FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP25/12**

Simplifying the insurance rules:

Proposed amendments following DP 24/1 and discussion on further changes for insurance and funeral plans

May 2025

How to respond

We are asking for comments on this Consultation Paper (CP) by **2 July 2025**.

You can send them to us using the form on our website.

Or in writing to:

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- a list of the names of respondents who made representations where those respondents consented to the publication of their names,
- an account of the representations we receive, and
- an account of how we have responded to the representations.

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Chapter 1

Summary

1.1 The UK is a world leader and a global hub for commercial insurance, providing expertise in underwriting complex and specialty risks, and handling risks from all over the world. At the same time, the UK retail insurance market continuously provides peace of mind for consumers across the country.

1.2 We want to ensure that our rules work well for all the different types of products, customers, manufacturing and distribution arrangements in the UK insurance market. They must provide customers with an appropriate level of protection. It is also important that they enhance the integrity of the UK financial market. Given the global nature of the commercial market, it is important that our rules deliver proportionate regulation that promotes effective competition. We also want to ensure that our rules advance our secondary objective to facilitate the international competitiveness and growth of the UK economy, as far as reasonably possible.

1.3 Following the Consumer Duty requirements that came into force in July 2023, and in alignment with Our Strategy 2025 to 2030 priority to support growth, we decided to review areas of our insurance conduct requirements. In July 2024, we published the Regulation of Commercial and Bespoke Insurance Business Discussion Paper (DP24/1).

1.4 We invited stakeholders to comment on the DP options and received 40 responses. Respondents broadly supported the areas we identified for changes, but we received a range of views over the specific options. We have listened carefully to the feedback and are now consulting on changes that we believe will reduce the burden on insurance firms, bringing requirements into line with other sectors where reasonable to do so.

1.5 Since we published the DP, we have also identified further areas of our rules that would benefit from changes and have included proposed amendments to these in this consultation. Some of these areas came from our recent Review of FCA requirements following the introduction of the Consumer Duty (Duty Requirements Review Call for Input (CfI)), and others came from our work on a Smarter Regulatory Framework (SRF).

1.6 The proposals in this CP are intended to ensure the delivery of proportionate regulation that removes barriers to innovation and promotes effective competition in the insurance market in the interests of consumers. Our proposals would reduce the regulatory requirements while maintaining appropriate levels of customer protection.

1.7 Achieving that would help reduce insurance firms' costs, which affects the price their customers pay, and may support wider access to insurance products.

1.8 The changes we are consulting on are:

- **Determining which rules apply to commercial insurance:** We propose to replace the current 'contracts of large risks' definition with a new definition to identify larger commercial insurance customers. These do not require the same regulatory

protections as retail consumers and smaller businesses. We intend to simplify the definition by using thresholds and criteria already used in the Handbook.

- **Co-manufacturing:** We propose an additional option where more than one firm manufactures insurance products. This would allow them, subject to certain conditions, to select a lead firm to be solely responsible for complying with the insurance manufacturer's obligations under our Product Intervention and Product Governance Sourcebook (PROD 4). We have also proposed additional guidance on our current rules. These changes will reduce duplicative processes and potentially reduce costs, while maintaining good outcomes for customers.
- **Bespoke Contracts:** We propose to broaden the scope of an exclusion to both intermediaries and insurers, so that all bespoke non-investment insurance contracts are excluded from PROD 4. We have also provided rules and guidance on what contracts are bespoke and what products are unlikely to be bespoke. This will increase the practical utility of the bespoke contracts exclusion.
- **Frequency of review:** We propose to remove the minimum 12-month review requirement under PROD 4 for non-investment insurance products. Firms will be required to determine and record the most appropriate review frequency for a product based on that product's potential for customer harm, arising from risk factors associated with the product. This will ensure the requirement is proportionate so that efforts and resources can be redirected towards products presenting a higher risk of customer harm. It will also bring the review requirements for insurance in line with requirements for other financial services sectors.
- **Employers' Liability (EL) Insurance notification and reporting requirements:** We propose to remove the EL notification and annual reporting requirements to ensure the rules are proportionate and reflect the current EL market. Firms will instead notify the FCA of any significant breaches of our rules.
- **Training and competency requirements:** We propose to remove the 15-hour Continuing Professional Development (CPD) requirement and the corresponding monitoring and record keeping requirements that apply to employees of insurance intermediaries distributing non-investment insurance and to employees of funeral plan firms. Firms will be able to determine appropriate employees' knowledge and training requirements.
- **Consequential changes:** We are also consulting on any consequential rule changes resulting from the above proposals.

1.9 This consultation paper also includes a chapter discussing further areas where we may consider making rule changes in the future (some of these were outlined in the Requirement Review Feedback Statement).

1.10 This consultation is likely to be of interest to:

- Regulated insurers and insurance intermediaries (including those within the Lloyd's market)
- Insurance market trade associations
- Commercial insurance buyers
- Business representatives
- Employers' Liability tracing offices and customer representatives
- Firms that provide funeral plans
- Funeral plan provider trade associations

- Retail consumers
- Consumer groups
- Consumer representatives

Measuring success

1.11 We are keen to understand the impact of the proposed rule changes on the industry and will monitor this through some of the sources referred to in the Rule Review Framework (RRF). However, our overall objective with the proposed rule changes is to reduce regulatory requirements and give firms flexibility rather than create mandatory changes. As such, to avoid putting additional burden on firms, we do not propose to actively monitor how firms implement our proposed rule change by requesting additional data from firms. It will be up to firms to determine whether adopting any/all of the changes will be beneficial for their business.

Next steps

1.12 We are seeking views on our proposed rule changes. Annex 1 includes a full list of the questions we ask throughout this consultation Please send us your comments by 2 July 2025.

1.13 We propose that the rule changes come into force immediately after they are made (i.e. immediately after we publish our policy statement). We want firms to be able to use the added flexibilities being proposed as soon as possible, although the proposed changes are non-mandatory.

Chapter 2

The wider context

2.1 This chapter gives background on our proposals, including an overview of the wider context, impact and how the proposed changes link to our objectives.

The UK insurance market and regulatory framework

2.2 The proposals in this CP (and issues for discussion) focus on conduct rules specific to the insurance sector – in particular, the Insurance Conduct of Business Sourcebook (ICOBS) which sets out the regulatory framework for how insurance firms and intermediaries should conduct business, and PROD 4, which provides rules and guidance for the design, approval and governance of insurance products. We are also proposing some changes to the training requirements specific to insurance distribution in chapter 28 of the Senior Management Arrangements, Systems and Controls (SYSC) sourcebook and training requirements specific to funeral plan firm employees in the Training and Competence (TC) sourcebook.

2.3 Many of the principles and rules embedded in ICOBS, PROD 4, TC and SYSC derive from European Union (EU) legislation, such as the EU's Insurance Distribution Directive (IDD), which also provided a framework for the product governance rules that we then introduced in PROD.

2.4 While not specific to the insurance sector, the Consumer Duty is an additional important regulatory package governing the conduct of the insurance market, two of whose outcomes are met by firms complying with PROD 4.

2.5 To continuously ensure our rules achieve our objectives, including our secondary objective to facilitate the international competitiveness and growth of the UK economy, we have been reviewing the insurance conduct regulatory framework, and engaging with industry stakeholders to understand the challenges our rules present and what works in the UK market.

2.6 We are seeking to simplify those processes that we and the industry feel are onerous and do not result in added benefits for consumers, while aligning our insurance rules with other parts of the Handbook and other financial services sectors that we regulate.

2.7 In designing our proposals, we have taken into account feedback gathered through the DP and our continuous engagement with trade bodies and industry stakeholders.

2.8 The FCA statutory panels have been engaged throughout the process. Their feedback and concerns have been taken into consideration in drafting this CP.

How it links to our objectives

2.9 These proposals aim to provide more flexibility for firms and enable them to innovate, making our priorities more predictable, improving efficiency, reducing time, cost and complexity for firms.

Consumer protection

2.10 Our primary focus is to ensure that an appropriate level of consumer protection is maintained. This means maintaining our existing rules and outcomes for most customers, although we are proposing changes to some areas of where prescriptive rules are unlikely to result in better outcomes than higher-level principles. We are reducing the scope of some detailed rules and the Consumer Duty where they apply to some larger SME customers. We consider that these customers will continue to be appropriately protected by our Principles and other relevant rules, and they are likely to have sufficient resources to protect their interests in other ways. We also consider that customers of bespoke contracts will remain appropriately protected as these contracts will be made at the request of a customer and tailored to meet their specific needs, and our Principles and other conduct requirements will continue to apply to them.

2.11 Firms are free to decide whether to make changes to their processes or continue to apply the rules as they are currently. Where firms decide to use the proposed changes, it will enable them to redirect resources and efforts towards addressing customer harm in products that present a greater risk.

Market integrity

2.12 The proposed rule changes are intended to review and amend regulation to ensure the market works efficiently and effectively. It is important that the regulatory framework adapts to changes in the market, and for us to be open and responsive to market feedback to ensure rules continue to be proportionate and fit for purpose.

2.13 Our proposals relating to commercial customers make for a more coherent and logical regulatory framework. Our proposals related to the EL rules ensure that our rules continue to be proportionate and fit for purpose. The proposed changes to our insurance product governance requirements will ensure that our rules are adaptable to different products and business models common in the insurance market. The changes relating to training and development will enable a degree of flexibility while our rules continue to ensure that employees must remain competent. We believe these changes will support the market in operating with certainty and confidence, benefitting both firms and consumers.

Competition

2.14 Our proposals will promote effective competition in the interest of customers in the insurance market. Giving firms increased flexibility around our rules will allow them to tailor their approach based on their business models and customers' circumstances, while maintaining appropriate standards of consumer protection.

2.15 Reducing the regulatory burden (for example, in relation to bespoke contracts and EL notification and reporting), will foster innovation and productivity. Firms will be able to cater to customers better by offering them innovative and competitive products, without being burdened by regulation which offers little benefit to customers or firms in the current market. The new definition of contracts of commercial or other risks should help to encourage new entrants, thereby promoting a more competitive market.

2.16 We are aware of products that have been withdrawn from the market due to firms' concerns about the level of regulatory burden. The greater clarity provided by the proposed changes, should encourage wholesale firms to provide products that are more competitive, particularly in the commercial insurance space.

Secondary international competitiveness and growth objective

2.17 The proposals in this paper seek to simplify some of our insurance rules and support the UK insurance market by strengthening drivers of competitiveness and growth. All our proposals aim to achieve more proportionate regulation, which will result in lower costs for firms, making the UK insurance market more attractive for international firms to operate in.

2.18 Our proposals on the commercial and bespoke insurance business will result in fewer customers and products being captured by our conduct rules, enabling firms to innovate and experiment in this market. This may also attract new entrants that were previously reluctant to participate in UK commercial and bespoke insurance due to regulatory and compliance concerns.

Wider effects of this consultation

The Consumer Duty

2.19 The Feedback Statement following up to the Requirements Review CfI (FS25/2) included a proposal to clarify the interaction between the Duty and the product governance rules. Our proposed amendments mainly relate to areas where the Consumer Duty does not apply. For example, rules under the Duty's products and services outcome and price and value outcome do not apply where a product is in scope of equivalent rules in PROD 4. However, our proposals are consistent with the Duty's aims and objectives and firms will need to continue to consider the Duty as they implement the proposed changes.

2.20 The application of the Duty follows the scope of sectoral rules. As we are proposing to amend rules in relation to larger commercial insurance customers, we also propose changes to align the Duty with this new scope.

2.21 We also publicly committed to consider whether the Duty is sufficient so that we do not need to make new rules. In this CP we are not proposing to introduce additional rules. Instead, the changes we are proposing are aimed at giving firms greater flexibility in how they comply with our rules and deliver good outcomes to customers. For that reason,

consideration of relying on the Duty is not applicable to the consultation proposals. However, chapter 7 includes discussion of some rules which we are considering removing on the basis that the Duty provides an appropriate degree of consumer protection in those cases.

Gibraltar-based firms

2.22 Our proposals involve the amendment of existing rules. The proposals will apply to Gibraltar-based firms and firms in SRO if the existing rules apply to Gibraltar-based firms/firms in SRO. Conversely, if the existing rules do not apply to Gibraltar-based firms/firms in SRO, the proposals will also not apply to those firms.

Environmental, social & governance considerations

2.23 Overall, we do not consider that the proposals are relevant to contributing to the government's net-zero target. We will keep this issue under review during the course of the consultation period and when considering whether to make the final rules.

Equality and diversity considerations

2.24 We do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies). We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

Chapter 3

Determining which rules apply to commercial insurance

3.1 In this chapter we propose a new definition to be used for determining the contracts and customers that will fall outside of the scope of our conduct rules in ICOBS and PROD and also of the Consumer Duty. This will ensure smaller commercial customers continue to be appropriately protected, while reducing the regulatory burden on firms who are dealing with larger commercial customers. Our aim is to promote innovation and competitiveness in the UK commercial insurance market, which we consider will benefit both the industry and commercial insurance customers.

The DP and the responses we received

3.2 Our DP explained the Handbook does not have a consistent definition to distinguish between SMEs and larger commercial customers. Feedback from industry suggests this leads to lengthy and disproportionate processes and effort to categorise customers.

3.3 In the insurance rules, most particularly in ICOBS and PROD 4, the distinction between SMEs and larger commercial customers is made using the defined term *contracts of large risks*. This definition is also used in defining the scope of the Consumer Duty. For specified insurance products, a contract will be a large risk if the customer meets certain thresholds of turnover, balance sheet size and employee numbers. In addition, some products are always classed as large risks (for example, aviation and marine insurance). We discussed reviewing and amending the definition of contracts of large risks. We asked respondents whether they agreed with the issues identified and if they had any other concerns about the scope of application of requirements for commercial customers.

3.4 The DP included the following 3 options to better define and distinguish larger commercial customers:

- Replace *contracts of large risks* with the DISP eligible complainant definition, aligning the thresholds for balance sheet, turnover and employee numbers, and removing product-specific rules (i.e. those which mean products such as aviation and marine insurance are always classed as large risks).
- Retain *contracts of large risk* definition but removing the product-specific rules.
- Develop a new definition.

3.5 We asked respondents to select their preferred option and provide reasons for their answer.

3.6 Most respondents agreed with the issues and challenges we identified, and a few also noted that the definition of *contracts of large risks* is used in legislation and other parts of our Handbook and therefore, it may not be practical to amend it in all cases.

3.7 Some respondents also told us they may not change their practices in accordance with any of the proposed options. This is because in some cases firms do not collect the relevant customer categorisation data, or because they prefer to operate a single process for both larger and smaller SMEs.

3.8 The majority of respondents preferred the first option, as it simplifies the customer categorisation process and brings consistency and alignment with other requirements in the Handbook. However, several of them had serious concerns around removing the product-specific rules. They argued that doing so would significantly increase the number of commercial customers within the scope of the Consumer Duty (and other consumer protection rules), thereby increasing costs for firms and putting UK firms at a competitive disadvantage with those in other jurisdictions.

3.9 Additionally, some respondents suggested that aligning to DISP thresholds would not materially change the number of SMEs falling outside the protections of the conduct rules and encouraged us to further lower the thresholds.

3.10 While some respondents were in favour of the second option, the vast majority did not agree with it for the reasons outlined above.

3.11 Respondents generally felt that an entirely new definition might create further confusion and complexity and increase costs for firms.

3.12 The DP also included supplementary options to add a rule to define all SMEs with 0-1 employees as consumers, and to clarify our expectations around policies with several named or unnamed policyholders. Respondents largely opposed this. They argued that both options would add cost and complexity for firms and would not address the issue of inconsistent definitions being used in different parts of the Handbook.

3.13 The DP included further questions around data on costs and metrics for each option. We have considered the responses received to these questions in the Cost Benefit Analysis (CBA) section of this CP.

Our response and proposals

3.14 We note the strong preference from most of the respondents for a definition which brings consistency and aligns with other requirements in the Handbook. We also received helpful feedback from areas of the market which we do not regularly engage with, such as Protection & Indemnity clubs. Their responses highlighted significant risks and unintended consequences of removing the product-specific criteria.

3.15 For these reasons, we propose to introduce a new definition ('*contracts of commercial or other risks*') to identify larger commercial insurance customers, along with customers taking out contracts of insurance covering specific large risks (e.g. aircraft, ships). This approach allows us to create a bespoke definition which accounts for the issues identified with the DP options. This enables us to more effectively meet our objective to reduce regulatory burden where justified while maintaining appropriate customer protections.

3.16 The new definition will keep the product-specific provisions from the *contracts of large risk* definition. This means that, for example, where a firm is distributing contracts covering things like aviation and marine risks the firm will continue to be excluded from the scope of most of ICOBS where the policyholder is a commercial customer and the risk is located within the UK. The thresholds in this definition will apply to all other non-investment insurance contracts and will be the same as those in the relevant categories of *eligible complainant***.** We consider that aligning with the relevant thresholds used to define eligibility for the Financial Ombudsman will bring greater consistency to the rules. It will mean that the scope of key consumer protections is aligned, making the position clearer and simpler for both firms and customers.

3.17 This proposal will replace the balance sheet, turnover and employee number thresholds used to determine the scope of rules in ICOBS, PROD and the Consumer Duty; and the thresholds in the new definition will apply to a wider range of non-investment insurance contracts. These changes will mean the following:

- Firms can decide whether they want to apply the new definition to categorise customers or continue to consider all customers to be within the scope of protections. Our engagements with industry have indicated that many firms do not distinguish between different sizes of commercial customer. A small number of respondents provided us with data showing no material difference in outcomes received by different commercial customers.
- Our changes will provide greater flexibility for firms to develop new products and new ways to provide their services. We also expect the changes will encourage new entrants into the market. This should deliver benefits to commercial customers through enhanced competition and through new, innovative services.

3.18 The new definition will mean that some commercial customers will no longer be protected by those rules. We recognise the risk this could lead to worse outcomes for these customers, but we consider that our rules will secure an appropriate degree of protection for these customers for the following reasons:

- Customers that exceed thresholds of *eligible complainant* already do not have access to the Financial Ombudsman Service as they are considered to have sufficient resources to protect their own interests in other ways.
- In the same way, the customers that will fall outside the scope of ICOBS, PROD and the Consumer Duty under the new definition are considered to have sufficient resources to protect their interests that are the focus of these rules.
- Such customers will still be granted protection under our Principles of Business (apart from the Consumer Duty) and some of our high-level rules such as the customer's best interest rule.

3.19 The new definition will therefore identify contracts of commercial and other risks as contracts meeting the following criteria:

- Contracts of insurance covering railway rolling stock, aircraft, ships, goods in transit, aircraft liability and liability of ships.
- Contracts of insurance covering credit and suretyship where the policyholder is engaged in certain specified activities.

- Contracts of insurance covering any other non-investment insurance risks where the policyholder falls within one of a number of categories, such as being an enterprise which is not a micro-enterprise and is not a small business.

3.20 Retail consumers who come within the definition of *contracts of large risks* will continue to be within the scope of most of ICOBS, of PROD and the Consumer Duty as they are now. This means, for example, that an individual consumer purchasing insurance for a canal boat located in the UK will be protected by the Consumer Duty in the same way as other retail consumers.

3.21 Following careful consideration of the feedback on the supplementary options, we do not propose to take these forward, as they are not compatible with our aim to reduce regulatory burden and complexity where justified.

Territoriality

3.22 A few responses to the DP requested clarity around the territoriality aspect of our proposed changes. We discuss the territorial scope of our rules in Chapter 7.

Question 1: **Do you agree with our proposed new definition to identify contracts and customers excluded from our regulatory protections and its scope?**

Question 2: **Do you have any concerns about our proposal that have not been covered in this chapter?**

Chapter 4

Product governance rule changes

4.1 This chapter sets out our proposed changes related to the product governance rules applicable to the insurance market. We propose rule changes in relation to co-manufacturing and the bespoke ('tailor-made') exclusion, based on responses to the DP. Following feedback received in response to the Requirements Review CfI, we also propose amending the rules for the 12-month minimum product review, which was not considered in the DP. These proposals aim to maintain appropriate levels of customer protection while allowing firms flexibility and eliminating duplicative processes and resultant costs.

