

Schemes and the Insurance Distribution Directive (IDD)

Our recent research revealed more than a third of brokers¹ don't feel fully prepared to meet the requirements of IDD, and with only 8%¹ of UK brokers saying they 'know everything they need to know', we take the opportunity to look at the impact of IDD on scheme creation and distribution.



Manufacturers and distributors of insurance products must now comply with additional IDD requirements that ensure the interests of the consumer are taken into account throughout the lifecycle of the product. This has particular relevance to brokers that operate schemes.

The IDD brought in a “beefed up” set of Product Oversight and Governance rules (POG). These are contained in their own **FCA rule book “PROD” and in particular, Chapter four (PROD 4).**

What is PROD 4?

PROD 4 is the template that allows you to comply with Treating Customers Fairly (TCF) Outcome 2.

“ Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly. ”

It applies to all insurers and authorised firms which manufacture relevant products either on their own or with an insurer partner, in which case the insurance broker and the insurer will be “co-manufacturers” and this will include badging, schemes, binding authorities etc.

The POG rules have been amplified and applied to all parties in the manufacturing process, not just the insurer. Although pre-IDD many insurance brokers would have been involved in the design and implementation of a product and therefore done much of what is now seen as “new”.

Practical steps brokers can take

Here are some tips on what to consider and build into your design, testing and implementation processes when manufacturing a product.

1. Check you comply with the customer best interest rule.
2. Assess whether the product remains consistent with the needs of the identified target market and whether the intended distribution strategy remains appropriate, including taking account of any direct distribution.
3. Review processes to make sure product design takes account of:
 - objectives
 - the interests and characteristics of customers
 - the customer, make sure it doesn't adversely affect customers and prevents or mitigates consumer detriment.

This includes consideration to charging structures (even for low-price products) and situations where low-income consumers are involved.

Make sure you have covered:

- ✓ general matters
- ✓ product approval process
- ✓ product testing
- ✓ oversight of distribution channels
- ✓ monitoring and review of products
- ✓ additional expectations.



Following processes

You will also need to:

1. Draft a written agreement (**as required by PROD 4.2.1R**) defining the firm's role in product manufacture and facilitate the agreeing of such role and responsibilities with product providers (this should already happen).
2. Implement a system that ensures distributors have the necessary knowledge, experience or competence to understand the product and the target market (e.g. wholesaling or sub-broking). They must undertake to comply with other rules such as the new requirements of **SYSC**, general conduct and **ICOBs**, and show they have the knowledge required.

This applies to all new products (including co-manufacture).



Eight areas to demonstrate knowledge

For reference, we repeat below the eight areas in which you must demonstrate knowledge.

1. minimum knowledge of terms and conditions of policies offered
2. minimum knowledge of applicable laws
3. minimum knowledge of claims handling
4. minimum knowledge of assessing customer needs
5. minimum knowledge of the insurance market
6. minimum knowledge of business ethics standards
7. minimum knowledge of financial competence
8. minimum knowledge of complaints handling.

Conclusion

As can be seen, much of this “new” work will be taking place already and, in some cases, just needs a more formal approach. It should not deter any broker or scheme provider from innovation, and should ensure a more robust process which not only is in the customer’s best interest, but also protects the broker’s professional position.

¹ Research was undertaken by FWD Research on behalf of Ecclesiastical Insurance, 200 telephone interviews amongst Brokers between 17/07/18 to 06/08/18.

About the author



John Miller, Head of RWA Solutions, RWA Business Consultancy

John has more than 30 years' experience in the world of general insurance, working for some of the largest UK brands including Norwich Union and Aviva. His expertise includes mergers and acquisitions, business development, marketing and propositions. At RWA John has responsibility for developing the business in London in addition to managing the relationship with several key clients.

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