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Dear Sir/Madam,

**Product Governance and Fair Value – General Insurance and Pure Protection:
Expectations for distributors**

On 1 October 2021 the FCA introduced new rules to strengthen product governance, with the aim of ensuring that customers receive fair value from their general insurance and pure protection products. In addition to new requirements for manufacturers, distributors were also required to assess their own impact on the value of products and to have understood the outcome of the manufacturer's value assessment. For existing non-investment insurance products, distributors were allowed until 30 September 2022 to update their distribution arrangements to ensure these requirements are met. A distributor is unable to distribute a product in compliance with PROD 4.3 where it does not understand the outcome of the manufacturer's value assessment.

The FCA is aware that a significant number of manufacturers have scheduled their value assessments in Q3 2022, and as a result may not have sufficiently considered the obligations of distributors in their timelines and the potential impact on customers. Today we have also issued a letter detailing our findings from our multi-firm review on this topic.

As a result, the FCA foresees potential for market disruption and customer harm, as we anticipate that value assessments may not be completed in time for distributors to be compliant with the new requirements and to be able to continue distributing products from 1 October 2022.

The FCA is disappointed that a material proportion of the market appears to have failed to adequately consider the applicability and the impact of the rules on both the manufacture and distribution of their products. We consider that this reflects poorly on firms' change management capability and leadership. We also would have expected more effective cooperation between manufacturers and distributors.

The FCA considers that we must now act to prevent significant harm being caused to customers through the withdrawal of products from distribution due to distributors not being in a position to comply with their obligations in full by the end of the transition period. Where the circumstances set out below apply, distributors will be able to continue distributing existing non-investment insurance products without needing to understand the outcome of the manufacturer's value assessment and whether there are any groups of customers for whom the product is not expected to provide fair value as required by PROD 4.3.2AR. This forbearance will last for 3 months until 1 January 2023.

The circumstances that must be met for this forbearance to apply are:

1. The distributor has identified the impact that the distribution arrangements have on the value of the product by 30 September 2022 and has completed any identified remedial action as a result of its assessment.
2. The distributor has complied with any requests from the manufacturer for information specified in PROD 4.3.10BR.
3. The distributor is able to demonstrate that they received the manufacturer's value assessment too late for them to be reasonably expected to meet their obligations by 30 September 2022.

The above forbearance in relation to understanding the manufacturer's value assessment does not affect distributors obligations to comply with the rest of PROD 4.3. If a distributor identifies that a product is not providing fair value and this has been caused by the distributor's distribution arrangements, including its remuneration arrangements, the distributor must take appropriate remedial and mitigating action under PROD 4.3.11AR, which may include, where appropriate, redress.

Going forward, the FCA will take this matter into account in our wider supervision of insurance markets and will take firm action where we consider that firms have not appropriately considered the rules or the best interests of customers.

Yours faithfully



Matt Brewis
Director, Insurance