4.2 We have not considered the CBA questions in Chapter 3 and 4 of the DP here. We have considered the responses to these questions when formulating our CBA, which is set out in Annex 2.

4.3 From feedback to the Requirements Review CfI, we are aware that firms are concerned about possible divergence in the expectations of the Duty and product governance rules. In the Feedback Statement (FS25/2) following up the CfI, we have proposed to clarify the application of the Duty through distribution chains, which may explore similar areas to the proposals in this chapter. It should also be noted that proposals for product governance rule changes in this consultation are specific to the insurance sector and should not be taken as indicative of our future work in relation to the Duty. However, we will seek to avoid unnecessary divergence in our expectations and terminology when conducting that work.

Co-manufacturing arrangements

The DP and the responses we received

4.4 Most respondents agreed with the concerns we identified in chapter 3 of the DP and few respondents made the following points:

- The rules do not necessarily reflect market structures and in practice can lead to duplication of processes and resultant costs.
- Intra-group arrangements should be excluded from the co-manufacturing requirements to avoid duplication.

4.5 In the DP, we considered changing the rules to allow a single lead firm to be responsible for compliance with the PROD rules applicable to insurance manufacturers. We also asked respondents to tell us how the lead firm should be defined, how this would interact with the different co-manufacturing arrangements and whether any rule changes should apply to both retail and commercial insurance markets, including pure protection products.

4.6 We also set out our initial view that intermediaries should not be permitted to be the lead manufacturer because they are not themselves party to the contract or responsible for paying claims. We felt this could increase harm to customers, but we asked for respondents' views on this. As alternative options, we also considered allowing co-manufacturers flexibility to decide who is responsible for the different PROD assessments or leaving the rules as they are but providing greater guidance on how responsibilities could be agreed between co-manufacturers.

4.7 Most respondents supported the idea of a lead firm being responsible for PROD 4.2 compliance. A few sought clarification on how this would apply to equal-proportion co-insurer arrangements. Some suggested that a combination of options would work best. A small number of respondents were concerned that requiring 1 insurer to lead product governance on behalf of all participating insurers may breach pricing information confidentiality principles. Respondents also said we should clarify which firm will be responsible for PROD 4.2 rule breaches, the role of the 'followers' and which firms will be responsible for paying customer compensation, where a lead is appointed. A small number of respondents preferred additional guidance on the current rules instead of new rule changes.

4.8 A few respondents agreed with the DP definition of lead, but a fair number provided alternative definitions or felt that the rules should not define lead. Some respondents felt our proposed definition in the DP may not always reflect market practice. For example, a firm taking the largest share of the risk may not always conduct the lead's role. We have not listed all the alternative definitions below but have considered them in making our proposed rule changes.

4.9 Most respondents were in favour of allowing intermediaries to be the lead, as broker-owned products are common in the Lloyd's and London market. However, they agreed that an insurer should be the lead in default. A fair number of respondents were opposed to allowing intermediaries to be the lead, agreeing with the risks we identified in the DP. They also said that insurers are better placed to know the overall performance of the product across all their distribution arrangements and will have access to relevant conduct data (for example, claims data including claim related complaints), which is essential for product value assessments.

4.10 The majority of the respondents said that, for consistency, any rule changes should apply to all retail non-investment insurance products, including pure protection products. However, a few suggested it was unnecessary to apply the changes to pure protection products.

Our responses and proposals

4.11 We welcome the broad support for the option to select a lead manufacturer to take responsibility for our insurance product governance requirements applicable to manufacturers. While most respondents preferred this, we agree with others that this might not work for every business model or product type, and that a combination of options would work best. Our proposals are intended to reflect the unique ways in which

the London insurance market operates. We want to ensure firms have the flexibility to meet our expectations in a way that works for their business models.

4.12 As such, we propose to allow firms the flexibility to either follow the current rules or select 1 lead firm to be solely responsible for the manufacturing of insurance products (PROD 4.2) compliance. If firms opt for the latter, they will need to set this out clearly in the co-manufacturing agreement – if not, our current rules will apply by default.

4.13 We propose that only an insurer or a Lloyd's managing agent (who also meet other specific conditions) may be the lead. For the reasons explained in the DP and for the additional reasons raised by respondents, we are not allowing an intermediary co-manufacturer to be the lead.

4.14 Firms can choose to continue to follow the current rules if appointing a lead will not be suitable for their product or business model. For example, with 'broker-owned' products where the distributor's role and knowledge of the products will be crucial, firms should follow the current rules.

4.15 We have proposed conditions a firm must meet in order to be a lead firm. We consider these conditions are broad enough to be applied to different co-manufacturing arrangements. The conditions are that:

- a lead firm must either be an insurer or a Lloyd's managing agent; and
- a lead firm must have sufficiently significant involvement in the manufacturing of the insurance product; and
- all co-manufacturers (this includes the lead firm) must unambiguously and in writing agree that:
  - the lead firm is solely responsible for compliance with the requirements on manufacturers in PROD 4.2.
  - the lead firm accepts all liability for breach, and this includes claims arising for redress.
  - the non-lead firms will cooperate with the lead firm including sharing information.

4.16 We are also proposing guidance and an evidential provision setting out how 'significant involvement' can be established, including the following:

- The lead firm should be the insurer or managing agent that created, developed or designed the main aspects of the insurance product;
- Where two or more insurers or Lloyd's managing agents do this equally then the lead firm should be the one that underwrites the main part.

4.17 Where the lead is selected, the other co-manufacturers will not be required to be involved in the lead's consideration or decisions (other than where the lead requires their cooperation), as the lead would be fully responsible for complying with PROD 4.2, and for any breaches or redress payable to customers (although, firms may have agreements between themselves to share the costs and redress).

4.18 We propose that the above changes will apply to all co-manufacturer arrangements for all non-investment insurance products, both commercial and retail, including pure protection products. While we know that co-manufacturing is rare in certain markets (e.g. pure protection), we believe this will achieve consistency across the insurance market and give firms the opportunity to innovate.

4.19 If firms choose to continue to follow the current rules (instead of selecting a lead firm), we have proposed guidance in relation to their responsibilities and cooperation. The guidance sets out that co-manufacturers may agree what data is required for the product approval process, and whether one firm will collect and collate the data necessary to carry out a fair value assessment.

4.20 We understand it is current market practice for the lead insurer (particularly, in the lead-follow market) to determine the policy wording and the pricing of the product, with the follower-insurers signing-up and agreeing to this. We consider that our proposals are consistent with this. We do not believe this necessarily creates a risk of breach of pricing information confidentiality principles as a few respondents suggested.

Question 3: **Do you agree with our proposed rule changes related to co-manufacturing arrangements, including that these should apply to all non-investment insurance products (both retail and commercial)?**

Bespoke contracts exclusion

4.21 Our product governance requirements exclude tailor-made contracts made at the request of a single customer. In the DP we considered the following options in relation to the bespoke contract exclusion applicable to PROD 4 rules:

- Extending the scope of the bespoke contracts exclusion to insurers (it currently only applies to intermediary co-manufacturers).
- Providing additional rules or guidance with a list of indicators of a bespoke contract.
- Providing additional rules or guidance on which products would not be considered bespoke.

Responses to the DP

4.22 Most respondents wanted us to clarify what bespoke contracts are and extend the scope of the exclusion so that insurers could rely on it too. Some also wanted us to extend it to brokers who are not co-manufacturers.

4.23 However, most respondents raised issues about our list of indicators. These included that some of the indicators were unnecessarily narrow, and that requirements such as the contract being 'substantially unique' would reduce the practical use of the exclusion. Some respondents said all open market business in the London market should be classed as bespoke contracts as these are individually negotiated and placed. Some

flagged the risk that adapting a standard policy to meet the demands and needs of a customer could be construed as meeting the indicators and therefore bespoke.

Our responses and proposals

4.24 We have carefully considered the responses to the DP and amended our proposals to reflect some of the feedback we received. We propose to extend the scope of the bespoke contract exclusion to both insurers and intermediaries (regardless of whether they are manufacturers). This will mean all bespoke non-investment insurance contracts (both general insurance and pure protection) are excluded from PROD 4.

4.25 We also propose rules and guidance to clarify when a contract will come within the exclusion:

- A bespoke contract can either be an adaptation of a firm's existing insurance product beyond what that product covers, or a new contract the firm has created in response to a customer request (where their needs cannot be met by the firm's existing products). In either case it must be solely for the needs of and requested by a customer.
- Firms can use pre-existing product wording when creating a bespoke contract.
- A bespoke contract can also be sold to other customers in response to the request of a customer for similar insurance cover in the future, provided it satisfies all the criteria. This includes that the bespoke contract meets the particular needs, interests, objectives and characteristics of that customer and the new sale is not a result of the firms having marketed that contract for general distribution, even to a niche market.

4.26 Taking into account the responses to the DP, we consider the proposed changes should expand the practical use of the bespoke contract exclusion.

4.27 We also propose guidance on when a product will not be a bespoke contract. For example, a contract resulting from an adaptation of an existing product to give effect to customer choices by choosing from those variants, optional extras or that extended cover is not a bespoke contract.

4.28 Also, where customers can choose different variations of a single product (e.g. different levels of cover, different policy excesses) following a demands and needs assessment, such variation should not be considered bespoke and must be subject to PROD approvals and reviews. Another example of when a product should not be considered bespoke includes where the firm attaches a special condition to a policy, where the firm's underwriting criteria would allow it to apply the same or similar condition to other customers with the same demands and needs.

4.29 We stress that products marketed or offered for general distribution will not be bespoke, even if they are aimed at a very small target market.

4.30 Not all open market placements should automatically be considered bespoke contracts, though we expect most are likely to meet the conditions of bespoke contracts or

contracts of commercial or other risks. Firms will need to consider whether all the conditions for bespoke products are met before excluding them from the product governance assessments. Equally all niche products should not automatically be considered as bespoke. Any product that is marketed for general distribution, regardless of how small the target market is, will be subject to PROD 4 approvals and assessments.

4.31 We propose that the bespoke contracts exclusion should be available to all non-investment insurance products (both commercial and retail, including pure protection products).

Question 4: **Do you agree with the proposed rule and guidance related to the Bespoke contract exclusion, including that it should be available to all non-investment insurance products?**

Product monitoring and review

4.32 Our current product governance rules in PROD 4.2 require firms to review their non-investment insurance products every 12 months and more frequently where the potential risk associated with the product makes it appropriate to do so.

4.33 Respondents to the Requirements Review CfI pointed out that the requirement in PROD 4.2 is not in line with the Consumer Duty rules, which simply require firms to review their products regularly. They said that this creates inconsistency between rules applying to the insurance and other sectors.

4.34 We have reviewed our requirements and recognise that annual reviews may not be proportionate for certain products where the potential for customer harm arising from risk factors associated with the product is low and may result in few benefits for the corresponding effort. The intention of our proposal is that firms should determine and document the frequency of a product's review based on its scope for customer harm arising from risk factors associated with the product. Where the potential is greater the product should be reviewed more frequently, which, as currently, may be more than once a year if appropriate.

Our proposals

4.35 We propose to remove the current 12-month minimum review requirement for non-investment insurance products. We propose to add a rule to require firms to determine the frequency of reviews based on each product's potential for customer harm arising from risk factors associated with the product. We also propose to include a minimum list of factors that firms must take into account for this purpose. Additionally, we propose to include a rule requiring firms to make and retain a record of their determination of the frequency of review together with the reasons for this.

4.36 Under PROD 4.3, firms must review their product distribution arrangement in relation to a non-investment insurance product at least every 12 months. We propose to remove this requirement too and introduce broadly similar new requirements.

4.37 The requirement to determine the appropriate intervals for regular review of a non-investment insurance product applies on an ongoing basis. Firms are expected to update the review frequency of products based on relevant new data indicative of the products' scope for customer harm. For example, where a product's scope for customer harm was previously low but new data indicates that this is now greater, a firm will be expected to review its determination of the frequency of review.

4.38 This approach brings the product governance rules in line with the Consumer Duty requirement to review products regularly. As the review frequency will be determined (and updated), based on the product's potential for customer harm arising from risk factors associated with the product, we consider appropriate levels of customer protections will continue to be maintained.

Question 5: **Do you agree with our proposal to remove the 12-month minimum review frequency requirement under PROD 4.2 and PROD 4.3?**

Question 6: **Do you agree with our proposal to require firms to determine the appropriate review frequency based on the potential for customer harm arising from risk factors associated with the product?**

Chapter 5

ICOBS disclosure and Employers' Liability notification and reporting requirements

5.1 This chapter discusses the responses to the DP in relation to the ICOBS disclosure requirements applicable to insurers, and proposed amendments to the employers' liability notification and reporting requirements.

ICOBS disclosure

5.2 In the DP, we identified that there may be issues with how the ICOBS disclosure requirements applicable to insurers were being applied where products have more than one insurer. We asked respondents if they agreed with the issues we identified in relation to these requirements, and whether we should clarify to industry that the ICOBS disclosure requirements which applied to insurers should only apply to the lead insurer in co-insurer arrangements.

DP responses and our proposals

5.3 None of the respondents who answered this question identified misunderstanding about this aspect of the ICOBS disclosure requirements applicable to the insurers. However, some said that if we knew of concerns then we should clarify this within our rules.

5.4 We have not received specific information that the concerns discussed in the DP currently exist in the market. However, we propose that where a lead firm is selected in accordance with the proposed changes to co-manufactures (in chapter 4 above), the lead firm would be responsible for producing the required information. We have also proposed a consequential change that, where a lead firm is selected, the lead firm is responsible for producing the IPID (Insurance Product Information Document)..

Question 7: **Do you agree with the proposed consequential change that only the lead manufacturer should be responsible for producing the ICOBS disclosure documents (applicable to insurers and managing agents), where a lead is appointed?**

Employers' liability (EL) notification and reporting requirements

5.5 ICOBS 8.4 requires general insurers to notify us whether they are carrying on EL business and, if so, to give us information such as the web address of the EL

register (ELR), the firm contact and period of cover. Firms must also tell us if any of this information changes. The Financial Services Authority (FSA) introduced these requirements because the information needed to identify all relevant EL insurers was not readily available at the time.

5.6 The EL market has changed considerably since these rules were introduced. This information is now available to us and to customers via the Employers' Liability Tracing Office (ELTO). We understand that 99% of the industry use ELTO. ELTO is also free for customers and their representatives and is well known to customer representatives. Information on the ELTO website also indicates that if the policy a customer is looking for is not listed on the simple search, customers can request an extended search via the online system which will contact insurers on the customer's behalf. Given these factors, we consider that the notification requirements are no longer required and add an unnecessary burden on firms.

5.7 SUP 16.23A requires firms to obtain a director's certificate and an independent audit report annually. The director's certificate must state whether the firm is in material compliance with our rules (which set out requirements including the form of and data to be included in the ELR and requirements regarding its searchability). The independent audit report is intended to ensure the tracing information in the ELR remains accurate and reliable. Firms are required to submit this report to us annually. Firms that use a qualifying tracing office, such as ELTO, are required to make this information available to the tracing office too.

5.8 We consider the requirement to obtain a director's certificate and an audit report to be valuable to minimise customer harm, and we understand that this information continues to be useful to tracing offices.

5.9 When the reporting rules were introduced, they were aimed at addressing the specific customer harms identified in the EL market at the time, which resulted from difficulty in tracing EL policies. However, we understand that those customer harms are no longer prevalent in the current EL market, presumably because EL policies are easier to trace now. Given this, we consider that the current reporting rules requiring all EL firms, including those that are materially compliant, to send us their director's certificate and audit report annually, are no longer proportionate. The current rules also require a more intensive approach than do the majority of our other rules, which require firms to only report 'significant breaches' to us via SUP 15.3. This difference is not justified by the level of potential harm that the rules are intended to prevent.

Our proposals

5.10 We propose to dispense with the notification requirements in ICOBS 8.4 and the annual reporting requirement in SUP 16.23A, applicable to EL firms. This will still maintain a proportionate regulatory regime with appropriate customer protections, due to the retention of the requirement to obtain an annual director's certificate and audit report and make these available to qualifying tracing offices, and the requirement to notify significant breaches to us in line with the requirement for other rule breaches, taking into account the rules and guidance under SUP15.3.

5.11 We do not think removing this reporting requirement to the FCA will have a detrimental impact on our objectives, as the information required under the rule is readily available to us on request if we are notified of a significant breach and to the vast majority of customers via ELTO. We have also proposed some guidance on circumstances that are unlikely to be a significant breach of the EL requirements.

Question 8: **Do you agree with the proposed rule changes related to the EL notification and reporting requirements? Is there other guidance that we should include on circumstances that are unlikely to amount to a significant breach?**

Chapter 6

Other changes

Minimum knowledge, training and competence requirements for employees of insurance and funeral plan firms

6.1 All authorised firms are required to ensure their employees have the skills, knowledge and expertise necessary to carry out their roles. This applies throughout an employee's time at a firm and requires firms to provide appropriate ongoing training and development.

6.2 In 2018, when we implemented the Insurance Distribution Directive, we introduced the requirement that employees of insurance distributors must ensure their ongoing competence by undertaking a minimum of 15 hours continuing training and development. The rules specify certain professional knowledge areas which should be covered. Firms are required to monitor and keep records of their employees' training.

6.3 In 2022 we introduced a similar requirement for funeral plans when we began to regulate that sector (although without the specified knowledge areas). This was consistent with our stated aim to align the funeral plan and insurance distribution rules where appropriate.

6.4 The current position makes non-investment insurance and funeral plans different from most other retail sectors, where there is no specific minimum amount of time which employees must spend on training and development activities. It is also different from the position of advisors in some other sectors, who must meet higher minimum levels of continuing professional development and minimum qualifications.

6.5 Since we introduced the rules, we have received consistent feedback that they create an unnecessary burden on firms. The feedback we have received raises 3 issues:

- While most firms have told us their employees routinely undertake more than the minimum 15 hours training and development, many have argued that the specific monitoring and record-keeping requirements are burdensome and add no benefit to consumers.
- For a small number of firms (or roles within them) the 15 hours CPD is excessive. For example, firms whose primary business is not financial services, and whose insurance activities are very limited, have argued that 15 hours training for their staff is unnecessary and takes their time away from their normal responsibilities.
- Some firms have told us that the prescribed knowledge areas are not relevant to some employees.

6.6 In our recent Duty Requirements Review CfI Feedback Statement (FS25/2) we committed to reviewing the minimum training and competence requirements for insurance and funeral plan firms. The proposals in this CP deliver that commitment. We also said we will explore options for reviewing the Training and Competence sourcebook

and competence requirements in other sourcebooks. This will be done through a separate process.

Our proposals

6.7 We do not propose to change the requirement that employees must have the necessary skills, knowledge and expertise to carry out their roles. This will continue to require ongoing training and development for all employees, and we do not intend to lower standards of consumer protection. Some employees will need significantly more than 15 hours continuing training and development to maintain their competence. This is particularly likely to be the case where employees are in roles which have a significant influence on outcomes for customers, dealing with more complex products or providing advice. Furthermore, some professional qualifications or bodies, such as the Chartered Insurance Institute, require much higher levels of annual CPD to be undertaken and recorded by their members, which contributes to the high professional standards expected of these individuals. This ensures that the UK remains a very experienced, high quality and world leading market for insurance. Firms will need to consider this when determining appropriate training for their employees.

6.8 However, we consider that the current requirement to undertake a minimum of 15 hours CPD is overly prescriptive and does not allow firms the flexibility to put in place knowledge and competence arrangements appropriate for their employees' roles. We propose to remove the minimum 15 hours training and development required for employees of non-investment insurance and funeral plan distributors. We also propose to remove the specific monitoring and record-keeping requirements in relation to these employees (though general record keeping requirements will continue to apply). Firms will still need to monitor the knowledge and competence of these employees, but they will have greater flexibility to demonstrate this in ways appropriate to their business and the employee's role. We propose to retain the specified insurance knowledge areas for non-investment insurance as guidance which firms can use to determine areas that may be relevant for individual employees.

