1 to CASS 5.6 apply, subject to (2), (3) and CASS 5.1.3R to CASS 5.1.6 R, to a *firm* that receives or holds *money* in the course of or in connection with its ~~insurance mediation activity~~ insurance distribution activity.
- (2) CASS 5.1 to CASS 5.6 do not, subject to (3), apply:
- ...
- (b) ~~to a firm in carrying on an insurance mediation activity which is in respect of a reinsurance contract; or [deleted]~~
- ...
- (e) with respect to *money* held by a *firm* which:
- (i) is an *approved bank*; and
- (ii) has requisite capital under article 4(4)(b) ~~10(6)(b)~~ of the ~~Insurance Mediation Directive~~ IDD;
- ...
- (3) A *firm* may elect to comply with:
- (a) ~~CASS 5.1 to CASS 5.6 in respect of client money which it receives in the course of carrying on insurance mediation activity in respect of reinsurance contracts; and [deleted]~~
- (b) CASS 5.1, CASS 5.2 and CASS 5.4 to CASS 5.6 in respect of *money* which it receives in the course of carrying on an activity which would be ~~insurance mediation activity~~ insurance distribution activity, and which *money* would be *client money*, but for article 72D of the *Regulated Activities Order* (Large risks contracts where risk situated outside the EEA);²

but the election must be in respect of all the *firm's* business which consists of that activity.

...

...

Purpose

- 5.1.7 G (1) ... The rules in CASS 5.1 to CASS 5.6 also give effect to the requirement in article 4.4 10.6 of the ~~Insurance Mediation Directive~~ IDD that all necessary measures should be taken to protect clients against the inability of an *insurance intermediary* to transfer *premiums* to an *insurance undertaking* or to transfer the proceeds of a claim or *premium* refund to the insured.
- (2) There are two particular approaches which firms can adopt which reflect options given in article 4.4 10.6 ...
- 5.1.8 G ~~Firms which carry on designated investment business which may, for example, involve them handling client money in respect of life assurance business should refer to the non-directive client money chapter which includes provisions enabling firms to elect to comply solely with that chapter or with the insurance client money chapter in respect of that business. Firms that also carry on MiFID or equivalent third country business may elect to comply solely with the MiFID client money chapter with respect of client money in respect of which the non-directive client money chapter or the insurance client money chapter apply. A firm which carries on MiFID business or designated investment business in relation to life assurance business may, in accordance with CASS 7.10.3R and in relation to that business only, either comply with CASS 7 or elect to comply with the insurance client money chapter.~~

...

5.2 Holding money as agent of an insurance undertaking

...

Requirement for written agreement before acting as agent of an insurance undertaking

- 5.2.3 R (1) A *firm* must not agree to:
- (a) *deal in investments as agent for an insurance undertaking in connection with ~~insurance mediation~~ an insurance distribution activity*; or

...

...

...

5.8 Safe keeping of client's documents and other assets

5.8.1 R Application

- (1) CASS 5.8 applies to a *firm* (including in its capacity as trustee under CASS 5.4) which in the course of ~~*insurance mediation activity*~~ *insurance distribution activity* takes into its possession for safekeeping any *client* title *documents* (other than documents of no value) or other tangible assets belonging to *clients*.
- (2) CASS 5.8 does not apply to a *firm* when:
- (a) carrying on an ~~*insurance mediation activity*~~ *insurance distribution activity* which is in respect of a *reinsurance contract*; or

...

...

7 Client money rules

...

7.10 Application and purpose

...

‘Opt-outs’ for non-~~IMD~~ IDD business

- 7.10.11 G For a *firm* whose business is not governed by the ~~*Insurance Mediation Directive*~~ IDD, it is possible to ‘opt out’ on a one-way basis. However, in order to maintain a comparable regime to that applying to *MiFID business*, all ‘*MiFID* type’ business undertaken outside the scope of *MiFID* should comply with the *client money rules* or be ‘opted out’ on a two-way basis.

...

TP 1 Transitional Provisions

TP 1.1

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...
3	CASS 5.1 to CASS 5.6	R	Apply in relation to <i>money</i> (and where appropriate <i>designated investments</i>) held by a	Indefinitely	14 January 2005

			firm on 14 January 2005 (being <i>money</i> or <i>designated investments</i> to which CASS 5.1 to CASS 5.6 would not otherwise apply) to the extent that such <i>money</i> (or <i>designated investments</i>) relate to business carried on before 14 January 2005 and which would, if conducted on or after 14 January 2005, be an <i>insurance mediation activity</i> and if conducted on or after 23 February 2018, be an <i>insurance distribution activity</i> .		
<u>3A</u>	<u>CASS 5.1 to CASS 5.6</u>	<u>R</u>	<u>Apply in relation to money (and where appropriate <i>designated investments</i>) held by a firm on 23 February 2018 (being <i>money</i> or <i>designated investments</i> to which CASS 5.1 to CASS 5.6 would not otherwise apply) to the extent that such <i>money</i> (or <i>designated investments</i>) relate to business carried on before 23 February 2018 and which would, if conducted on or after 23 February 2018, be <i>reinsurance distribution</i>.</u>	<u>Indefinitely</u>	<u>23 February 2018</u>

Annex K

Amendments to the Supervision manual sourcebook (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

For “*Insurance Mediation Directive*”, substitute “*IDD*” in the following provisions. The new text is not shown as underlined and the deleted is not shown as struck through..

11.8.1R(4)	one instance
------------	--------------

For “*IMD*”, substitute “*IDD*” in the following provisions. The new text is not shown as underlined and the deleted is not shown as struck through.

