

Product Oversight and Governance & Conduct Risk Policy

Guidance - Q&A
June 2021

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1. Introduction

LIC's customers are at the heart of its business. The company will conduct its business fairly, honestly, professionally and in the best interests of its customers. LIC expects its staff and third parties to manage conduct risk appropriately and in a manner that is consistent with LIC's Integrity Policy and applicable legislation, regulations and regulatory expectations.

The objective of this document is to provide additional guidance to LIC's third parties (that write business on LIC's behalf), about the principles set by LIC's Product Oversight and Governance (POG) & Conduct Risk Policy ("Policy").

The guidance is based on the good practices observed in the market and in line with known expectations from supervisory authorities. The guidance therefore has the objective of elaborating upon the steps expected of managing agents and coverholders in order to support LIC in complying with its regulatory and legislative obligations.

Note that these requirements have to be met for all new products (or products with material changes) sold through LIC.

LIC monitors whether the managing agent effectively provides the services as specified in the outsourcing agreement. The managing agent should comply with the general principles as stated in the Policy in order to ensure proper conduct and behavior towards LIC's customers. Compliance with the Policy will ensure that LIC's conduct risk is properly managed, being the risk that LIC will fail to pay due regard to the best interests of customers or will fail to treat them fairly at all times.

2. Questions & Answers

2.1 Policy

Ref	Question	Answer	Date ¹
1	What is the scope of the LIC POG and Conduct Risk Policy ?	The Policy is in principle applicable to all products that are commercialized by managing agents and coverholders on behalf of LIC, so it applies not only to products commercialized for consumers, micro enterprises and small-sized companies, but also to large risks.	11/06/2021
2	What is the scope of the LIC Product Register (Register)?	In principle all products commercialized by managing agents are in scope for the Register. However, as managing agents will be aware LIC is currently collecting information for its Register through a Product Information Request (PIR) which is limited to products sold to consumers, micro enterprises and small-sized companies. The inclusion of the large risks is currently investigated by LIC for future Product Information Request.	11/06/2021
3	When is an Insurance Product Information Document (IPID) required ?	The IPID is required for non-large risk products (as defined in Annex 1 of the 2009/138/EC legislation) for LIC business.	11/06/2021
4	What is the scope of the Product Approval and Review Process (PARP)?	The scope of the PARP is also limited to non-large risk products (as defined in Annex 1 of the 2009/138/EC legislation). Managing agents/coverholders as co-manufacturers of LIC are required to comply with those requirements.	11/06/2021
5	Is there any requirements regarding the composition of the Product Oversight Group?	The creation of a Product Oversight Group is not mandatory as long as the PARP is considered adequate by LIC. For those managing agents that do have a Product Oversight Group, LIC has no specific requirements concerning its composition. LIC encourages managing agents/coverholders to use their currently constituted Product Oversight Groups.	14/06/2021

¹ The date column refers to the date on which the question has been answered.

2.2 IPID

Ref	Question	Answer	Date
1	Is there an LIC IPID template for managing agents to comply with?	Each managing agent/coverholder is allowed to use their own IPIDs, as long as they are in line with the regulatory requirements stipulated in Commission Implementing Regulation 2017/1469 laying down a standardized presentation format for the Insurance Product Information Document (IPID) as dated 11 August 2017. However, we would encourage managing agents/coverholders to use the templates developed and distributed by the LMA in order to ensure some consistency.	11/06/2021
2	Will IPIDs be monitored?	From a regulatory point of view, LIC will monitor the use of IPIDs and will conduct sample checks in order to ensure that IPIDs comply with the requirement set by regulation 2017/1469.	11/06/2021
3	When distributing a new product, does the managing agent/coverholder have to share a copy of its IPID with LIC?	Managing agents/coverholders are not required to share with LIC their IPIDs for every (new) product. However, the IPIDs are assumed to be available upon request of LIC or any of its supporting functions of the Corporation of Lloyd's (like PTPO).	11/06/2021
4	Does a managing agent/coverholder have to comply with local IPID requirements?	EIOPA developed a standardized format of the IPID but there may be additional requirements to take into consideration if the EU country in which the policy is sold has additional requirements. Therefore LIC expects the managing agents/coverholders to assess whether other requirements regarding the IPID have to be taken into account when selling products outside Belgium.	11/06/2021