Question 9: **Do you agree with our proposal to remove the prescriptive minimum 15 hours training and development (and associated monitoring and record-keeping requirements) for non-investment insurance and funeral plan firms? Please explain your answer.**

Perimeter guidance changes

6.9 We are also consulting on some minor corrections to our Perimeter Guidance Manual (PERG). These can be found in Annex G of the draft Handbook text at Appendix 1.

Chapter 7

Other issues for discussion

7.1 In this chapter we invite feedback on some potential rule changes we are considering. We are also asking respondents to give specific details and/or estimates of the impact that these changes may have. This will help us fully assess which, if any, changes we should implement.

7.2 Some of these changes result from feedback we received to the Requirements Review CfI, and reflect commitments made in FS25/2 to consider these issues. If we go ahead with these changes, we would be required to consult. We will consider the feedback we receive before deciding which, if any, of the changes to take forwards.

7.3 The changes discussed in this chapter would only apply to non-investment insurance business or funeral plans, as specified below. This paper, therefore, only invites respondents' views on how the changes would impact the insurance sector or funeral plan sector (as applicable). FS25/2 set out our proposals and next steps in response to wider feedback received to the Requirements Review CfI.

Applying our conduct rules to insurance business outside the UK

7.4 London is a key hub for international insurance activity and many firms operating in the UK also service non-UK customers. Where insurance products are being offered in other countries, these are typically distributed by intermediaries registered in that country and subject to regulations imposed by the local authorities. We know that many overseas markets have regulations controlling matters such as pricing and the costs of distribution.

7.5 Unless otherwise specified, our rules apply to firms undertaking regulated activities in the UK, regardless of where the customer is located. In some situations, this could result in insurers and intermediaries who manufacture and distribute insurance products from the UK being subject to conflicting or overlapping requirements under our rules and those of the authorities in the country where the product is being distributed. There are also likely to be practical challenges for firms in monitoring aspects of the distribution overseas. This could be relevant to their ability to meet their obligations under FCA rules.

7.6 We have previously recognised that this can potentially lead to unnecessary duplication of regulatory requirements, or otherwise be disproportionate, especially in areas of business conduct which are more appropriately determined by authorities in those countries. We have addressed this by disapplying our rules in some situations:

- ICOBS does not apply to insurers where the customer is habitually resident, and the risk being insured is located, outside the UK and the intermediary in contact with the customer is not established in the UK.

- Much of PROD 4 is disapplied where non-investment insurance products are only distributed to customers habitually resident, and the risk is located, outside the UK. Where a product is used for both UK and non-UK customers, manufacturers do not need to consider the impact of overseas distribution on the product's value.

7.7 Distribution activities relating to contracts of large risks outside the UK are also outside our regulatory perimeter (for the avoidance of doubt, the 'contracts of large risks' definition of our perimeter will be unaffected by our proposals in Chapter 3 for determining which rules apply to commercial insurance).

7.8 As part of the Requirements Review CfI, we received feedback suggesting we go further and explicitly disapply our rules where firms are conducting insurance business outside the UK. Respondents argued the current rules create unnecessary regulatory burden where firms are subject to requirements imposed by us and authorities in the country where the product is being offered. Respondents suggested this risks making the UK less attractive as a place to do insurance business, with some saying that regulation has deterred new entrants and innovations. In FS25/2 we committed to reviewing the international application of our conduct rules in the insurance sector.

Options we are considering

7.9 We are considering whether we should further disapply rules that apply where customers and insured risks are both located outside the UK.

7.10 The options below relate purely to non-investment insurance business. However, we recognise that similar issues may exist in other sectors. We will consider this when we review the feedback we receive to the questions below.

ICOBS & PROD 4

7.11 As discussed in paragraph 7.6, both ICOBS and PROD are already disapplied in various ways for overseas business. ICOBS does not apply to insurers involved in overseas business through non-UK intermediaries where the customer is habitually resident, and the risk being insured is located, outside the UK. However, it does apply to other intermediaries in those distribution chains. We could explicitly exclude all activities involving non-UK business from the ICOBS rules.

7.12 While we have limited the non-UK application of some PROD 4 rules, we could consider going further and disapply all of PROD 4 in relation to non-UK business. Our PROD 4 rules apply to products generally rather than to individual contracts of insurance. Currently, the way some of the rules are disapplied differs depending on whether a product is sold or distributed to customers in both the UK and overseas or to non-UK customers only.

7.13 Feedback we receive here will also feed into our wider consideration of this point in other sectors as part of our follow-up work to the Requirements Review CfI.

Question 10: **Are you aware of instances where requirements imposed by local regulators duplicate or exceed those imposed by us? Please provide examples.**

Question 11: **Do you have views on whether we should restrict ICOBS and/or PROD 4 to business with UK insurance customers or risks? Please explain your response and set out the basis of why you consider this would be justified.**

Question 12: **Please provide us with estimates on what the expected financial impact (including either to increase or decrease in costs) would be to your firm if we were to disapply ICOBS and/or PROD 4 in relation to non-UK business.**

The Consumer Duty

7.14 Currently the Duty follows the territorial scope of the insurance conduct rules. If we were to limit the scope of ICOBS and PROD 4 so they applied only to UK business, this would mean the Duty would no longer apply to this business either.

7.15 We are also considering whether Principles 6 and 7 should instead apply if we decided to limit the Duty in this way.

Question 13: **Please provide us with estimates on what the expected financial impact (including either to increase or decrease in costs) would be to your firm if the scope of the Duty were to follow the revised scope of ICOBS and PROD 4. Please also explain whether your answer is different depending on whether Principles 6 and 7 continue to apply.**

Additional considerations

7.16 The current rules are disapplied based on both the customer's habitual residence and, if relevant, the state of the risk. In most cases these will be the same. However, there are some situations where one of these is the UK but the other is not. This is most likely to be the case with property insurance, where the state of the risk is the state where the property is located. A customer resident in the UK could seek insurance for a holiday home located overseas, in which case the state of the risk will be the other country. This would also apply to a customer resident overseas seeking to insure a property in the UK.

7.17 Where we currently disapply rules, this is usually only where both the customer's habitual residence and the state of the risk are outside the UK. We want to make sure that any changes we make do not inadvertently create gaps in regulatory protections if, for example, both our requirements and those of the local authorities were disapplied. So, we are seeking views on how any changes we make should apply in situations where the customer's residence and the state of the risk are different.

7.18 Most non-investment insurance contracts have a duration of 12 months or less. However, there are some which may have significantly longer terms (for example, protection products such as life insurance). It is possible that the customer's habitual residence could change during this time. We want to ensure any rule changes we make account for this.

Question 14: **Should any restriction be based on the customer's habitual residence, the *state of the risk*, or both?**

Question 15: **Are there any other ways of determining the customer's location that we should consider?**

Question 16: **Are there any instances of products which are manufactured for, and distributed to, both customers in the UK and overseas? How should the ICOBS and PROD 4 rules deal with such situations?**

Question 17: **How should the rules apply where the customer changes from being a UK to a non-UK customer (or vice versa) during the term of the contract?**

7.19 We want to ensure any changes we make benefit firms and do not affect the appropriate degree of protections for consumers. We are seeking views on this and on any other unintended consequences the changes may have.

Question 18: **Are you aware of any instances where the changes we have set out would lead to a gap in regulatory protections for consumers and SME customers? For example, are there any jurisdictions which rely (for consumer protection) on UK firms being subject to our rules in relation to business in their jurisdiction?**

Question 19: **Would there be any adverse consequences for the UK insurance industry arising from the changes we have set out? For example, do you think limiting the scope of our conduct rules would affect trust and confidence in, and therefore potentially the competitiveness of, UK firms?**

Rules applicable to specific insurance products

7.20 The ICOBS sourcebook contains rules that are specific to some insurance products. We have undertaken an initial review and consider that a number of them may no longer be fit for purpose. This is either because they may not have achieved the outcomes intended, or because changes in the market led to these rules being no longer necessary.

7.21 The introduction of Consumer Duty also raised the standards for customer protection across sectors and products, making some specific requirements superfluous.

7.22 In fact, the Consumer Duty requires firms to act in good faith towards customers, while enabling and supporting them to pursue their financial objectives. Furthermore, the Consumer Understanding outcome of the Consumer Duty imposes requirements on firms to ensure that information is communicated to customers in a way which is clear, fair and not misleading. Many of the product-specific requirements in ICOBS aim to provide customers with products that meet their needs and information that enables them to make informed decisions, and so does the Consumer Duty.

Payment protection contracts

7.23 Payment Protection Insurance (PPI) contracts were sold either alongside various forms of credit (e.g. loans, credit cards, etc), or as a stand-alone product.

7.24 Following the mis-selling scandal which unfolded over several years, where banks and other financial institutions aggressively sold PPI policies earning unjustified commissions on the sales, steps were taken to address and remediate the harm caused by the sale of these policies. These included research into the PPI market and how complaints were handled, fines for failings in PPI sales, and a ban on the sale of PPI alongside unsecured personal loans. Payment protection-specific requirements were also introduced for firms to assess customer eligibility.

7.25 While payment protection, or other types of income or short-term insurance are still available, the PPI market has significantly changed and PPI is no longer sold alongside loans, credit cards and mortgages.

7.26 For this reason, we are considering whether the requirement in ICOBS 5.1.2 R concerning the eligibility to claim benefits under a payment protection contract is still required. We consider that similar levels of consumer protection could be provided by the Consumer Duty and through other rules and guidance in ICOBS applicable to all non-investment insurance contracts. However, we recognise this change could have some impacts on consumers (for example, it could limit some private rights of action in the event of rule breaches) and we are seeking views on this.

Packaged bank accounts

7.27 ICOBS also includes rules specific to policies arranged as part of Packaged Bank Accounts (PBAs), requiring firms to take reasonable steps to establish customers' eligibility to claim benefits before concluding the sale, and to provide customers with annual eligibility statements following the sale.

7.28 These rules were introduced in 2012, at a time where the market for these accounts was growing due to many banks actively promoting them to a large number of customers. There was evidence of significant harm arising from customers taking insurance which did not provide them with clear benefits (for example, customers being sold accounts with travel insurance even though they were over the age limit to be eligible for cover). At

the time the rules were introduced we acknowledged they were more prescriptive than other ICOBS rules, but we considered that necessary to mitigate the harms.

7.29 Since these rules were introduced, the PBA market has changed, as consumers are more informed, and a greater variety of alternatives is available to them. In addition, the standards required by our rules have been enhanced compared to those required in 2012. For example:

- Our rules require that no insurance contract can be proposed unless it meets the needs of the customer.
- We have introduced the Consumer Duty, ensuring that firms act to deliver good outcomes to customers.

7.30 We consider the rules applying to all non-investment insurance contracts may be sufficient to protect customers with PBAs. We are considering whether the additional rules specific to this type of product are still required.

7.31 When we originally consulted on the rules for PBAs we noted that our ICOBS rules were not drafted with these types of account in mind. It may not be straightforward to apply existing rules to insurance arranged as part of a bundle of services with a PBA. If we do make changes, we may need to introduce additional rules or guidance in order to provide clarity on our expectations to firms.

Guaranteed Asset Protection (GAP) insurance

7.32 The GAP-specific rules introduced in ICOBS between 2015 and 2018 concern the type of information that must be provided to the customer and the timeframes to conclude the sale of a GAP contract. Our work at the time found that GAP contracts sold as an add-on to a vehicle were often significantly more expensive that those sold stand-alone and often offered poor value. We wanted to reduce the advantage enjoyed by the add-on distributor and to empower customers to make informed and active decisions on whether to buy GAP insurance and, if so, where they purchase from.

7.33 Since the introduction of the GAP-specific rules we also introduced value measures reporting (SUP 16.27) and PROD requirements. Despite the continuous regulatory intervention and scrutiny from the FCA on GAP insurance, the 2022 General Insurance Value Measures evidenced that GAP products were still failing to provide fair value to customers.

7.34 In February 2024 we decided to intervene in the market and GAP manufacturers agreed to pause sales until they could evidence the fair value of their products. A significant proportion of the market is now able to sell and distribute GAP insurance again, having revised and amended their propositions to comply with our fair value requirements.

7.35 In light of the SUP 16.27 and PROD requirements, we are considering whether the GAP-specific ICOBS rules are still needed to address the harm for which they were introduced.

Question 20: **Do you agree with our considerations around the rules applicable to the insurance products discussed above? If not, please provide your reasoning.**

Question 21: **Please provide us with estimates on what the expected financial impact (including either to increase or decrease in costs) would be to your firm if we were to remove the product-specific rules discussed above. Please provide the impacts in relation to each of the rules.**

Question 22: **Are there any product-specific rules that you think no longer meet their intended purpose and should be reviewed? If yes, please explain why**

Product governance requirements for funeral plans

7.36 In Chapter 4, we propose to remove the minimum annual product review requirement for insurance products. PROD 7 contains a similar requirement for funeral plans. The funeral plan rules were substantially based on the insurance distribution rules, and we are considering whether to remove this requirement to keep the 2 sets of rules aligned.

7.37 The position for funeral plans is somewhat different because the PROD 7 rules apply to a much more limited range of products than the PROD 4 rules for insurance. As such, we think there may be less benefit to firms in removing the requirement, and there could also be greater risk to consumers in practices varying between firms. But leaving the requirement in place would mean the funeral plan rules remain more prescriptive than the review requirements under the Consumer Duty and are misaligned with our proposed changes for insurance. We would like views from respondents on this.

Question 23: **Do you think we should remove the minimum 12-month product review requirement for funeral plan manufacturers? Please explain your response.**

Question 24: **Please provide us with estimates on what the expected financial impact (either to increase or decrease in costs) would be to your firm if we change the minimum product review requirement for funeral plans.**

Annex 1

Questions in this paper

Question 1: Do you agree with our proposed new definition to identify contracts and customers excluded from our regulatory protections and its scope?

Question 2: Do you have any concerns about our proposal that have not been covered in this chapter?

Question 3: Do you agree with our proposed rule changes related to co-manufacturing arrangements, including that these should apply to all non- investment insurance products (both retail and commercial)?

Question 4: Do you agree with the proposed rule and guidance related to the Bespoke contract exclusion, including that it should be available to all non-investment insurance products?

Question 5: Do you agree with our proposal to remove the 12-month minimum review frequency requirement under PROD 4.2 and PROD 4.3?

Question 6: Do you agree with our proposal to require firms to determine the appropriate review frequency based on the potential for customer harm arising from risk factors associated with the product?

Question 7: Do you agree with the proposed consequential change that only the lead manufacturer should be responsible for producing the ICOBS disclosure documents (applicable to insurers and managing agents), where a lead is appointed?

Question 8: Do you agree with the proposed rule changes related to the EL notification and reporting requirements? Is there other guidance that we should include on circumstances that are unlikely to amount to a significant breach?

Question 9: Do you agree with our proposal to remove the prescriptive minimum 15 hours training and development (and associated monitoring and record keeping requirements) for non-investment insurance and funeral plan firms? Please explain your answer.

Question 10: Are you aware of instances where requirements imposed by local regulators duplicate or exceed those imposed by us? Please provide examples.

Question 11: Do you have views on whether we should restrict ICOBS and/or PROD 4 to business with UK insurance customers or risks? Please explain your response and set out the basis of why you consider this would be justified.

Question 12: Please provide us with estimates on what the expected financial impact (including either to increase or decrease in costs) would be to your firm if we were to disapply ICOBS and/or PROD 4 in relation to non- UK business.

Question 13: Please provide us with estimates on what expected financial impact (including either to increase or decrease in costs) would be to your firm if the scope of the Duty were to follow the revised scope of ICOBS and PROD4. Please also explain whether your answer is different depending on whether Principles 6 and 7 continue to apply.

Question 14: Should any restriction be based on the customers habitual residence, the *state of risk*, or both?

Question 15: Are there any other ways of determining the customer's location that we should consider?

Question 16: Are there any instances of products which are manufactured for, and distributed to, both customers in the UK and overseas? How should the ICOBS and PROD 4 rules deal with such situations?

Question 17: How should the rules apply where the customer changes from being a UK to a non-UK customer (or vice versa) during the term of the contract?

Question 18: Are you aware of any instances where the changes we have set out would lead to a gap in regulatory protections for consumers and SME customers? For example, are there any jurisdictions which rely (for consumer protection) on UK firms being subject to our rules in relation to business in their jurisdiction?

Question 19: Would there be any adverse consequences for the UK insurance industry arising from the changes we have set out? For example, do you think limiting the scope of our conduct rules would affect trust and confidence in, and therefore potentially the competitiveness of, UK firms?

Question 20: Do you agree with our considerations around the rules applicable to the insurance products discussed above? If not, please provide your reasoning.

Question 21: Please provide us with estimates on what the expected financial impact (including either to increase or decrease in costs) would be to your firm if we were to remove the product-specific rules discussed above. Please provide the impacts in relation to each of the rules.

Question 22: Are there any product-specific rules that you think no longer meet their intended purpose and should be reviewed? If yes, please explain why.

Question 23: Do you think we should remove the minimum 12-month product review requirement for funeral plan manufacturers? Please explain your response.

Question 24: Please provide us with estimates on what the expected financial impact (either to increase or decrease in costs) would be to your firm if we change the minimum product review requirement for funeral plans.

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. In this CBA we assess the impact of our proposed changes to some of our insurance and funeral plan rules. This analysis presents estimates of the significant impacts of our proposals. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.

3. The CBA has the following structure:

- The Market
- Problem and rationale for intervention
- Options assessment
- Our proposed intervention
- Baseline and key assumptions
- Benefits
- Costs
- Wider economic impacts
- Monitoring and evaluation

The Market

4. The proposals in the CP affect the UK insurance market as whole. The UK insurance market is characterised by often long and complex distribution chains. For this reason, the proposed changes would not only affect insurers but also Managing General Agents (MGAs) and intermediaries.

5. There are 429 authorised insurers based on data from the Prudential Regulation Authority (PRA). However, a substantial number of these firms are unlikely to be affected by the proposals, for reasons such as them being in run-off or only manufacturing larger commercial products excluded from our rules. We do not have data to accurately estimate the exact number of affected firms, but our assessment of the available data suggests that 240 insurers and Lloyd's managing agents could be affected by our proposed rule changes. Further, based on Retail Mediation Activities Return (RMAR)

source data, there appear to be 3,738 insurance intermediaries. This includes 264 Lloyd's and London Market intermediaries.

6. Based on our standard cost model, we estimate the maximum number of firms potentially impacted by our proposals to be:

Firm size	Firm number
Large	23
Medium	108
Small	3,847

7. Our rules categorise customers as either consumers or commercial customers. Therefore, all of our proposals will have an impact on both categories of customers. However, we are proposing to introduce some changes to specifically determine which rules apply to the certain regulated activities carried on for commercial customers in certain circumstances.

Problem and rationale for intervention

8. Following feedback from industry, we have identified areas of our rules which could be interpreted or applied in a way that can potentially lead to duplication of processes and consequent unnecessary costs to firms. Additionally, the protections provided by our rules extend to larger commercial customers who have sufficient resources to be able to protect their own interests. These points can lead to additional costs being passed on to customers for limited benefits. We have also heard from industry that the effect of the regulatory burden can be to limit new entrants to the market and to discourage innovation; both of which are usually beneficial to customers. For example, we have seen examples of firms choosing not to bring new products to the commercial insurance market due to concerns over compliance burdens. The issues we identified were confirmed during our engagement with industry and trade bodies, and by the responses to our Discussion Paper (DP24/1) published in July 2024.

9. Ineffective or outdated regulation can be harmful and lead to overall worse outcomes for both firms and consumers. For example:

- The costs of regulation are, ultimately, passed on to customers. If regulation is ineffective in protecting customers from poor practices, it will increase costs but not provide a corresponding benefit.
- A greater regulatory burden can stifle innovation and discourage new entrants from entering the market.
- Ineffective regulation poses a risk that firms' resources are not being directed towards areas with greater risk of customer harm.