11.8.1R(4)	one instance
------------	--------------

For “*mediation*”, substitute “*distribution*” in the following provisions. The new text is not shown as underlined and the deleted is not shown as struck through.

10A.1.16R(2)(a)	one instance
10A.1.18R(5)	one instance
10A.6.5G	one instance
10A.7.5G	two instances
10A.7.6G	two instances
10A.9.14G	two instances
10A.9.15G	two instances
10C.5.7G heading	one instance
10C.5.7G	one instance
11.8.1R(4)	one instance

Amend the following as shown.

3 Auditors

3.1 Application

...

3.1.2 R Applicable sections (see *SUP* 3.1.1R)

...			
(1) Category of firm		(2) Sections applicable to the firm	(3) Sections applicable to its auditor
(1)	

...			
(10)	<i>Insurance intermediary</i> (other than an <i>exempt insurance intermediary</i>) to which the <i>insurance client money chapter</i> (except for CASS 5.2 (Holding money as agent)) applies (see Note 4)		
...			
...			
<p>Note 4 = The <i>client money</i> audit requirement in SUP 3.1.2R(10) therefore applies to all <i>insurance intermediaries</i> except:</p> <ul style="list-style-type: none"> • those which do not hold <i>client money</i> or other client assets in relation to <i>insurance mediation activities</i> <i>insurance distribution activities</i>; or • those which only hold up to, but not exceeding, £30,000 of <i>client money</i> under a statutory trust arising under CASS 5.3. <p><i>Insurance intermediaries</i> which, in relation to <i>insurance mediation activities</i> <i>insurance distribution activities</i>, hold no more than that amount of <i>client money</i> only on a statutory trust are <i>exempt insurance intermediaries</i>.</p>			
...			

...

12 Appointed representatives

...

12.6 Continuing obligations of firms with appointed representatives or EEA tied agents

...

Obligations of firms under the training and competence rules

- 12.6.10 G (1) The *rules and guidance* relating to training and competence in SYSC 3 and SYSC 5 and in TC for a *firm* carrying on retail business extend to any *employee* of the *firm* in respect of whom the relevant *rules* apply. ~~For these purposes, an *employee* of a *firm* includes:~~
- (2) The specific knowledge and ability requirements in SYSC 28.2 and TC 4.2 for a *firm* with Part 4A permission to carry on *insurance distribution activities* apply to a relevant *employee* (as defined in SYSC 28.1.2R and TC 4.2.3R) of the *firm*.

(3) For the purposes of (1) and (2), an *employee* or a relevant employee of a *firm* includes an individual who is:

~~(1)(a)~~ ~~an individual who is~~ an *appointed representative* of a *firm*;
and

~~(2)(b)~~ ~~an individual who is~~ employed or appointed by
an *appointed representative* of a *firm* (whether under a
contract of service or for services) in connection with the
business of the *appointed representative* for which
the *firm* has accepted responsibility.

...

12.6.11 G A *firm* should take reasonable care to ensure that:

(1) it has satisfied:

(a) SYSC 3 or SYSC 4 to 9 and where applicable, SYSC 28.2;
and

(b) TC₁

in respect of the relevant staff of the *appointed representative*; and

(2) ...

...

Annex L

Amendments to the Credit Unions sourcebook (CREDS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless indicated otherwise.

For “*insurance mediation*”, substitute “*insurance distribution*” in the following provisions. The new text is not shown as underlined and the deleted is not shown as struck through.

1.1.2G(2)	one instance
1.1.2G(3)	one instance
10.1.3G	two instances

10 Application of other parts of the Handbook to Credit unions

10.1 Application and purpose

...

10.1.3	G	<table><tr><th>Module</th><th>Relevance to Credit Unions</th></tr><tr><td>...</td><td></td></tr><tr><td>Insurance: Conduct of Business sourcebook (<i>ICOBS</i>)</td><td><i>ICOBS</i> applies to any <i>credit union</i> carrying on non-investment insurance <u>distribution</u> activities, such as arranging or advising on general insurance contracts to be taken out by members. But <i>ICOBS</i> does not apply to a <i>credit union</i> taking out an insurance policy <u>policy</u> for itself, such as a policy <u>policy</u> against default by members on their loans where the <i>credit union</i> is the beneficiary of the policy <u>policy</u>, since in this circumstance the <i>credit union</i> would not be acting as an insurance intermediary, but would itself be the customer. <i>Credit unions</i> are reminded that they are subject to the requirements of the appropriate legislation, including the Credit Unions Act 1979, relating to activities a <i>credit union</i> may carry on.</td></tr><tr><td>...</td><td></td></tr></table>	Module	Relevance to Credit Unions	...		Insurance: Conduct of Business sourcebook (<i>ICOBS</i>)	<i>ICOBS</i> applies to any <i>credit union</i> carrying on non-investment insurance <u>distribution</u> activities, such as arranging or advising on general insurance contracts to be taken out by members. But <i>ICOBS</i> does not apply to a <i>credit union</i> taking out an insurance policy <u>policy</u> for itself, such as a policy <u>policy</u> against default by members on their loans where the <i>credit union</i> is the beneficiary of the policy <u>policy</u> , since in this circumstance the <i>credit union</i> would not be acting as an insurance intermediary, but would itself be the customer. <i>Credit unions</i> are reminded that they are subject to the requirements of the appropriate legislation, including the Credit Unions Act 1979, relating to activities a <i>credit union</i> may carry on.	...	
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...										