2.3 Conduct risk rating

Ref	Question	Answer	Date
1	How does LIC rate products for conduct risk?	The conduct risk rating used by LIC uses 2 variables, i.e. the product complexity and the customer type to which the product has been sold. The more complex a product, the more sophisticated the customer should be in understanding insurance technical jargon in order to limit the conduct risk. This approach is internal to LIC and therefore it is not expected that managing agents should adopt it for their own conduct risk rating processes.	11/06/2021
2	What is LIC's approach to Customer type for the purposes of the PIR?	LIC will not pre-define customer types right now for managing agents/coverholders to use when completing the PIR. Instead, LIC will use the information obtained from the PIR in order to identify (based on statistical / cluster analysis) major customer types which can be used for conduct risk analysis. LIC may carry out sample checks to assess the ongoing appropriateness of the cluster analysis. If the cluster analysis is not deemed appropriate anymore, either by LIC, the supervisory authorities, or an independent control function, then LIC may decide to change to a pre-defined list of customer types for use by the market in relation to LIC products.	11/06/2021
3	What are LIC's expectations of managing agents in relation to identification of the target customer?	The correct identification of a product's target should allow for a clear identification of "vulnerable market segments" where additional steps to mitigate risks to consumers resulting from information asymmetry are needed. Moreover, LIC expects the managing agent/coverholder to identify groups of customers for whom specific products are not intended, as for instance per general terms & conditions, and to make sure that the products do not reach those groups of customers.	11/06/2021
4	Which LIC products does a managing agent need to rate for conduct risk?	Managing agents are not required to develop an exhaustive list of all possible negative target markets for a product. Every product distributed through LIC needs to be assessed for conduct risk.	14/06/2021

2.4 Product Development

Ref	Question	Answer	Date
1	What are the responsibilities of LIC regarding product development?	LIC has an outsourcing agreement with managing agents/coverholders for the development and commercialization of insurance products that are sold to customers on LICs behalf. Since product development and pricing are considered as critical activities (NBB circular 2016_31 updated 5 May 2020), and as a consequence of the outsourcing agreement, LIC is therefore required to monitor responsibility for product development and act as co-manufacturer of every product sold by third parties performing product manufacturer responsibilities on behalf of LIC. Therefore, LIC as insurance company and co-manufacturer is expected to set criteria for product approval, product strategy, pricing, customer interaction, etc.	11/06/2021
2	What are the requirements concerning the product strategy?	<p>Managing agents/coverholders are bound by the product strategy set by LIC and as defined within LIC's risk appetite. Products that are prohibited by LIC to be commercialized or sold to its policyholders (because of geographic restrictions, not in line with the risk appetite of LIC, etc.) are therefore not permitted.</p> <p>LIC will perform ad-hoc sample checks to evaluate compliance with this requirement, and will build/use controls (like risk location) to follow-up on compliance with this requirement.</p> <p>LIC is currently looking into how it might share its product strategy and risk appetite with the market. Nevertheless LIC follows the underwriting strategy requirements of Lloyd's.</p>	11/06/2021
3	What are the requirements concerning the product approval process?	<p>As co-manufacturer, LIC is deemed responsible to ensure that products commercialized on their behalf are in line with minimum standards set forth by the company and in line with regulatory requirements. The IDD regulation sets out that for products covering non-large risks a product approval should be in place.</p> <p>LIC is not expecting a product approval process for existing products, but only for new or materially changing products developed since the Policy came into force.</p> <p>LIC as insurance company and co-manufacturer is expected to set criteria for product approval. Therefore LIC has documented the product approval process in the Policy including that the product approval process should contain the following checks and information:</p> <ul style="list-style-type: none"> (i) The strategic rationale for the new product or product change. (ii) The estimation of required Solvency II capital (iii) Sales forecast (estimated Gross Written Premiums) (iv) Estimated profitability versus target profitability. E.g. is the estimated profitability within the target profitability set by the managing agent/coverholder? (v) Customer proposition (vi) Key assumptions (vii) (sensitivities to) Key risks (viii) Investment plan. (ix) Compliance checks (x) Opinion of the Risk Management function. 	11/06/2021