10. Our rules should not be overly prescriptive or unjustifiably burdensome on firms. We want good customer outcomes to be achieved in a cost-effective way. The proposed rule changes are intended to result in cost savings to firms and ensure that firm

resources are directed towards areas that do present a higher potential for customer harm. Reducing the regulatory burden should promote competition in the interests of customers by making it easier for firms to innovate and new firms to join the market.

Options assessment

11. Having carefully considered our objectives, the risks and unintended consequences associated with each option, and the feedback we received, we are confident that consulting on the rule changes set out in the earlier sections of this document is the best course of action.

12. Our proposals to simplify and streamline our requirements for the insurance market support our secondary international competitiveness and growth objective (SICGO) by introducing amendments which will facilitate the process for firms to comply with our rules while reducing and removing requirements, resulting in a simpler and clearer regulatory framework which will contribute to making the UK insurance market more competitive.

13. Alternative options were considered in the DP for each proposal related to commercial markets, co-manufacturing and bespoke products and they are summarised in the table below, along with alternative options considered for issues not included in the DP. Further detail on the alternative options and feedback received is included in the main body of this CP.

Alternative option	Rationale for discarding it
Determining which rules apply to commercial insurance	
Removing the product-specific provisions from the new definition.	Brings into the scope of our rules customers previously excluded and therefore creates additional burden and costs for firms with no evidence of corresponding benefits.
PROD 4.2 – Co-manufacturing arrangements	
Options to allow firms flexibility to decide who is responsible for the different aspect of PROD 4 assessments where there are co-manufacturers.	Lack of clarity on which firm is responsible for the different aspects of product governance increases risk of harm, and disparity in the market on how our rules are applied. All of this can result in harm to customers
PROD 1.4 – Bespoke insurance contracts	
We included a list of indications on when a product is likely to be bespoke, including for example, a contract made at the request of a single customer, is substantially unique to other standard products etc.	Respondents to the DP said that our list of indicators restricted the practical utility of the exclusion. Instead, we have defined it by way of setting out certain requirements a contract must meet in order to be considered bespoke and provided guidance on these requirements.

Alternative option	Rationale for discarding it
PROD 4.2 – Frequency of review	
Change the 12-month product review requirement to a different prescribed frequency.	We do not consider there is an appropriate single minimum review frequency period that would be appropriate for all products. The same lack of flexibility in the current rules would continue to exist. Additionally, there would continue to be lack of congruence with the Consumer Duty rules around product reviews.
EL notification and reporting requirements	
Keep the rules as they are.	The rules were introduced by the FSA to address specific market harms. The market has changed considerably since, and the additional protections are no longer needed.
Training and competency requirements	
Retain the existing requirement for non-investment insurance distribution employees to undertake 15 hours CPD per year, together with the corresponding specific monitoring and record-keeping requirements.	We consider that being less prescriptive maintains the consumer protection whilst providing firms with the flexibility to tailor their knowledge and training requirements to their business. It will also reduce the compliance monitoring and record-keeping burden on firms.

Our proposed intervention

14. The package of rule changes we are consulting on and the expected outcomes and harms we intend to address through these are set out below. We've further summarised this in the causal chains.

Determining which rules apply to commercial insurance

15. The scope of application of ICOBS, PROD and the Consumer Duty are set, in part, by reference to the '*contracts of large risks*' definition, which derives from Solvency II and the IDD. This definition captures: certain kinds of insurance risk (such as aircraft and ships); and certain other kinds of insurance risk where the policyholder is of a certain size.

16. This definition is not aligned to other definitions in the Handbook distinguishing between consumers and commercial customers, and currently also captures larger corporate customers who do not require the protection afforded by our rules. This may pose barriers to innovation and hinder the competitiveness of the UK commercial insurance market.

17. We are proposing to introduce a new definition to identify larger commercial customers, (however, contracts of insurance for risks such as aircraft, ships etc will continue to fall within the definition.) The definition will replace '*contracts of large risks*' in the application

provisions for PROD and ICOBS, and in the definition of '*retail market business*' which sets the scope of the Consumer Duty.

18. As a result of the proposed change, more commercial customers will be captured by the definition and firms will, for example, be excluded from the majority of regulatory protections under ICOBS when distributing non-investment insurance contracts to these customers where the risk is located within the UK. Our changes will provide greater flexibility for firms to develop new products and new ways to provide their services. We also expect the changes will encourage new entrants into the market. This should deliver benefits to commercial customers through enhanced competition and through new, innovative services.

Co-manufacturers of insurance products

19. Industry highlighted that our product governance rules are being interpreted and applied by co-manufacturers in a manner that is leading to duplication of processes and costs.

20. We propose to amend the rules to allow firms the option to either follow the current rules as they are or select one firm (subject to several conditions) to be the lead manufacturer solely responsible for the requirements in PROD 4.2. We are also proposing additional guidance to assist firms' understanding of the current requirements.

21. The proposed rule changes (including additional guidance) are intended to:

- Prevent duplication of PROD assessments and resultant costs.
- Provide clarity on the roles of between co-manufacturers.
- Reduce the potential risk of duplicative data requests being sent to distributors.
- Achieve the above, with minimal costs to industry with ultimate cost savings to co-manufacturers.
- Maintain consumer protections at the current level as the standards required for product governance and approval will not change.

Bespoke insurance products

22. Stakeholders told us that the PROD 1.4.4R(3) tailor-made contracts exclusion only applies to intermediaries, and is currently either not being used at all or being used extremely rarely, due to a lack of clarity on what constitutes a bespoke contract.

23. We proposed to broaden the scope of this exclusion so that both insurers and intermediaries will be able to rely on this exclusion where appropriate. In addition, we have also proposed rules and guidance to clarify when a contract will come within the exclusion and when it is unlikely to. This is intended to increase the practical utility of the exclusion. We anticipate cost savings for firms where bespoke contracts are appropriately excluded. This should also free up firm resources to be used for products which require (and will benefit from) PROD 4 approvals/reviews. This will also promote innovation and competition in the interest of customers, allowing for growth within the bespoke market.

Frequency of product reviews

24. While the current rules require firms to review their non-investment insurance products every 12 months at a minimum, we propose for firms to determine the appropriate review frequency based on the potential for customer harm arising from risk factors associated with the product.

25. We want our rules on product reviews to be proportionate to the potential for customer harm that a product presents. This should provide firms with the flexibility to determine the appropriate frequency of review based on products characteristics such as complexity, size as well as relevant risk factors such as customer base, etc.

Employers' Liability (EL) notification and reporting requirement

26. We currently have notification requirements and reporting requirements applicable to EL insurance. These requirements were introduced by the FSA to address harm identified in the EL market in 2010-2013, where inadequate record-keeping and traceability impeded claimants from claiming against policies of former employers who may no longer be in business. Since then, the market has changed, partly due to the role and recognition of tracing offices. We therefore considered it appropriate to review the current requirements, which we no longer consider justified by the level of potential harm.

27. We proposed to remove these notification and reporting requirements. This will remove the additional compliance burden and resultant administrative costs (albeit minimal) that the current notification and reporting requirements place on EL firms. Firms will instead be required to report any significant breaches to us via SUP15.3, thus ensuring customers are appropriately protected. These changes will better align our supervisory approach to EL rules, to our other rules, creating a more proportionate regulation.

CPD requirement

28. Firms carrying on insurance distribution activities are currently required to ensure their employees undertake a minimum of 15 hours CPD per year. This supplements the requirement that all firms must ensure their employees have the necessary knowledge, expertise and skill to carry out their roles (the 'competent employee rule'). We recognise that the 15-hour minimum requirement can be inflexible and does not allow for the limited range of situations where that amount of training is unnecessary.

29. We propose to remove the 15 hours minimum and the corresponding record-keeping requirements and instead rely on the competent employee rule and guidance to firms to ensure their employees remain competent through undertaking the appropriate ongoing training required for their roles. We do not expect this to lead to significant reductions in the amount of ongoing training and development most employees undertake. However, we do consider it will have some marginal cost savings for firms.

Figure 1: Causal chain for determining which rules apply to commercial insurance for rule changes

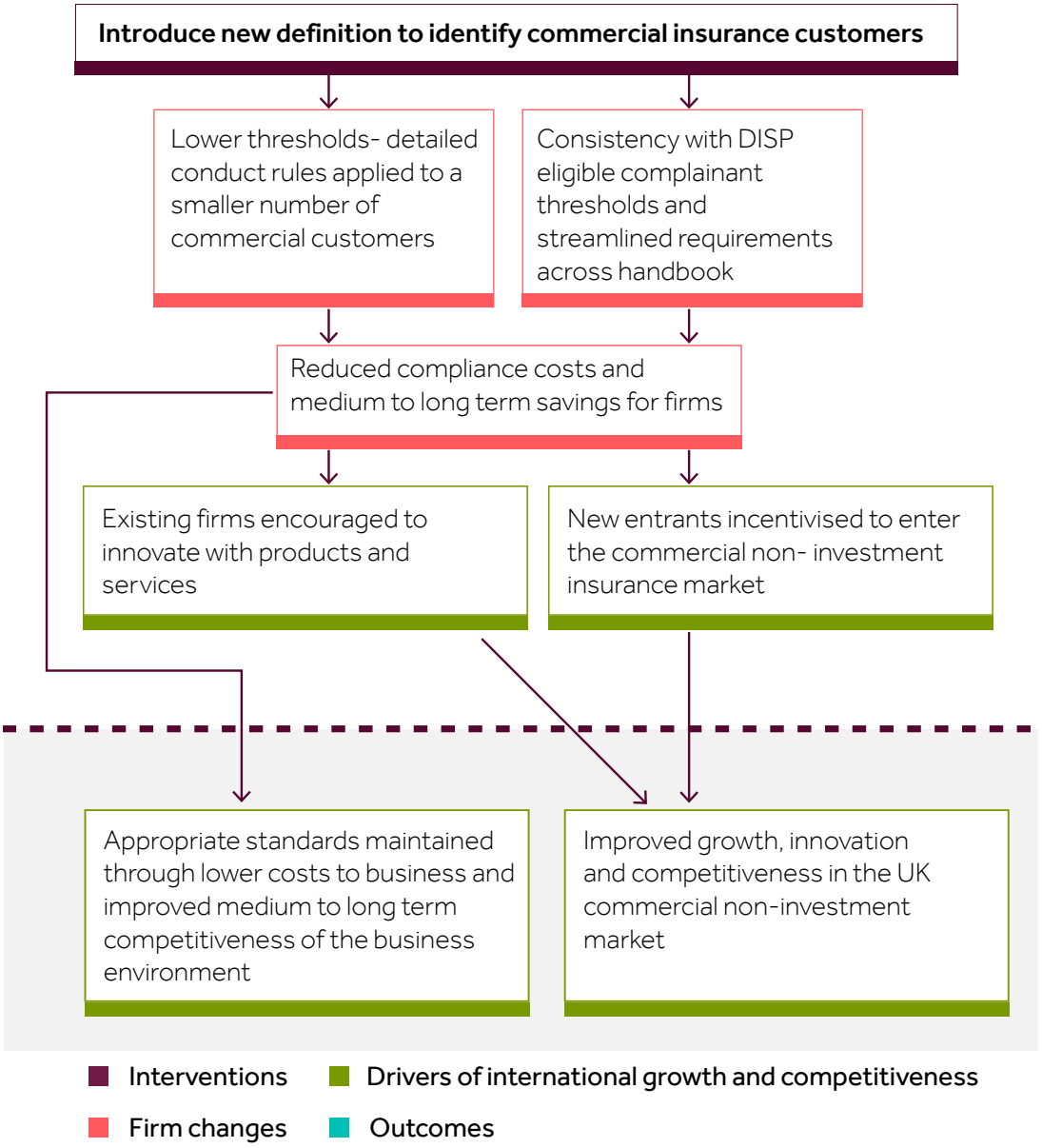


Figure 2: Causal chain for PROD 4 changes

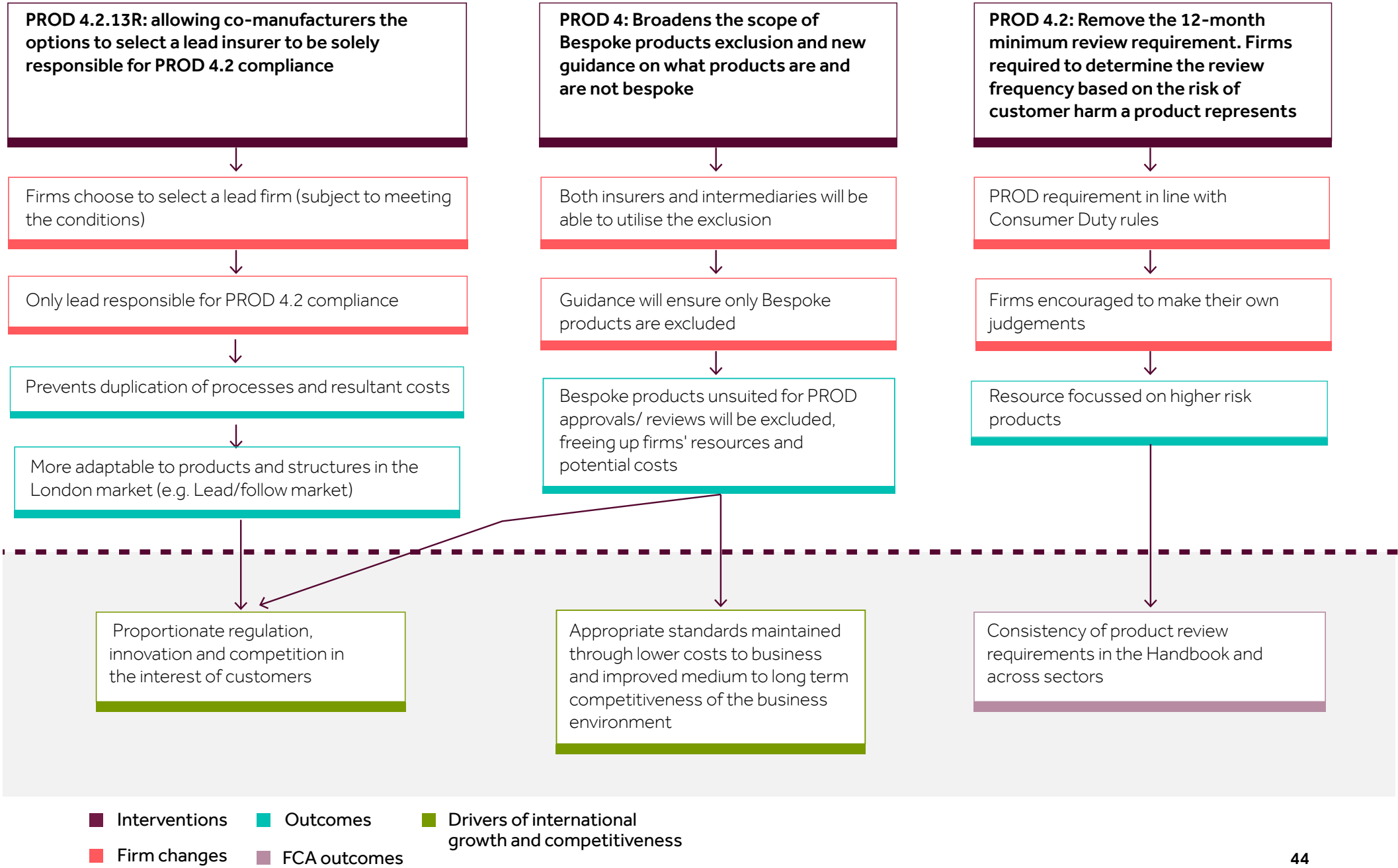


Figure 3: Causal chain for EL notification and reporting requirements

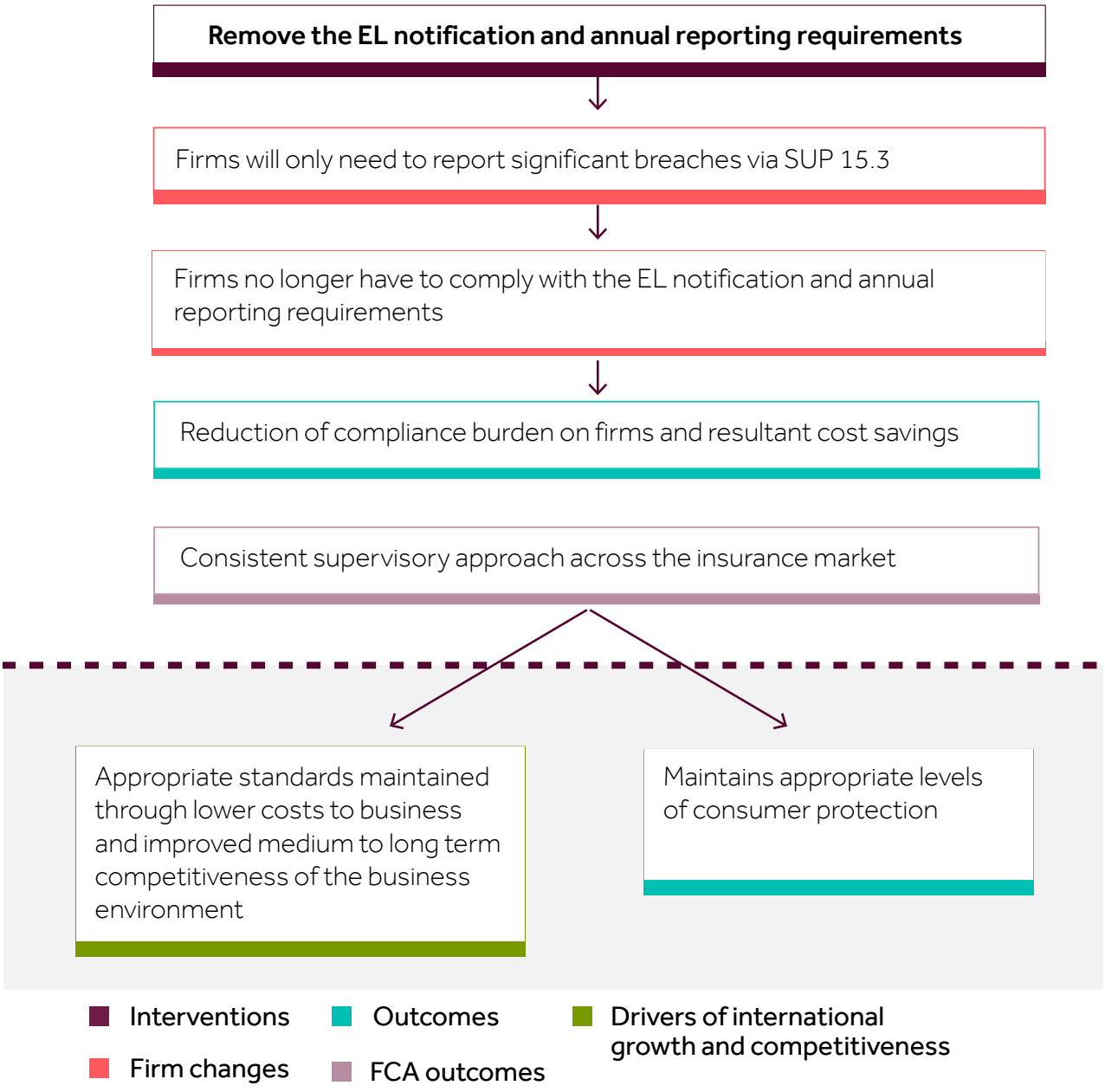
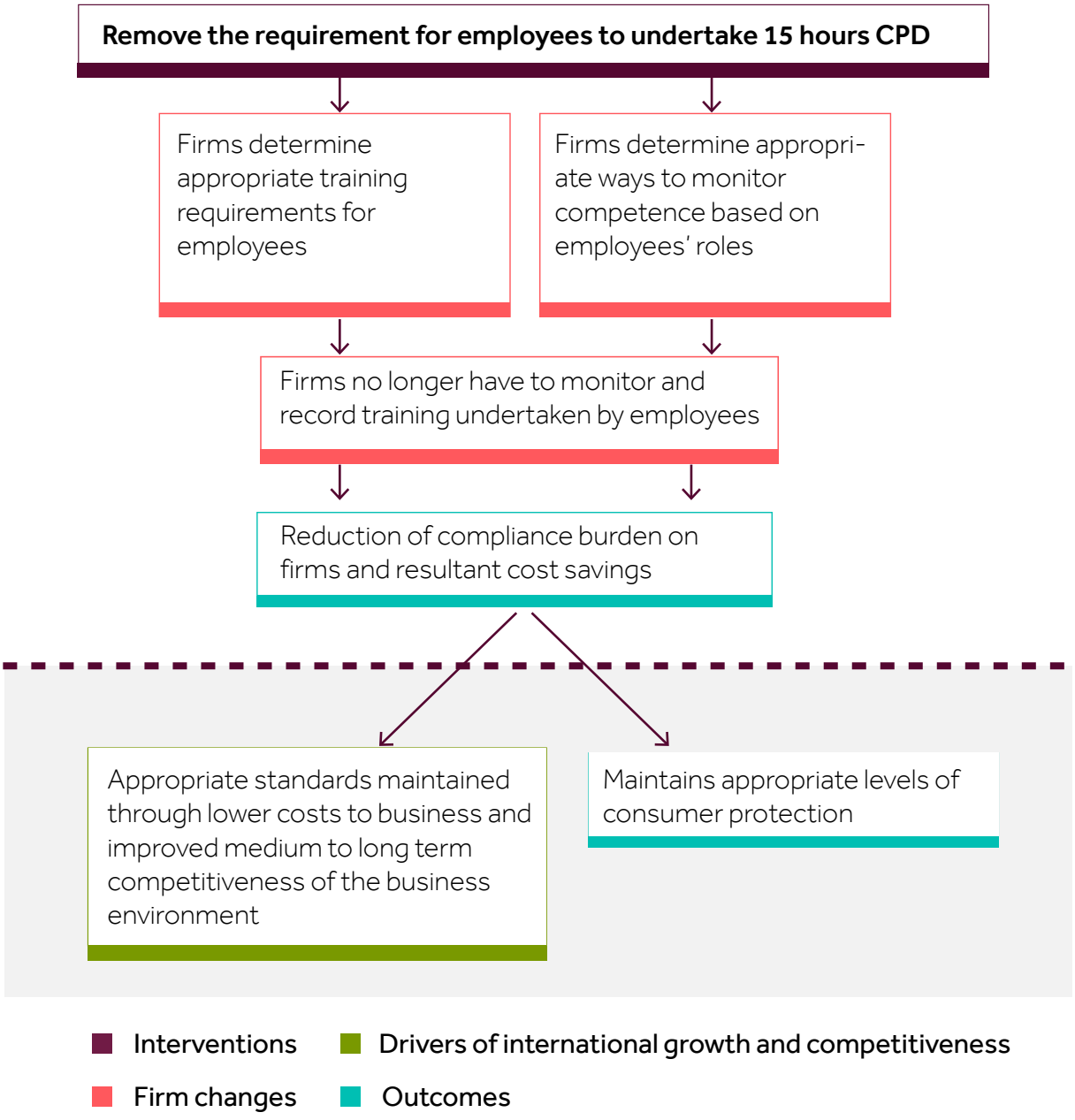