LIC would encourage the managing agent and coverholders to liaise with the relevant business areas in their respective organization for further support in relation to these points but we have provided some additional information below:

4 Please can you provide some further explanation of the checks mentioned in Ref. 3?

- (i) The **strategic rationale** of the new product or the material product change describes how it fits with the business targets of the managing agent and LIC. i.e. is the new product part of the list of products/coverage that are allowed by LIC's product strategy.
 - (ii) The estimation of **required Solvency II capital**: what is the impact of the new product or material product change to the Solvency II Capital Requirements. LIC would encourage firms to assess the impact on the capital requirements when a product is being developed. However, because of Brexit, the UK is currently considered to be a third country for which the regular Solvency II requirements do not apply and it is therefore in the process of implementing a Solvency II equivalent regime. Therefore, LIC will investigate how these principles can be applied in practice. 11/06/2021
 - (i) **Estimated profitability vs target profitability**: is the estimated profitability (e.g. expressed in Gross or Net Combined Ratio) for the product within the target profitability set by the managing agent for its products at a portfolio level.
 - (ii) **Investment plan**: the investment plan (for life insurance products) to ensure the underlying investment strategy is in line with LICs investment policy or investment restrictions as stated above. **Comment**: LIC is not licensed to sell life insurance products. This requirement is therefore only applicable to non-life insurance products with a significant life component that would have an underlying investment plan.
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2.5 Pricing

Ref	Question	Answer	Date
1	What are LIC's expectations in relation to pricing strategy as outlined in the Policy 3.2.1 (iv)?	<p>Following and advice from EIOPA, the price requested for an insurance product should be appropriate, and in line with the coverage offered (value for money). Each product should provide valuable protection to the customer. The price paid by the customer should be fair and should reflect the nature and level of cover provided, the level of underwriting risk, reasonable distribution costs and the cost of capital. High premiums must be justifiable and must not be based on excessive fees and charges. In respect of compulsory classes of insurance, products that apply pricing discrimination against existing customers or that have low levels of cover for the premium paid (e.g. through high deductibles or through more exclusions than would reasonably be expected for the type of risk) are deemed to present a high conduct risk and should be avoided. Value for money and pricing states that an excessive focus on product profitability may result in products less likely to be fit for purpose or having low to no value for customers.</p> <p>In addition to the advice presented above, the Solvency II regulation includes requirements for the product pricing strategy. More particularly, in the case of outsourcing, the actuarial function is required to provide an opinion on the tariffication of new or materially changing products.</p> <p>Therefore to ensure the correct pricing of products, LIC will conduct sample checks and is currently evaluating the options to use statistical analysis and data analysis to evaluate if the price of the product is offering value for money.</p> <p>Managing agents/coverholders are not required to share with LIC the opinion of the actuarial function for every new or materially changing product. However, this opinion should be available at LIC's request.</p>	11/06/2021
2	Does pricing requirements should take into account reinsurance?	<p>In accordance with NBB rules (NBB_2016_31) risk mitigating techniques, which includes the reinsurance treaty in place with LIC, should be taken into account in the pricing assessment. LIC is currently looking at additional guidance which might be provided via a Product Approval Process Policy.</p> <p>LIC however emphasizes that an appropriate product approval process meeting these requirements should ensure that managing agents/coverholders take risk mitigating techniques into account in accordance with the Solvency II regulation, and that their risk management function opines on their appropriateness.</p>	11/06/2021