Figure 4: Causal chain for employee training and reporting requirements



Baseline and key assumptions

Baseline

30. The baseline for the cost benefit analysis in this CP is a scenario in which we do not intervene with our proposals. If we choose not to intervene, the concerns we identified in the DP (raised by the market) resulting from the way our current rules work, would continue to exist. We want to intervene sooner rather than later, so that firms can implement the proposed flexibilities sooner thereby promoting competition and innovation in the interest of customers.

Key assumptions

31. The analysis in this chapter is based on a number of key assumptions which we set out below:

- As all insurers, Lloyd's managing agents and intermediaries affected by our proposals are subject to our regulation, we have assumed they already have in place the necessary systems, controls and processes to comply with our rules in ICOBS, PROD, SYSC, TC and the Consumer Duty.
- As our proposals will provide firms with greater flexibility on the application of our rules, we assume that our intervention will not affect the whole population of firms we identified below to the same extent. The impact will be dependent on whether or not firms decide to apply the new rules. We assume that firms will only act on the flexibility if they decide it is beneficial to their business.
- Our cost-benefit analysis assumes that firms will incur different costs and derive different benefits based on factors such as size and business model.
- We assume there will be no change to customer behaviours as a result of the changes.

32. We have not considered the potential impacts on competition in detail. Whilst we have heard that the regulatory burden may currently be having some negative impacts on competition, the industry has not been able to provide sufficient data for us to fully assess the impacts.

Table 1: scope of our proposed rule changes

Remedy	Products subject to the proposed rule changes	Types of firm subject to the proposed rule changes
Determining which rules apply to commercial insurance	All non-investment insurance products including pure protection products manufactured for or distributed to commercial customers. Each sourcebook sets out the way in which its rules will apply following the proposed changes.	All firms manufacturing or distributing non-investment insurance products to commercial customers. Each sourcebook sets out the way in which its rules will apply following the proposed changes.

Remedy	Products subject to the proposed rule changes	Types of firm subject to the proposed rule changes
PROD 4.2 – Co-manufacturing arrangements	All non-investment insurance products.	All firms co-manufacturing non-investment insurance products.
PROD 1.4 – Bespoke insurance contracts	All non-investment insurance products that are 'bespoke' contracts (i.e. must meet the requirements).	All firms manufacturing or distributing products that fall within the scope of this exclusion.
PROD 4.2 – Frequency of review	All non-investment insurance products.	All firms manufacturing and distributing non-investment insurance products
EL notification and reporting requirements	All EL products.	All firms doing EL business who are subject to the EL notification and reporting requirements.
Training and competency requirements	All non-investment insurance products and funeral plans.	All firms carrying out insurance distribution activities relating to non-investment insurance products or funeral plan firms carrying out regulated funeral plan activities.

Summary of costs and benefits

Group affected	Item description	Benefits (£ where quantified or qualitative where unquantified)		Costs (£where quantified or qualitative where unquantified)	
		One off	Ongoing	One off	Ongoing
Determining which rules apply to commercial insurance					
Firms	IT costs.	Consistency with DISP rules for categorising eligible complainant; potential long-term savings from applying the new definition (unquantified); easier to categorise which SME's are covered by our rules, and consistency with other parts of the Handbook; potential long-term savings from applying the new definition (unquantified).		**£6k** per small firm, **£61k** per medium firm and **£223k** per large firm	None expected
SME customers		None expected in monetary terms			

Group affected	Item description	Benefits (£ where quantified or qualitative where unquantified)		Costs (£where quantified or qualitative where unquantified)	
		One off	Ongoing	One off	Ongoing
PROD 4.2 – Co-manufacturing arrangements					
Firms	Potential general cost savings.	None expected.	**£36k** per small firm, **£67k** per medium sized firm, and **£96k** per large firmPotential ongoing cost-savings but unquantified.	**£10k** per small firm, **£20k** per medium firm, and **£30k** per large firm.	None expected.
Consumers		None expected in monetary terms.			
PROD 1.4 – Bespoke insurance contracts					
Firms	Potential general cost savings.	Unquantified due to lack of data long term savings are expected where firms rely on the exclusion to exclude bespoke contracts from PROD 4 reviews.			
Consumers		None expected in monetary terms.			
PROD 4.2 – Frequency of review					
Firms	Potential general cost savings.	**£10k** per small firm, **£18k** per medium firm and **£25k** per large firm.	Unquantified potential on going savings possible dependent on future determination of review frequency for the product.	Unquantified as likely minimal as no changes to the processes are expected.	
Consumers		None expected in monetary terms.			
EL notification and reporting requirements					
Firms	Compliance cost.	Unquantified as likely minimal savings from firm not having to comply with these requirement.		Unquantified and none expected.	
Consumers		None expected in monetary terms.			
Training and competency requirements					
Firms		Unquantified but likely minimal reduction on burden on firms in terms record keeping.		None expected.	
Consumers		None expected in monetary terms.			

Benefits

Determining which rules apply to commercial insurance

33. By analysing available data from the PRA, we estimated that 55 of the 429 authorised insurers write commercial business and have significant volumes of business.

34. There are 55 Lloyd's Managing Agents listed on the Lloyd's website. Of these, we have excluded 9 to avoid duplication as they are part of insurer groups also writing commercial business. Furthermore, based on our analysis on the RMAR data, we estimate that around 2,100 intermediaries deal solely or mostly with commercial business.

35. For the purposes of our calculations, we have categorised these firms as follows:

Firm size	Firm number
Large	8
Medium	67
Small	2,125

36. This means that we estimate a total of 2,201 firms will be affected by our proposal (55 insurers, 46 MGAs and 2,100 intermediaries).

Benefits to firms

37. We expect firms to derive benefits and long-term savings from following and applying the new definition, along with more flexibility to adapt their processes to suit their business models. Although respondents largely agreed with this expectation, they were unable to quantify the potential cost savings. As mentioned above, this is because it will depend on the extent to which each firm would apply the new definition, which in turn depends on whether each firm deems it beneficial for them and their customers. For these reasons, we are not able to quantify the benefits that firms may derive from our intervention. However, we consider that firms are only likely to apply the new definition if it will benefit them to do so compared to the baseline position. For that reason, we conclude the proposals will benefit firms.

Benefits to SME customers

38. We are not able to quantify such benefits before the event, as the scale and impact will largely depend on the proportion of the market which will apply and follow the new definition, as well as the reaction of firms not currently operating in these markets, which we are unable to predict.

Co-manufacturing arrangements

Affected firms

39. As noted in the baseline assumptions above we assume there are 3,738 intermediaries. This includes 264 Lloyd's and London Market intermediaries; most of whom are likely to be co-manufacturers. As part of the FCA PROD Thematic Review we identified that approximately 30% were co-manufacturers.

40. Respondents to the DP told us that the involvement of intermediary co-manufacturers in PROD assessments is particularly important (for example, with broker-owned products), because of their knowledge about the product and its performance. In these cases, we anticipate that the intermediary co-manufacturers are less likely to use the option to appoint a lead manufacturer because that would result in the intermediary no longer being involved in product manufacture. So, the impact of the rule changes we are proposing is likely to be limited here. Intermediary co-manufacturers with limited involvement in designing the product may still choose to select a lead insurer (or Lloyd's managing agent) and benefit from this rule change. However, we have no reliable data available to estimate this. For that reason, we have not included intermediary co-manufacturers in our assessment of impacted firms.

41. Based on the above, we assume that any substantial cost savings are more likely to occur in co-insurer arrangements (i.e. co-manufacturing arrangements without any intermediary co-manufacturers where the follower insurers can select a lead insurer), particularly in the Lloyd's market. As such, we assume it is likely that commercial insurers stand to benefit the most from these rule changes because we understand the co-manufacturing between insurers occurs most commonly in the commercial insurance sector.

42. Based on our analysis of the PRA data, we estimate that there are 77 insurers and 46 Lloyd's Managing Agents (LMAs), writing commercial business that is likely to fall within PROD 4.2 remits. Of these, we have excluded firms who generate low volumes of GWP and monoline firms who conduct marine, aviation and transport insurance business. Overall, we estimate that roughly 48 insurers and 46 LMAs (total of 94 firms) may benefit from our rule changes.

43. For the purpose of estimating the cost impact, we have followed the below estimates of firm sizes:

Firm size	Firm number
Large (excluding the 6 monoline insurers)	8
Medium	29
Small (including LMAs)	57

Benefits to firms

44. Benefits are likely to be ongoing as a result of reduced costs to some co-manufacturers in operating the product approval and review processes. As noted above, firms have said the proposals are likely to produce cost savings, but none have provided estimates of the potential cost savings. We have therefore used the ongoing cost we estimated in our General Insurance Pricing practices (GIPP) CP (CP20/19) in relation to the changing of the scope of PROD, to estimate the potential benefits to firms. With adjustment to take account of inflation since 2020, we estimate that current cost-savings/benefits are likely to be **£36k** per small firm, **£67k** per medium sized firm, and **£96k** per large firm. However, we are unable to estimate total savings because we do not know how many firms will use the rules, nor are we able to reasonably estimate this. However, we consider that firms are only likely to use the option to appoint a lead manufacturer if it will benefit them to do so compared to the baseline position. For that reason, we conclude the proposals will benefit firms.

45. We consider there are likely to be other benefits to the proposed rule changes. We have provided an explanation of these benefits below. It is not reasonably practical for us to estimate the benefits in monetary terms because they will depend on firms' dynamic response to the changes and the extent to which they chose to change their operating models:

- The flexibility afforded by the proposed rule changes will better accommodate London Market products and business models. Firms in the subscription or lead/follow market will be able to take advantage of the new flexibilities allowed in the rules. The flexibility and resultant costs savings should also promote innovation and competition in the insurance market by enabling firms to develop new, more competitive products which will benefit customers. It could also encourage new entrants into the insurance markets as new insurers may be more encouraged to co-manufacture products with larger firms if the cost burden on them is reduced where another firm accepts the lead responsibility.
- There could be potential benefits to intermediary co-manufacturers in arrangements where the insurer is nominated as the lead, as they are likely to have cost savings in no longer having to conduct their own PROD 4.2 assessments. However, our interactions with industry suggest this benefit is likely to be limited because we expect most co-manufacturing intermediaries to continue being co-manufacturers.
- Some respondents have told us that currently intermediaries are receiving multiple data requests from different co-manufacturers in relation to one single product at different times of the year, placing substantial resource and cost burden on them. If a lead insurer is appointed, this resource/cost burden on intermediaries will also reduce.

46. As noted above, we will also be adding guidance to clarify how the current PROD 4.2 rules are meant to apply to co-manufacturing arrangements. We are unable to quantify

the cost impact of this guidance, but we anticipate that the costs and benefits are likely to be minimal as the guidance simply re-states the existing position of the rules.

Benefit to consumers

47. We do not consider these proposals will have any costs or new benefits to consumers. This is because even if one firm assumes responsibility as the lead insurer, this lead will still be required to ensure the current levels of customer protections afforded by our rules are maintained. The lead will be held liable should any customer harm result from any rule breaches.

Bespoke insurance contracts

Benefits to firms

48. Currently, firms are either not using the current 'tailor made products' exclusion at all or only using it extremely rarely. Given this, no firms have been able to provide us with data on the benefits of the proposed rule changes related to the Bespoke products exclusion. In particular, any benefit will depend on how many products are considered bespoke. This data is unavailable. However, if properly applied, the following benefits are likely:

- Currently insurers are unable to use the bespoke contracts exclusion. The proposed broadening of its scope will enable insurers to utilise it too.
- The additional clarification on what contracts should be considered bespoke should provide insurers and intermediaries the confidence to use this exclusion where appropriate.
- The flexibilities within the rules and guidance on what contracts are bespoke, will promote innovation in the bespoke contracts sector.

Benefits to customers:

49. The proposed rules and guidance on what products should not be considered bespoke, should provide additional safeguards in ensuring products that are not bespoke are not wrongly excluded, thereby protecting the customers of those products.

Frequency of product reviews

Benefits to firms

50. We anticipate that firms are likely to experience a cost-saving from this, if they choose to take advantage of the flexibility. Based on the CBA of the GIPP CP20/19, we estimate that the cost savings could amount to potentially **£10k f**or a small firm, **£18k** for a medium sized firm and **£25k** for a large firm. These figures assume that firms have some products which have a lower potential of customer harm and can be reviewed less than once every 12 months. However, we cannot reasonably estimate the number of insurers and distributors who will in fact benefit from this proposed rule change because of the following factors:

- The frequency of reviews must be based on the potential for customer harm arising from risk factors associated with each product or product group. We cannot estimate the proportion of products that firms have which will require more frequent reviews.
- Equally, we cannot estimate the proportion of low-risk products that firms may choose to review less frequently, nor how often these products will be reviewed if not every 12 months.
- Insurers may continue to treat 12 months as the regular review period, particular in relation to products that renew annually.

51. We are therefore unable to reasonably estimate the likely total cost savings to industry.

52. Potentially, intermediary co-manufacturers (an estimated 1,121 intermediaries and 264 Lloyd's and London Market intermediaries) who are also subject to the PROD 4.2 ongoing reviews could stand to benefit from the proposed rule change. However, we are unable to quantify this, because this will be contingent on how firms respond to the other policy interventions, in particular those related to co-manufacturing. For example, in an arrangement with both insurers and intermediary co-manufacturers, if the insurer takes on the lead responsibility, then the intermediaries will not be responsible for the PROD 4.2 approvals or reviews – these intermediaries will benefit from that policy intervention but not from the proposals related to the frequency of reviews. However, if intermediary co-manufacturers continue to be responsible for PROD 4.2 compliance too, they could potentially benefit from the proposed changes related to the frequency of review. We estimate that the savings per firm would be the same as those for insurers. We are unable to estimate the total benefits to intermediaries across the industry for the same reasons why we are unable to estimate this for insurers.

Benefits to consumers

53. In addition to the above, other unquantifiable benefits from the proposed rule changes include the following:

- This rule change will result in a shift in industry focus from treating 12 months as a standard review, to a risk-based assessment. This will ensure products with a greater potential for customer harm are identified and reviewed more frequently, mitigating the risk of customer detriment that could result from these products.
- The proposals should lead to firm resources being redirected to products that do present a high risk of customer harm.

EL notification and reporting requirements

Benefits to firms

54. We anticipate that there will be a small benefit to firms resulting from a reduction of compliance burden as firms will no longer be required to comply with current notification and annual reporting requirements. However, we anticipate that any cost savings to firms are likely to be minimal, as firms will still be required to obtain an annual audit report

and director's certificate and make these available for their respective tracing office, and to provide these to us via SUP 15.3 if there is a significant breach.

Benefits to customers

55. We do not consider these proposals will have any impact (costs or benefits) to consumers. This is because firms will continue to be required to carry out annual audits and act to remedy any non-compliance identified in the audit report. Also, the information we obtain via the notification requirements are readily available to customers via ELTO which is well known to customer representatives.

Training and competency requirements

Benefits to firms

56. We expect there will be a small benefit to firms through time saved in no longer being required to actively record and monitor training and development provided. However, our engagements with industry suggest these savings will be of minimal significance as most firms will continue to meet the existing specific requirements. Even where firms are no longer recording specific hours of training and development, they will still be required to record the competence of their employees in compliance with general record-keeping requirements under our rules. This is likely to require similar monitoring and recording.

57. There are a small number of firms where we expect the amount of training provided to reduce. These are likely to be firms who are involved with insurance ancillary to their main business, or where the employee's role is limited in regard to the insurance. These firms may benefit from reduced training costs. It is not reasonably practical for us to estimate these savings because it is impossible for us to know which firms are likely to be affected. However, we expect the savings to be minimal.

Benefits to consumers

58. We do not consider these proposals will have any benefits to consumers. This is because employees working for insurance and funeral plan firms will continue to have appropriate competence and skill for their roles. Our engagement with industry suggests the quantity and nature of ongoing training for employees is unlikely to change.

Costs

Determining which rules apply to commercial insurance

Costs to firms

59. Respondents to the DP indicated that there would be one off-costs associated with reviewing all customers and products against the new definition, and re-categorising as appropriate.

60. Firms would also incur costs to train staff on the new definition. We are simply proposing to replace the current '*contracts of large risks*' definition with the new '*contracts of commercial and other risks*' definition in the application provisions for PROD, ICOBS and in the definition of '*retail market business*'. Additionally, we are aligning the new definition to the established and well-understood criteria in DISP. For these reasons, we do not anticipate significant time, resources and costs being required for training.

61. Most respondents indicated that the bulk of the costs would come from IT changes required to systems to align to the new definition. However, firms were not able to quantify these costs. Using our standardised cost model, we estimated IT costs associated with our proposal to be around **£223k** for large firms, **£61k** for medium firms and **£6k** for small firms.

62. While we have assessed the individual firm costs, we are unable to predict the proportion of the market which will follow the new definition for the categorisation of customers. We consider that firms will opt to follow the revised approach where their own assessment has concluded that it would be beneficial for them and their customers.

63. We know that insurance brokers largely use software houses in the industry, with 4 providers dominating the market, therefore we considered that the costs will fall mostly on these software houses. However, we are aware of the fact that larger brokers have their own proprietary technology.

64. Most respondents agreed that there would not be significant changes from the current ongoing costs, once IT changes and staff training are concluded.

Costs to SME customers

65. Although the new definition will result in around 45,000 larger SME customers no longer benefitting from some of our detailed regulatory protections, respondents to our DP have provided data which suggests the proposed measures will not lead to significant changes in outcomes received by affected customers. For example, we have seen data comparing metrics for large risks customers and Financial Ombudsman Service (FOS) eligible customers. These showed that the claims success rate and complaints success rates over 2022-2024 were similar for larger commercial and smaller commercial customers. This means that, if the thresholds to distinguish between smaller and larger commercial customers are changed to align with the DISP eligible complainant thresholds, the larger commercial customers no longer captured by our protections are unlikely to receive materially different, or worse, outcomes.

66. Moreover, as previously mentioned, various respondents pointed out that they do not distinguish between large risk and other customers for the purposes of customer categorisation, therefore it is likely that a proportion of the market will see no changes at all.

Co-manufacturing arrangements

Costs to firms

67. Most respondents to the DP did not respond to the CBA question related to this section. The few respondents that did respond indicated that if we made rule changes along the lines set out in the DP, there is only likely to be a one-off cost, primarily related to external legal advice to review/re-negotiate existing co-manufacturer agreements. They said that additional ongoing costs were unlikely, and that overall, there was likely to be cost savings in the future although no figures were provided on the latter.

68. A respondent estimated that this one-off legal cost was likely to be in the region of £50K. Another respondent said that as most of its business was co-manufactured, rule changes in line with the DP options, was likely to give rise to substantial compliance costs, although it did not provide any figures to support this claim. However, we think these costs may be over-estimates for the following reasons:

- Our proposals are different from the options put forward in the DP. For example, we are no longer proposing a complete replacement of the current PROD 4.2 approach to co-manufacturing with the lead option discussed in the DP.
- The rules we are consulting on would allow co-manufacturers the flexibility to decide whether to follow the current PROD 4.2 approach to co-manufacturing or opt to appoint a lead firm. The proposed rule changes also do not mandate a deadline by which firms must make this decision or implement changes. This means that co-manufacturers can choose to continue to follow the current PROD 4.2 approach to co-manufacturing if this works better with their business model or if the alternative proves less cost effective than we intend it to be. If firms do choose to opt to elect a lead firm, they can wait until the existing co-manufacturing agreements naturally come to an end or are due to be renewed, in order to change their terms in line with the new flexibilities under PROD 4.2, thereby mitigating any additional legal costs.
- The conditions that firms must meet to be able to be the 'lead' are sufficiently broad and should capture different types of co-manufacturing arrangements. This should also help mitigate costs.
- In addition, even if firms decide to continue to follow the current PROD 4.2 approach to co-manufacturing, the additional guidance we are proposing will provide them confidence to do so in a way that has lower costs than current practice.

69. Bearing the above in mind, we have estimated the one-off costs based on our standard cost model, to which we have added potential legal costs. We estimate that the likely costs are, **£30k** for a large firm, **£20k** for a medium firm and **£10k** for a small firm. We have not calculated any additional ongoing costs as respondents have told us that this is unlikely. Also, given the non-mandatory nature of the proposed rule changes, we do not think it reasonable to calculate industry-wide costs, because we do not know, nor

could we reasonably estimate, what proportion of industry are likely to implement the proposed rule changes. So, we have estimated cost per firm only.

Costs to consumers

70. We do not consider this intervention would have any cost consequences on consumers.

Bespoke insurance contracts

Costs to firms

71. The same reasons stated in the benefits section above, we are unable to reasonably estimate any potential costs to firms.

Costs to customers

72. We do not consider there will be any cost consequences to customers as a result of this intervention.

Frequency of product reviews

Cost to firms

73. If firms choose to take advantage of the proposed changes, we expect that the implementation cost to firms is likely to be negligible because firms will already have PROD processes in place. Therefore, costs associated with the implementation of this proposal are likely to be of minimal significance.

Cost to customers

74. We do not anticipate any costs or material differences in outcomes for customers from our proposal. This is because firms can either choose to continue reviewing their products every 12 months, resulting in no change, or they can determine the appropriate review frequency depending on the potential for customer harm of products.

EL notification and reporting requirements

Cost to firms

75. Firms should already have processes in place to report SUP 15.3 breaches, so this change should not require any substantial IT or process changes. Any costs are likely to be of minimal significance.

Costs to consumers

76. We do not consider this intervention would have any cost consequences on consumers.

Training and competency requirements

Cost to firms

77. We are proposing to remove the requirement that employees of insurance intermediaries distributing non-investment insurance products and employees of funeral plan firms are required to undertake a minimum of 15 hours ongoing training and development per year, and the corresponding record-keeping requirements. However, firms will continue to be required to ensure their employees have the necessary competence and skills, and compliance with this requirement will require ongoing training. Our engagement with the industry suggests that these changes are unlikely to lead to additional costs because firms already have systems and training facilities in place to meet the existing requirements. We expect the large majority of firms will continue to provide their employees with more than 15 hours of training and development. Some firms have indicated to us that they consider this best practice to ensure their employees are competent.

Cost to consumers

78. We do not consider these proposals will have any costs to consumers. This is because employees working for insurance intermediaries and funeral plan firms will continue to have appropriate competence and skill for their roles. Our engagement with industry suggests the quantity and nature of ongoing training for employees is unlikely to change.

Familiarisation, gap analysis and other costs/benefits

Familiarisation and gap analysis

79. We expect firms to incur familiarisation and gap analysis costs. Using standard assumptions, we have provided estimates based on the identified overall population of firms impacted by our proposals – 8 large firms, 67 medium firms and 2,126 small firms. However, it is important to note that this is an upper bound estimate, as not all firms will incur the same costs. We have based these costs on our assessment of the number of firms involved wholly or mainly in commercial insurance as these are the firms most likely to be impacted by the proposals. Whilst some of the proposals have the potential to impact retail insurance firms as well, our assessment is the impact is likely to be significantly less than for commercial insurance firms.

80. This CP contains 65 pages of policy documentation for firms to familiarise themselves with. Assuming there are 300 words per page and assuming a reading speed of 100 words per minute, 3.25 hours would be required to read the policy documentation. Given the significance of the proposals, it is assumed that for large, medium and small firms respectively 20, 5 and 2 compliance staff will be engaging in familiarisation with the CP.

81. Assuming hourly compliance staff salaries (including overheads) of £68 for large firms, £63 for medium firms and £52 for small firms, the total estimated familiarisation costs would amount to £826,017.

82. We also expect the impacted firms to incur costs associated with a legal review of the proposed handbook changes.

83. The CP includes 41 pages of legal instrument. It is assumed that each legal staff member can review 50 pages of legal instrument in 28, 21 and 7 hours for large, medium and small firms respectively.

84. Assuming an hourly salary for legal staff of £79 for large firms, £74 for medium firms and £70 for small firms, the estimated total gap analysis costs amount to £1,080,051.

85. The total estimated sum of familiarisation and gap analysis costs is £1,906,068.

Benefits and costs to the FCA

86. Although we are simplifying rules and reducing the overall level of regulation, we do not envisage significant impact on staff or material changes to the supervision approach of the firms concerned. We think a cost reduction is likely in relation to the EL rule changes we are consulting on, but we think this is likely to be negligible, given firms will be required to report significant breaches to us via SUP15.3.

Wider economic impacts, including on our secondary objective

87. Our proposals will support the growth and competitiveness in the UK insurance market by affecting 4 of the 7 drivers of productivity as follows:

- **Proportionate regulation:** By amending our rules to remove duplicative processes and streamlining requirements, our proposals will contribute to making our insurance rules, along with the cost and effort incurred by firms, more proportionate to the benefit that firms and consumers derive from them. This will make the UK insurance market more attractive and will incentivise new entrants to participate.
- **Trust and reputation:** Delivering proportionate regulation that addresses long-standing concerns, whilst continuing to ensure appropriate consumer protection, will enhance trust and the reputation of the UK market by investors in that market.
- **Innovation:** The proposals in this CP will ensure that the scope of the bespoke contracts exclusion will be broadened, and larger commercial customers are excluded from the scope of most of our conduct rules. Reduced regulatory requirements will promote innovation in the bespoke and commercial insurance spaces.
- **International markets:** The main outcome of our proposals will be less burdensome, more proportionate regulation. This will enhance the attractiveness of the UK insurance market and may attract foreign and multi-national firms to participate in it.

Monitoring and evaluation

88. The proposals outlined in this CP will not introduce new rules or increase regulatory standards. Instead, we are removing outdated and no longer necessary rules and providing firms with flexibility around the application of these. Whilst we do not propose an active plan to monitor the outcomes of our intervention, we will monitor this through some of the sources referred to in the Rule Review Framework.

89. We will continue to monitor compliance with our insurance rules through our current supervisory approach and we will continue to engage with industry and trade bodies for feedback on the results of our intervention.

Question 25: **Do you agree with our cost benefit analysis? If not, please explain why and provide supporting data.**

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. We consider these proposals are compatible with our strategic objective of ensuring that the relevant markets function well by promoting proportionate regulatory standards which support firms to operate effectively to meet the needs of consumers. The overarching aim of our proposals is to simplify and streamline requirements in the insurance sector where appropriate and justified, resulting in improved market access due to the proportionate regulatory burden. This will contribute towards ensuring that the UK insurance market works well.

8. The proposals set out in this consultation advance the FCA's operational objective of promoting effective competition in the interests of consumers. We believe that providing firms with increased flexibility around our rules will allow them to tailor their approach to their business models and customers' circumstances – supporting and facilitating effective competition. Reduced regulatory burden and costs can increase the ease with which new entrants can enter the market. Our proposals to determine which rules apply to commercial insurance and our proposals for bespoke insurance business in particular may also foster innovation and productivity, as freed up resources can be directed towards improving product variety and building and creating solutions to better meet customers' needs. Our proposals to determine which rules apply to commercial insurance makes for a more coherent and logical regulatory framework and will ensure the market works efficiently and effectively.

9. We consider our proposals advance our consumer protection objective as they secure an appropriate level of protection for consumers. For example, our proposals will mean an increased focus on non-investment insurance products posing a greater potential for consumer harm arising from associated risk factors, with more frequent product reviews for such products. Although we are introducing flexibility around our requirements, we consider that the proposed amendments will maintain an appropriate level of consumer protection.

10. Our proposals will provide firms with a better regulatory framework, which will enable them to operate with confidence and certainty. Our proposals relating to product governance will contribute towards reducing duplication, while the amendments concerning bespoke products will increase the practical usability of the exclusion. The new definition of '*contracts of commercial or other risks*' ensures our protections do not capture customers who do not require them, and the proposed changes to EL rules ensure our rules remain fit for purpose.

11. We consider these proposals are compatible with our strategic objective of ensuring that the relevant markets function well because clear and proportionate regulatory standards support firms in operating with certainty and transparency to meet the needs of consumers.

12. The set of proposals in this paper also supports our secondary objective in facilitating competitiveness and growth. All of our proposals aim to achieve more proportionate regulation, which have the potential to result in lower costs and reduced burden for firms, making the UK insurance market more attractive for international firms to operate

in. In designing our proposals, we have carefully considered how they would impact the international position of the UK insurance market, and we are confident that the proposed amendments can positively contribute to the growth and competitiveness of the market.

13. In preparing the proposals set out in this consultation, we have had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

14. The proposals in this paper will not lead to material changes in our supervision approach or use of resources. The proposed amendments to the employer's liability requirements may lead to improved efficiencies as it will focus FCA resources on the significant breaches reported to us.

The principle that a burden or restriction should be proportionate to the benefits

15. Our proposals have the potential to result in a more proportionate burden for firms and long-term cost savings. The estimated costs and benefits of the proposed amendments for both firms and consumers are outlined in the CBA in Annex 2 of this paper.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) [and section 5 of the Environment Act 2021 (environmental targets)]]

16. In developing this consultation, we have considered the environmental, social and governance implications of our proposals and our duty under s.1B(5) and 3B(c) of FSMA 2000 to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021.

17. Our proposals do not have an impact on these targets.

The general principle that consumers should take responsibility for their decisions

18. Our proposals do not impact the principle that consumers should take responsibility for their decisions.

The responsibilities of senior management

19. Our proposed amendments do not alter the responsibilities of senior management.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

20. Our proposals introduce more flexibilities for firms, and as such recognise that different businesses may benefit from different approaches depending on factors such as size, customer base, product types, etc.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

21. Our proposed amendments do not affect the publication of information.

The principle that we should exercise our functions as transparently as possible

22. In developing these proposals, we have acted as transparently as possible, engaging with industry and trade bodies at early stages, and gathering feedback through a public DP. We have carefully considered the responses received, and our response to them is set out in this Paper.

23. In formulating these proposals, we have had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).

24. We do not expect our proposals to have any impact on the extent to which businesses can be used for a purpose connected with financial crime.

Treasury remit letter and recommendations

25. In the remit letter from the Chancellor of the Exchequer to the FCA on 14 November 2024, the Chancellor urged the FCA to continue its work to support the government's growth mission. The Chancellor also recommended that the FCA creates a regulatory environment which facilitates growth by supporting competition and innovation, and enhances the UK's position as a world-leading global finance hub for international business.

26. We have had regard to these recommendations and consider that our proposals support the government's growth agenda while advancing our objectives and appropriately protecting consumers.

27. Our proposal to streamline requirements in the insurance sector aims to achieve proportionate and effective regulation that enables firms of all sizes to compete and grow. The reduced regulatory burden may also attract and encourage international businesses to establish and expand in the UK.

Expected effect on mutual societies

28. The FCA does not expect the proposals in this paper to have a different impact on mutual societies. Our proposals will apply to mutual societies in the same way as they apply to other authorised persons.

Compatibility with the duty to promote effective competition in the interests of consumers

29. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

30. As noted in this CP and the CBA, firms implementing the proposed changes are likely to realise long-term cost savings and benefit from improved efficiency. Lightening the regulatory burden may result in reduced barriers to entry and improved market access and participation, particularly for smaller firms who do not have a substantial number of resources allocated to regulatory compliance.

31. Moreover, the flexibilities we are proposing to introduce will enable firms to better tailor their products and services based on their business models and customers' needs, which is consistent with promoting effective competition in the interests of consumers.

Equality and diversity

32. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.

33. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. We do not consider our proposals to have any material equality and diversity implications or impact on any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti discrimination legislation applies). We will continue to consider the equality and diversity implications of the proposals during the consultation period

and will revisit them when making the final rules to ensure our approach remains appropriate.

Legislative and Regulatory Reform Act 2006 (LRRA)

34. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily. We also believe that the proposals are proportionate and will result in an appropriate level of consumer protection. We have considered the principles in the following way:

- Transparent – We are consulting on our proposals with industry and the market. We have transparently engaged in discussions with stakeholders both before and during consultation, including through DP 24/1.
- Accountable – We are acting within our statutory powers and will publish final rules following consideration of the feedback received to this consultation.
- Proportionate – Our proposals aim to achieve more proportionate regulation for the insurance (and funeral plans) sector. Firms will be able to choose whether they want to continue to follow the current rules or benefit from the flexibilities of our proposals.
- Consistent – Our proposals will result in greater consistency of requirements across the Handbook and will bring the insurance sector in line with other sectors, for example for product review requirements.
- Targeted only at cases in which action is needed – We consider the proposals in this paper to be targeted and needed. The CBA details alternative options we considered and why we have opted for consulting on these proposals.

35. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. This consultation is a way for firms to let us know their views of our proposals. We have identified the potential risks of not taking action by articulating potential harms. The consultation paper and instrument will allow firms to understand the requirements applicable to them. We are also setting out transparently what our policy aims are so that firms can take those into account.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
CBA	Cost Benefit Analysis
CD	Consumer Duty
CfI	Call for Input: Review of FCA requirements following the introduction of the Consumer Duty
CP	Consultation Paper
CPD	Continuing Professional Development
DISP	Dispute Resolution: Complaints sourcebook
DP	DP24/1 Regulation of commercial and bespoke insurance business
EL	Employers' Liability insurance
ELR	Employers' Liability Register
ELTO	Employers' Liability Tracing Office
ESG	Environmental, Social and Governance
EU	European Union
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSA	Financial Services Authority
FSMA	Financial Services and Markets Act 2000
FS25/2	Feedback statement
	Feedback statement
GAP	Guaranteed Asset Protection
GIPP	General Insurance Pricing Practices
GWP	Gross Written Premium

ICOBS	Insurance: Conduct of Business sourcebook
IDD	Insurance Distribution Directive
IPID	Insurance Product Information Document
IT	Information Technology
LMA	Lloyd's Managing Agent
LRRA	Legislative and Regulatory Reform Act 2006
MGA	Managing General Agent
MGAA	Managing General Agents' Association
PBA	Packaged bank account
PERG	Perimeter Guidance Manual
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
PRIN	Principles for Business sourcebook
PROD	Product Intervention and Product Governance sourcebook
PS	Policy Statement
PV	Present Value
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
RMAR	Retail Mediation Activities Return
RRF	Rule Review Framework
SICGO	Secondary International Competitiveness and Growth Objective
SME	Small Medium Enterprise
SRF	Smarter Regulatory Framework
SUP	Supervision sourcebook
SYSC	Senior Management Arrangements, Systems and Controls sourcebook

Appendix 1

Draft Handbook text

SIMPLIFICATION: CONDUCT AND PRODUCT GOVERNANCE OF NON-INVESTMENT INSURANCE BUSINESS AND OTHER AMENDMENTS INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of:

(1) the following powers and related provisions of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 138C (Evidential provisions);
(d) 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 [*date*]

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):

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Training and Competence sourcebook (TC)	Annex C
General Provisions (GEN)	Annex D
Insurance: Conduct of Business sourcebook (ICOBS)	Annex E
Product Intervention and Product Governance sourcebook (PROD)	Annex F
Supervision manual (SUP)	Annex G

Amendments to material outside the Handbook

E. The Perimeter Guidance manual (PERG) is amended in accordance with Annex H to this instrument.

Notes

F. In the Annexes to this instrument, the notes (indicated by "**Note**:" or "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Simplification: Conduct and Product Governance of Non-Investment Insurance Business and Other Amendments Instrument 2025.

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 otherwise stated.

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

contracts of commercial or other risks

(in *PRIN*, *ICOBS* and *PROD*):

(1) *contracts of insurance* covering risks within the following categories:

(a) *railway rolling stock*, *aircraft*, *ships* (sea, lake, river and canal vessels), *goods in transit*, *aircraft liability* and *liability of ships* (sea, lake, river and canal vessels);

(b) *credit* and *suretyship*, where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity; or

(2) any other *non-investment insurance contracts* where the *policyholder* is within one of the following categories:

(a) a charity which has an annual income of £6.5 million or more;

(b) a trustee of a trust which has a net asset value of £5 million or more;

(c) an *enterprise* which:

(i) is not a *micro-enterprise*; and

(ii) is not a *small business*.

Amend the following definitions as shown.

retail market business

the *regulated activities* and *ancillary activities* to those activities, *payment services*, issuing *electronic money*, and activities connected to the provision of *payment services* or issuing of *electronic money*, of a *firm* in a distribution chain (including a *manufacturer* and a *distributor*) which involves a *retail customer*, but not including the following activities:

…

(4) activities carried on in relation to ~~*contracts of large risks* for a commercial customer or~~ *contracts of commercial or other risks*:

(a) where the risk is located outside the *United Kingdom*; or

(b) for a *commercial customer* where the risk is located within the *United Kingdom*;

…

small business …

(2) (in *DISP* and in the definition of *contracts of commercial or other risks*) an *enterprise* which:

…

Delete the following definition. The text is not struck through.

contracts of large risks (in *PRIN*, *ICOBS* and *PROD*) *contracts of insurance* covering risks within the following categories, in accordance with the *UK* provisions which implemented article 13(27) of the *Solvency II Directive*:

(a) *railway rolling stock*, *aircraft*, *ships* (sea, lake, river and canal vessels), *goods in transit*, *aircraft liability* and *liability of ships* (sea, lake, river and canal vessels);

(b) *credit* and *suretyship*, where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity;

(c) *land vehicles* (other than *railway rolling stock*), *fire and natural forces*, other *damage to property*, *motor vehicle liability*, *general liability*, and *miscellaneous financial loss*, in so far as the *policyholder* exceeds the limits of at least two of the following three criteria:

(i) balance sheet total: €6.2 million;

(ii) net turnover: €12.8 million;

(iii) average number of *employees* during the financial year: 250.

[Note: article 13(27) of the *Solvency II Directive* and article 2(1)(16) of the *IDD*]

Annex B

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

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

3 Systems and controls

3.1 Systems and controls

…

Competent employees rule

…

3.1.7A G *SYSC* 28 contains *rules* and *guidance* relating to ~~the minimum~~ knowledge and competence ~~requirements~~ in relation to *insurance distribution activities* undertaken by a *firm*.

…

3.2 Areas covered by systems and controls

…

Records

…

3.2.21A G *SYSC 28* contains *rules* and *guidance* relating to knowledge and competence record keeping ~~requirements~~ in relation to *insurance distribution activities* undertaken by a *firm*.

…

5 Employees, agents and other relevant persons

5.1 Skills, knowledge and expertise

…

Competent employees rule

…

5.1.3A G *SYSC* 28 contains *rules* and *guidance* relating to ~~the minimum~~ knowledge and competence ~~requirements~~ in relation to *insurance distribution activities* undertaken by a *firm*.

…

9 Record-keeping

9.1 General rules on record-keeping

…

Guidance on record-keeping

…

9.1.6A G *SYSC* 28 contains *rules* and *guidance* relating to knowledge and competence record keeping ~~requirements~~ in relation to *insurance distribution activities* undertaken by the *firm*.

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

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

Application

28.1.1 R (1) This chapter applies to a *firm* with *Part 4A permission* to carry on *insurance distribution activities*.

(2) *SYSC* 28.2 (except *SYSC* 28.2.1R(1)) does not apply to an *authorised professional firm* with respect to its *non-mainstream regulated activities*.

(3) Where this chapter applies to a *TP firm* the following provisions also apply to a *TP firm*:

(a) *SYSC* 28.1.2AR;

(b) *SYSC* 28.2.1AG;

(c) *SYSC* 28.2.2AG;

(d) *SYSC* 28.4.2AG;

(e) *SYSC* 28.4.4R.

(4) The *guidance* referred to in paragraph (3) only applies to a *TP firm* in so far as the *rules* referred to in the *guidance* apply to a *TP firm*.

28.1.2 R In this chapter, ~~relevant~~ non-investment insurance employees are employees or other *persons*:

(1) directly involved in the carrying on of the *firm's insurance distribution activities* in relation to *non-investment insurance contracts*; or

(2) within the management structure responsible for the *firm's insurance distribution activities* in relation to *non-investment insurance contracts*; or

(3) responsible for the supervision of a ~~relevant~~ non-investment insurance employee acting in the capacity as set out in (1).

[**Note**: article 10(1) and the fifth paragraph of article 10(2) of the *IDD*]

28.1.2A R In this chapter, long-term insurance employees are employees or other *persons*:

(1) directly involved in the carrying on of the *firm's insurance distribution activities* in relation to:

(a) *long-term insurance contracts* (other than *pure protection contracts*);

(b) *long-term care insurance contracts*; or

(c) rights to or interests in a *life policy*; or

(2) within the management structure responsible for the *firm's insurance distribution activities* in relation to:

(a) *long-term insurance contracts* (other than *pure protection contracts*);

(b) *long-term care insurance contracts*; or

(c) rights to or interests in a *life policy*; or

(3) responsible for the supervision of a long-term insurance employee acting in the capacity as set out in (1).

…

28.2 Knowledge and ability requirements

Knowledge and ability requirements

28.2.1 R (1) A *firm* must ensure that it and ~~each relevant employee possesses~~ all non-investment insurance employees (where the *firm* has non-investment insurance employees) and all long-term insurance employees (where the *firm* has long-term insurance employees) possess appropriate knowledge and ability in order to complete their tasks and perform their duties adequately.

(2) ~~A~~ Where a *firm* has long-term insurance employees, the *firm* must ensure that it and each ~~relevant~~ long-term insurance employee complies with continued professional training and development requirements in order to maintain an adequate level of performance corresponding to the role they perform and the relevant market.

(3) ~~A~~ Where a *firm* has long-term insurance employees, the *firm* must ensure that each ~~relevant~~ long-term insurance employee completes a minimum of 15 hours of professional training or development in each 12 *month* period.

(4) For the purposes of (3), a *firm* must take into account the:

(a) role and activity carried out by the ~~relevant~~ long-term insurance employee within the *firm*; and

(b) type of distribution and the nature of the products sold.

[**Note:** article 10(1) and the first, second and fourth paragraphs of article 10(2) of the *IDD*]

28.2.1A G (1) Where a *firm* has non-investment insurance employees, it is reminded of the provisions of *SYSC* 3.1.6R or *SYSC* 5.1.1R (competent employees rule), as applicable, as well as *SYSC* 28.2.1R(1). Such a *firm* should ensure that it and each non-investment insurance employee undertakes continued professional training and development in order to maintain an adequate level of performance corresponding to the role they perform and the relevant market.

(2) For the purposes of (1), the *firm* should take into account:

(a) the role and activity carried out by the non-investment insurance employee within the *firm*; and

(b) the type of distribution and the nature of the products sold.

28.2.2 G Training and development can encompass various types of facilitated learning opportunities including courses, e-learning and mentoring.

[**Note:** recital 29 to the *IDD*]

28.2.2A G Where a *firm* has non-investment insurance employees, the *firm* should, for the purposes of *SYSC* 28.2.1R(1) and *SYSC* 3.1.6R or *SYSC* 5.1.1R (competent employees rule), as applicable, take into account the following elements of professional knowledge and competence in light of the role and activity carried out by each non-investment insurance employee within the *firm*:

(1) for *general insurance contracts*:

(a) knowledge of terms and conditions of policies offered, including ancillary risks covered by such policies;

(b) knowledge of applicable laws governing the distribution of insurance products, such as consumer protection law, relevant tax law and relevant social and labour law;

(c) knowledge of claims handling;

(d) knowledge of complaints handling;

(e) knowledge of assessing customer needs;

(f) knowledge of the insurance market;

(g) knowledge of business ethics standards; and

(h) financial competence;

(2) for *pure protection contracts* (but not *long-term care insurance contracts*):

(a) knowledge of policies including the terms, conditions, the guaranteed benefits and, where applicable, ancillary risks;

(b) knowledge of organisation and benefits guaranteed by the pension system of the relevant state;

(c) knowledge of applicable insurance contract law, consumer protection law, data protection law, anti-money laundering law and, where applicable, relevant tax law and relevant social and labour law;

(d) knowledge of insurance and other relevant financial services markets;

(e) knowledge of complaints handling;

(f) knowledge of assessing consumer needs;

(g) conflict of interest management;

(h) knowledge of business ethics standards; and

(i) financial competence.

28.2.3 R ~~A~~ Where a *firm* has long-term insurance employees, the *firm* must, including in relation to the ~~relevant~~ long-term insurance employee, demonstrate compliance with the following professional knowledge and competence requirements:

(1) ~~for *general insurance contracts*:~~ [deleted]

~~(a) minimum necessary knowledge of terms and conditions of policies offered, including ancillary risks covered by such policies;~~

~~(b) minimum necessary knowledge of applicable laws governing the distribution of insurance products, such as consumer protection law, relevant tax law and relevant social and labour law;~~

~~(c) minimum necessary knowledge of claims handling;~~

~~(d) minimum necessary knowledge of complaints handling;~~

~~(e) minimum necessary knowledge of assessing customer needs;~~

~~(f) minimum necessary knowledge of the insurance market;~~

~~(g) minimum necessary knowledge of business ethics standards; and~~

~~(h) minimum necessary financial competence;~~

(2) for *insurance-based investment products*:

(a) minimum necessary knowledge of insurance-based investment products, including terms and conditions and net premiums and, where applicable, guaranteed and non-guaranteed benefits;

(b) minimum necessary knowledge of advantages and disadvantages of different investment options for policyholders;

(c) minimum necessary knowledge of financial risks borne by policyholders;

(d) minimum necessary knowledge of policies covering life risks and other savings products;

(e) minimum necessary knowledge of organisation and benefits guaranteed by the pension system;

(f) minimum necessary knowledge of applicable laws governing the distribution of insurance products, such as consumer protection law and relevant tax law;

(g) minimum necessary knowledge of the insurance market and the saving products market;

(h) minimum necessary knowledge of complaints handling;

(i) minimum necessary knowledge of assessing customer needs;

(j) conflict of interest management;

(k) minimum necessary knowledge of business ethics standards; and

(l) minimum necessary financial competence; and

(3) for *long-term insurance contracts* (other than *pure protection contracts*) and *long-term care insurance contracts*:

(a) minimum necessary knowledge of policies including the terms, conditions, the guaranteed benefits and, where applicable, ancillary risks;

(b) minimum necessary knowledge of organisation and benefits guaranteed by the pension system of the relevant state;

(c) knowledge of applicable insurance contract law, consumer protection law, data protection law, anti-money laundering law and, where applicable, relevant tax law and relevant social and labour law;

(d) minimum necessary knowledge of insurance and other relevant financial services markets;

(e) minimum necessary knowledge of complaints handling;

(f) minimum necessary knowledge of assessing consumer needs;

(g) conflict of interest management;

(h) minimum necessary knowledge of business ethics standards; and

(i) minimum necessary financial competence.

[**Note:** article 10(2) last paragraph and annex I of the *IDD*]

…

28.4 Record-keeping requirements

Record-keeping requirements

28.4.1 R A *firm* must:

(1) establish, maintain and keep appropriate records to demonstrate compliance with this chapter; and

(2) be in a position to provide to the *FCA*, on request, the name of the person responsible for the record-keeping requirement in (1).

[**Note:** article 10(8) last paragraph of the *IDD*]

28.4.2 R A *firm* must:

(1) make an up-to-date record of the continued professional training or development completed by each ~~relevant~~ long-term insurance employee in each 12 *month* period;

(2) retain that record for not less than 3 years after the ~~relevant~~ long-term insurance employee stops carrying on the activity; and

(3) be in a position to provide any version of the record to the *FCA* on request.

[**Note:** article 10(2) second paragraph of the *IDD*]

28.4.2A G *Firms* are reminded of the record-keeping obligations in *SYSC* 3.2.20R and *SYSC* 9.1.1R, as applicable. The record maintained by a *firm* for the purposes of *SYSC* 28.4.1R, together with the records required by *SYSC* 3.2.20R or *SYSC* 9.1.1R, as applicable, should enable the *FCA* to monitor continued professional training and development undertaken by a *firm's* non-investment insurance employees for the purposes of *SYSC* 28.2.1R(1) as well as *SYSC* 3.1.6R or *SYSC* 5.1.1R, as applicable (competent employees rule).

28.4.3 R A *firm* must not prevent a ~~relevant~~ non-investment insurance employee from obtaining a copy of the records relating to that ~~relevant~~ non-investment insurance employee which are maintained by the *firm* for the purposes of *SYSC* 28.4.1R and ~~*SYSC* 28.4.2R~~ *SYSC* 3.2.20R or *SYSC* 9.1.1R, as applicable.

28.4.4 R A *firm* must not prevent a long-term insurance employee from obtaining a copy of the record relating to that long-term insurance employee which is maintained by the *firm* for the purposes of *SYSC* 28.4.1R and *SYSC* 28.4.2R.

…

Sch 1 Record keeping requirements

Sch 1.1 G The aim of the guidance in the following table is to give the reader a quick overall view of the relevant record keeping requirements.

It is not a complete statement of those requirements and should not be relied on as if it were.

Sch 1.2 G

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
…				
SYSC 28.4.2R	Matters dealing with knowledge and competence and completed continued professional training and development in relation to the carrying out of *insurance distribution activities* by long-term insurance employees.	The *firm* must record the professional training or development completed by each ~~relevant~~ long-term insurance employee in each 12 *month* period.	As required to demonstrate compliance.	As required to demonstrate compliance but at least 3 years after the ~~relevant~~ long-term insurance employee stops carrying on the activity.

Annex C

Amendments to the Training and Competence sourcebook (TC)

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

2 Competence

2.1 Assessing and maintaining competence

…

Continuing professional development for persons involved in regulated funeral plan activities

…

2.1.23F R ~~A *firm* must ensure that each relevant employee who has been assessed as competent for the purposes of *TC* 2.1.1R remains competent by completing a minimum of 15 hours of appropriate continuing professional development in each 12 *month* period.~~ [deleted]

2.1.23G R ~~The appropriate continuing professional development in *TC* 2.1.23FR is in addition to any other continuing professional development completed. Continuing professional development completed by a relevant employee in relation to activities other than *regulated funeral plan activities* must not be taken into account for the purpose of *TC* 2.1.23FR.~~ [deleted]

2.1.23H R ~~For the purposes of *TC* 2.1.23FR, a *firm* must take into account the:~~ [deleted]

~~(1) role and activity carried out by the relevant employee within the *firm*; and~~

~~(2) the nature of the products sold.~~

2.1.23I G ~~(1) Appropriate continuing professional development has the same meaning as given in *TC* 2.1.22G(1), (3) to (5). Also see *TC* 2.1.22AG. For this purpose, reference to *retail investment adviser* should be read as if it were a reference to a relevant employee (under *TC* 2.1.23DR).~~

~~(2) In relation to *TC* 2.1.23FR, the 15 hours of appropriate continuing professional development can include structured and unstructured training and need not consist of only formal classroom-based learning. For examples of structured and unstructured professional development see *TC* 2.1.20G and *TC* 2.1.21G.~~ [deleted]

2.1.23J R ~~*TC* 2.1.17R (suspending the continuing professional development requirement) and related *guidance* apply in relation to a relevant employee and references to:~~ [deleted]

~~(1) *TC* 2.1.15R must be read as if it were a reference to *TC* 2.1.23FR; and~~

~~(2) a *retail investment adviser* must be read as if it were a reference to a relevant employee (under *TC* 2.1.23DR).~~

2.1.23JA G (1) *SYSC* 5.1.1R (Competent employees rule) requires a *firm* to employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

(2) A *firm* should ensure that each relevant employee who has been assessed as competent for the purposes of *TC* 2.1.1R remains competent by undertaking appropriate continued professional development.

(3) For the purposes of (2), the *firm* should take into account the role and activity carried out by the relevant employee within the *firm.*

Continuing professional development record-keeping

2.1.24 R A *firm* must, for the purposes of *TC* 3.1.1 R (Record keeping), make and retain records of:

(1) the continuing professional development completed by each:

…

~~(c) relevant employee (under *TC* 2.1.23DR)~~

and

(2) the dates of and reasons for any suspension of the continuing professional development requirements under *TC* 2.1.17R~~,~~ or *TC* 2.1.23CR ~~or *TC* 2.1.23JR~~.

2.1.24A G *Firms* are reminded of the record-keeping obligations in *SYSC* 9.1.1R (General requirements). The records required by *SYSC* 9.1.1R should enable the *FCA* to monitor continued professional training and development undertaken by a *firm's* relevant employees (under *TC* 2.1.23DR) for the purposes of *SYSC* 5.1.1R (Competent employees rule).

2.1.25 R A *firm* must not prevent a *retail investment adviser* or a *pension transfer specialist* or a relevant employee from obtaining a copy of the records relating to them which are maintained by the *firm* for the purposes of *TC* 2.1.24R or *SYSC* 9.1.1R.

…

4 Specified modified requirements

…

4.2 Specified requirements for firms carrying on insurance distribution activities

4.2.1 R For a *firm* which carries on *insurance distribution activities* the *rules* and *guidance* set out in column 1 of the table in *TC* 4.2.5R below are amended as set out in column 2.

4.2.2 R *TC* 4.2.1R is limited as set out in *TC* App 2 and *TC* App 3.

4.2.3 R In this section, ~~and the provisions in column 1 of *TC* 4.2.5R, relevant~~ non-investment insurance employees are employees and other *persons*:

(1) directly involved in the carrying on of the *firm's insurance distribution activities* in relation to *non-investment insurance contracts*; or

(2) within the management structure responsible for the *firm's insurance distribution activities* in relation to *non-investment insurance contracts*; or

(3) responsible for the supervision of a ~~relevant~~ non-investment insurance employee acting in the capacity as set out in (1).

4.2.3A R In this section, and the provisions in column 1 of *TC* 4.2.5R, long-term insurance employees are employees and other *persons*:

(1) directly involved in the carrying on of the *firm's insurance distribution activities* in relation to:

(a) *long-term insurance contracts* (other than *pure protection contracts*);

(b) *long-term care insurance contracts*; or

(c) rights to or interests in a *life policy*; or

(2) within the management structure responsible for the *firm's insurance distribution activities* in relation to:

(a) *long-term insurance contracts* (other than *pure protection contracts*);

(b) *long-term care insurance contracts*; or

(c) rights to or interests in a *life policy*; or

(3) responsible for the supervision of a long-term insurance employee acting in the capacity as set out in (1).

4.2.5 R

Column 1	Column 2	
Relevant rules or guidance	**Amendments either extending the scope, or adding and/or replacing rules and guidance in Column 1**	
TC 2.1.1R(1)	The provision is amended by adding after *TC* 2.1.1R(1): 'A *firm* must ensure that a ~~relevant~~ long-term insurance employee's appropriate knowledge and ability includes the requirements set out in *SYSC* 28.2.3R and is appropriate to the: (a) role and activity carried out by the ~~relevant~~ long-term insurance employee within the *firm*; and (b) type of distribution and the nature of the products sold.'	
TC 2.1.15R; *TC* 2.1.17R; *TC* 2.1.24R and *TC* 2.1.25R	The *rules* apply as if references to *retail investment advisers* included '~~relevant~~ long-term insurance employees'.	
TC 2.1.15R	(1)	For *firms* whose ~~relevant~~ long-term insurance employees are not also *retail investment advisers*, the *rule* applies as if '35 hours' was a reference to '15 hours'.
	(2)	The *rule* is amended by adding at the end: 'Where the ~~relevant~~ long-term insurance employee is also a *retail investment adviser*, the minimum 35 hours appropriate continued professional development requirement in *TC* 2.1.15R must include a minimum 15 hours covering the requirements in *SYSC* 28.2.3R.'
TC 2.1.16G		For ~~relevant~~ long-term insurance employees acting in that capacity, the *guidance* is replaced by the following: 'To meet the requirements in *TC* 2.1.15R (as modified by *TC* 4.2.5R) a ~~relevant~~ long-term insurance employee's continued training and development can encompass various types of facilitated learning opportunities including courses, e-learning and mentoring.'

TC 2.1.18G, *TC* 2.1.19G, and *TC* 2.1.23G		The *guidance* applies as if references to *retail investment advisers* included '~~relevant~~ long-term insurance employees'.	
TC 2.1.24R		The rule is amended by adding after *TC* 2.1.24R(2): 'the *firm* must be in a position to make available to the *FCA*, on request, the name of the *person* responsible for this record keeping requirement.'	
TC 3.1.1R		The provision is amended by adding after *TC* 3.1.1R(3): 'a *firm* must keep an up-to-date record of the continued professional training or development completed by each ~~relevant~~ long-term insurance employee in each 12 *month* period,	
		(a)	for not less than 3 years after the ~~relevant~~ long-term insurance employee stops carrying out the activity; and
		(b)	the *firm* must be in a position to provide any version of the record to the *FCA* on request.'

4.2.6 R Where the ~~relevant~~ long-term insurance employee is also a *retail investment adviser* the *rules* and *guidance* in *TC* 4.2.5R apply as follows (unless otherwise stated in *TC* 4.2.5R):

(1) the unamended *TC rules* and *guidance* in column 1 of *TC* 4.2.5R apply in relation to the *person* when acting in the capacity of a *retail investment adviser*; and

(2) the amended *TC rules* and *guidance* in column 2 apply in relation to the *person* when acting in the capacity of a ~~relevant~~ long-term insurance employee.

4.2.6A R Where a non-investment insurance employee is also a *retail investment adviser*:

(1) the unamended *TC rules* and *guidance* in column 1 of *TC* 4.2.5R apply in relation to the *person* when acting in the capacity of a *retail investment adviser*; and

(2) the applicable *rules* and *guidance* in *SYSC* 28 apply in relation to the *person* when acting in the capacity of a non-investment insurance employee.

4.2.6B G Where a non-investment insurance employee is also a *retail investment adviser*:

(1) the *firm* should take into account the elements of professional knowledge and competence listed in *SYSC* 28.2.2AG, in light of the role and activity carried out by the individual within the *firm* when determining the appropriate continued professional development required for the purposes of *TC* 2.1.15R;

(2) the guidance in *TC* 2.1.16G is replaced with the following guidance: 'To meet the requirements in *TC* 2.1.15R a non-investment insurance employee's continued training and development can encompass various types of facilitated learning opportunities including courses, e-learning and mentoring.'

4.2.7 G *Rules* and *guidance* in this section relate to the ~~requirements in~~ provisions of *SYSC* 28 (~~Minimum knowledge~~ Knowledge and competence ~~requirements~~ for carrying out insurance distribution activities).

Sch 1 Record keeping requirements

Sch -1.1 G *TC* 2.1.24 R provides:

A *firm* must, for the purposes of *TC* 3.1.1 R (Record keeping), make and retain records of:

(1) the continuing professional development completed by each *retail investment adviser* ~~and relevant employee for the purposes of *regulated funeral plan activities*~~; and

(2) the dates of and reasons for any suspension of the continuing professional development requirements under *TC* 2.1.17 R ~~or *TC* 2.1.23JR~~.

Annex D

Amendments to the General Provisions sourcebook (GEN)

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

2 Interpreting the Handbook

…

2.2 Interpreting the Handbook

…

Guidance applying while a firm has temporary permission

…

2.2.35A G A *TP firm* should refer to the provisions listed below, which identify the *rules* and *guidance* in their sourcebooks that came into force after *IP completion day* and in respect of which special provision has been made to apply them to *TP firms*.

PRIN 3.1.13R,

SYSC 28.1.1R(3) and (4)

…

SUP 16.1.3R,

SUP 16.23A.1R(1A)

SUP 16.27.2R

…

Annex E

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

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

1 Annex 1 Application (see ICOBS 1.1.2 R)

…			
Part 2: What?			
Modifications to the general application rule according to type of firm			
…			
2	~~Contracts of large risks~~ Contracts of commercial or other risks		
2.1	R	Subject to Part 3 of this Annex:	
		(1)	this sourcebook does not apply to a *firm* distributing a ~~*contract of large risks*~~ *contract of commercial or other risks* where the risk is located outside the *United Kingdom*;
		(2)	only *ICOBS* 2 (General matters), *ICOBS* 6A.3 (Cross-selling) and *ICOBS* 6A.7 (Disclosure requirements for multi-occupancy buildings insurance) apply to a *firm* distributing a ~~*contract of large risks*~~ *contract of commercial or other risks* for a *commercial customer* where the risk is located within the *United Kingdom*; and
		(3)	the *IPID* requirement in *ICOBS* 6.1.10AR (How must IPID information be provided?) and *ICOBS* 6 Annex 3R (Providing product information by way of a standardised insurance information document) do not apply to a *firm* distributing a ~~*contract of large risks*~~ *contract of commercial or other risks*.
		[**Note:** article 22(1) of the *IDD*]	
2.2	G	~~Principle 7 continues to apply so~~ *Firms* are reminded of their obligations under *Principle* 12 and *PRIN* 2A (the Consumer Duty) or *Principle* 7 (as applicable) which are not affected by the modifications in *ICOBS* 1 Annex 1 2.1R(3) above. In the *FCA's* view, in order to comply with those obligations, a *firm* should provide evidence of cover promptly after inception of a *policy* to its *customer*. In respect of a *group policy*, a *firm* should provide	

		information to its *customer* to pass on to other *policyholders* and should tell the *customer* the information should be given to each *policyholder*.
2.3	R	*ICOBS* 6.2.3 R does not apply to ~~*contracts of large risks*~~ *contracts of commercial or other risks*.
		[**Note:** article 184(1) of the *Solvency II Directive*]
…		

2 General matters

…

2.7 Customers in financial difficulty

Purpose

2.7.1 G The purpose of the *guidance* in this section is to give the *FCA's* view on the outcomes *firms* should aim to achieve and actions they should take to deliver good outcomes for *customers* experiencing financial difficulties.

2.7.2 G The *guidance* complements:

(1) *Principle* 12, which requires *firms* to act to deliver good outcomes for *retail customers*;

(2) *the obligations in PRIN* 2A *(*the *Consumer Duty),* including in particular the *rules* in *PRIN 2A.2* (cross-cutting obligations), *PRIN* 2A.5 relating to communication, interacting on a one-to-one basis and adapting communication, *PRIN* 2A.6 (Consumer Duty: retail customer outcome on consumer support) and expected standards in *PRIN* 2A.7; and

(3) the *customer's best interests rule.*

2.7.3 G The *guidance* does not set expectations in relation to ~~*contracts of large risks*~~ *contracts of commercial or other risks* distributed to *commercial customers*. However, *firms* distributing ~~*contracts of large risks*~~ *contracts of commercial or other risks* to *commercial customers* continue to be subject to *FCA rules* (including the *principles*) referred to in *ICOBS* 2.7.2G in relation to that business, and will need to continue to consider what those *rules* may require of those *firms* in their particular circumstances.

…

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* and where a lead *firm* is selected in accordance with *PROD* 4.2.14-AR, the lead *firm*, 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*.

…

Responsibility for producing the standardised insurance product information document

6.-1.5 R The *IPID* must be drawn up by the *manufacturer* and where a lead *firm* has been selected in accordance with *PROD* 4.2.14-AR, the lead *firm* of the *policy*.

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

…

8 Claims handling

…

8.4 Employers' Liability Insurance

…

~~FCA notification requirements~~

8.4.6 R ~~A *firm* must:~~ [deleted]

~~(1) notify the *FCA*, within one *month* of falling within *ICOBS* 8.4.1R (2), as to whether or not it, or, if relevant, a member of the *syndicates* it manages, carries on business falling within *ICOBS* 8.4.4R (1) and, if it does, include in that notification:~~

~~(a) details of the internet address of the *firm* or tracing office at which the employers' liability register is made available;~~

~~(b) the name of a contact person at the *firm* and their telephone number or postal address, or both; and~~

~~(c) the period over which the *firm* or *syndicate* member provided cover under relevant *policies* or, if still continuing, the date that cover commenced; and~~

~~(d) the *firm's* Firm Reference Number; and~~

~~(2) ensure that the notification in (1):~~

~~(a) is approved and signed by a *director* of the *firm*; and~~

~~(b) contains a statement that to the best of the *director's* knowledge the content of the notification is true and accurate.~~

8.4.6A R ~~A *firm* with potential liability under an excess *policy* and which satisfies the requirements in *ICOBS* 8 Annex 1 1.1B R must notify the *FCA* before the date upon which it first seeks to rely upon that *rule* and ensure that the requirements of *ICOBS* 8.4.6R (2) are satisfied in respect of this notification.~~ [deleted]

Requirement to make employers' liability register and supporting documents available

8.4.7 R (1) A *firm* must make available:

(a) the information on the employers' liability register either:

(i) on the *firm's* website ~~at the address notified to the *FCA* in *ICOBS* 8.4.6R (1)~~; or

…

…

…

…

Updating and verification requirements

8.4.11 R (1) ~~A *firm* must notify the *FCA*:~~ [deleted]

~~(a) of any information provided to the *FCA* under *ICOBS* 8.4.6 R or *ICOBS* 8.4.6A R which ceases to be true or accurate; and~~

~~(b) of the new position, in accordance with the notification requirements in *ICOBS* 8.4.6 R;~~

~~within one *month* of the change.~~

…

…

ICOBS Sch 2 (Notification requirements) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

Sch 2 ~~Notification requirements~~ [deleted]

Annex F

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

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

1 Product Intervention and Product Governance Sourcebook (PROD)

…

1.4 Application of PROD 4

…

1.4.3 R *PROD* 4 does not apply in relation to an insurance product that is:

(1) a ~~*contract of large risks*~~ *contract of commercial or other risks* where the insurance product meets the conditions in ~~*PROD* 1.4. 3AR~~ *PROD* 1.4.3-AR; ~~or~~

(2) a reinsurance contract~~.~~; or

(3) a bespoke insurance contract within the meaning of *PROD* 1.4.3-BR.

[**Note**: article 25(4) of the *IDD*]

Contracts of commercial or other risks

~~1.4. 3A~~ 1.4.3-A R The conditions in *PROD* 1.4.3R(1) are that the insurance product is used exclusively for effecting ~~*contracts of large risks*~~ *contracts of commercial or other risks* where there are no:

(1) *policyholder(s)*; or

(2) (where relevant) *policy stakeholders*, including, in relation to a *multi-occupancy building insurance contract*, any *leaseholder*,

who in that context are natural *persons* acting for purposes outside of their trade, business or profession.

Bespoke insurance contracts

1.4.3-B R (1) A bespoke insurance contract in *PROD* 1.4.3R(3) is a *non-investment insurance contract* where the requirements in (2) are met, and either:

(a) it is an adaptation of one of the *firm's* existing insurance products beyond what the existing product covers; or

(b) it is a new *contract of insurance* that has been created by the *firm* and not adapted from the *firm's* existing insurance products.

(2) A contract in (1) is only a bespoke insurance contract if:

(a) the *firm* adapts or creates it solely and specifically for, and in response to the request of, a *customer*, in order to meet that *customer's* particular insurance needs, objectives, interests and/or characteristics, where those needs, objectives, interests or characteristics cannot currently be met by the *firm's* existing insurance products (unless adapted); and

(b) the *firm* does not market it or offer it as available to any other *customers*.

1.4.3-C G (1) Reference to what the existing product covers in *PROD* 1.4.3-BR(1)(a) above includes:

(a) different variants of the product and any optional extras or extended cover generally offered with or part of the existing product. So a contract resulting from an adaptation of an existing product to give effect to choices by selecting from those variants, optional extras or that extended cover, is not a bespoke contract;

(b) situations where *insurers* amend contracts to include conditions, restrictions or provisions (by endorsement or otherwise) to address particular risks arising in relation to a particular *customer*, and which risks could also apply to others within the existing target market. This only applies where it can reasonably be said that the cover as amended falls within the same general scope of cover envisaged by the existing product. For example, a home *insurer* may impose a condition in relation to the locks required to ensure cover in a particular post code area considered by the *insurer* to present higher risks.

(2) Reference to 'on the request of a *customer*' also includes where requests are made by agents with the appropriate authority of the *customer*, for example an *insurance intermediary* who, on behalf of the *customer*, approaches the *insurer* and negotiates the terms of the bespoke insurance contract.

(3) An existing insurance product referred to in *PROD* 1.4.3-BR is a product *manufactured* by the *firm* in line with *PROD* 4.2.

1.4.3-D G As long as it meets the requirements set out in *PROD* 1.4.3-BR:

(1) a bespoke *insurance contract* can be used again if other *customers* approach the *firm* for similar insurance cover without that use leading to the contract being considered an 'insurance product' for the

purposes of *PROD* 4. However, in order to meet the requirements in *PROD* 1.4.3-BR the *firm* will need to be satisfied that the *customer's* approach does not result from the marketing or other offer by that *firm* to potential *customers* of the availability from the *firm* of that type of similar insurance cover (however small the target market or group of *customers* might be);

(2) a contract that has been specifically created by a *firm* (*PROD* 1.4.3-BR(1)(b)) can contain existing insurance product wording.

…

When an intermediary may be considered to be manufacturing

1.4.4 R …

(3) ~~Personalisation of and adaptation of an existing insurance product in the context of *insurance distribution activities* for an individual *customer*, as well as the design of tailor-made contracts at the request of a single *customer*, will not be considered *manufacturing*~~. [deleted]

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

…

4 Product governance: IDD and pathway investments

…

4.2 Manufacture of insurance products

Product governance arrangements

4.2.1 R A *firm* which *manufactures* any insurance product must maintain, operate and review a process for the approval of:

…

(2) …

4.2.1-A R Where *PROD* 4.2.14-AR applies *PROD* 4.2.1R above only applies to the lead *firm* elected in accordance with that *rule*.

…

Manufacture by more than one firm

4.2.13 R Where there is more than one *firm* involved in the *manufacture* of an insurance product, the *firms* must have a written agreement which specifies:

…

(3) …

[**Note:** article 3(4) of the IDD POG Regulation]

4.2.13A R The exception to *PROD* 4.2.13R is where the co-*manufacturers* opt to make one *firm* solely responsible for compliance with the manufacturer obligations in *PROD* 4.2, as set out in *PROD* 4.2.14-AR below.

4.2.13B G The written agreement referred to in *PROD* 4.2.13R may include provisions:

(1) where it is agreed that one *firm* will collect and collate the data necessary to carry out a fair value assessment, carry out the assessments required by *PROD* and pass on the data and the assessments to the other co-*manufacturers*;

(2) setting out the process whereby *firms* agree, before any data is collected and collated by one of the *firms* for the purposes of assessing compliance with *PROD* requirements, on what data is needed (including for example what data is needed to be able to carry out a fair value assessment, as referred to above), and the practical details as to when and how it is to be collected and used.

4.2.14 R …

Option for one firm to be solely responsible for compliance with manufacturer obligations

4.2.14-A R (1) Where there is more than one *firm* involved in the *manufacture* of a *non-investment insurance product,* and the conditions in (2) to (4) below are met, those *firms* may select one *firm* (the lead *firm*), to be solely responsible for complying with the requirements in *PROD* 4.2.

(2) The first condition is that the lead *firm* in (1) must be, either:

(a) an *insurer*; or

(b) a *managing agent.*

(3) The second condition is that the *firms* can demonstrate that the lead *firm* has sufficiently significant involvement in the *manufacture* of the product to warrant its selection as lead *firm*.

(4) The third condition is that all the co-*manufacturers* (i.e. the lead *firm* and all the non-lead *firms*) must, unambiguously and in writing, agree that:

(a) the lead *firm* is solely responsible for compliance with the *requirements* on *manufacturers* in *PROD* 4.2 in relation to all aspects of the insurance product including in relation to any aspects of the *manufacturing* carried out by the other co-*manufacturers*;

(b) the lead *firm* accepts any and all liability arising out of any breaches of the requirements in *PROD* 4.2 that it has accepted responsibility for in (1), including liability for any claims for redress arising, (though the lead firm may seek indemnities from co-*manufacturers* in relation to that liability; and

(c) the non-lead *firms* will co-operate with the lead *firm* and share all information reasonably required by the lead *firm,* in a timely manner, in order to enable the lead *firm* to be able to fully comply with the requirements in *PROD* 4.2.

4.2.14-B G (1) The effect of *PROD* 4.2.14-AR(2) is that an *insurance intermediary* cannot be a lead *firm* for the purposes of accepting sole responsibility for compliance with *PROD* 4.2.

(2) Where the agreement between the lead *firm* and co-*manufacturers* in *PROD* 4.2.14-AR(4) does not unambiguously set out responsibilities and liabilities in *PROD* 4.2.14-AR, then *PROD* 4.2.13R will apply.

4.2.14-C E (1) To ensure *firms* can demonstrate sufficiently significant involvement in the *manufacture* of the product:

(a) the lead *firm* should be the one that created, developed or designed the main aspects of the insurance product;

(b) where 2 or more *insurers* or *managing agents* equally design, develop or create the main aspects of the insurance product the lead *firm* should be the *firm* (of those two or more *firms*) that underwrites the main part of the product, and if those *firms* also underwrite equal shares, *firms* can determine which of them should be the lead *firm*.

(2) Compliance with (1) may be relied upon as tending to establish compliance of *PROD* 4.2.14-AR(3) (the second condition).

(3) Contravention of (1) may be relied on as tending to establish contravention of *PROD* 4.2.14-AR(3) (the second condition).

4.2.14-D G The effect of *PROD* 4.2.14-AR and *PROD* 4.2.14-CE is that where an *insurance intermediary* has designed, created or developed the main parts of an insurance product, it cannot be a lead *firm* (because of 4.2.14AR(2)), and generally nor can an *insurer* or *managing agent* (because of *PROD* 4.2.14CE(1)(a)), so *PROD* 4.2.13R should apply.

4.2.14-E R A lead *firm* meeting the requirements in *PROD* 4.2.14-AR is treated by the *FCA* as responsible for, and liable for any breaches of, the *manufacturer* obligations in relation to the whole of the insurance product for the purposes of *PROD* 4.2 and must ensure that the requirements in *PROD* 4.2 are met including in relation to any aspects carried out by the other *co-manufacturers*.

…

Monitoring and review of insurance products

4.2.33 R A *firm* must understand the insurance products it offers or markets.

[**Note**: fourth subparagraph of article 25(1) of the *IDD*]

4.2.34 R A *firm* must regularly review the insurance products it offers or markets taking into account any event that could materially affect the potential risk to the identified target market. In doing so, the *firm* must assess at least the following:

(1) whether the insurance product remains consistent with the needs of the identified target market;

(2) (in relation to a *non-investment insurance product*) whether the insurance product remains consistent with the fair value assessment required under *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR; and

(3) whether the intended distribution strategy remains appropriate.

[**Note**: fourth subparagraph of article 25(1) of the *IDD*]

4.2.34A G 'Offers' and 'markets' in the requirements in *PROD* 4.2.33R and *PROD* 4.2.34R should be read to include 'renews' in relation to the *renewal* of existing *non-investment insurance products*.

4.2.34B R ~~For a *non-investment insurance product*, a *firm* must undertake the regular review required by *PROD* 4.2.34R:~~ [deleted]

~~(1) every 12 *months*; or~~

~~(2) more frequently where the potential risk associated with the product makes it appropriate to do so.~~

4.2.34C G ~~For the purposes of *PROD* 4.2.34BR, the factors that should be taken into account when considering if more frequent reviews would be appropriate include, but are not limited to:~~ [deleted]

~~(1) the nature and complexity of the product;~~

~~(2) the nature of the *customer* base, including whether there are significant numbers of *customers* of long *tenure* and/or vulnerable *customers*;~~

~~(3) any specific indicators seen in the *firm's* assessment of the product's value to the *customer*;~~

~~(4) any indicators of customer harm potentially emerging from the performance of the product (for example through claims and complaints data); and~~

~~(5) the nature and type of distribution arrangements being used.~~

…

4.2.36 R A *manufacturer* must determine the appropriate intervals for the regular review of their insurance products, thereby taking into account the size, scale, contractual duration and complexity of those insurance products, its respective distribution channels, and any relevant external factors such as changes to the applicable legal rules, technological developments, or changes to the market situation.

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

4.2.36A G ~~In relation to a *non-investment insurance product*, when identifying the appropriate intervals for regular review, *firms* will need to consider the requirement in *PROD* 4.2.34BR and also whether any event has happened or any issue has arisen requiring the insurance product to be reviewed outside of the minimum review period.~~ [deleted]

4.2.36AA R In relation to a *non-investment insurance product*, a *manufacturer* must determine on an ongoing basis the appropriate intervals for regular review based on the potential for *customer* harm arising from risk factors associated with the product.

4.2.36AB R For the purposes of *PROD* 4.2.36AAR, a *manufacturer* must take into account at least the following factors, in addition to those in *PROD* 4.2.36R:

(1) the nature of the *customer* base, including whether there are significant numbers of *customers* of long tenure and/or vulnerable *customers*;

(2) any indicators of *customer* harm seen in the *firm's* assessment of the product's value to the *customer*; and

(3) any indicators of *customer* harm potentially emerging from the performance of the product (for example through claims and complaints data).

4.2.36AC R In relation to a *non-investment insurance product*, a *firm* must make and retain a record of:

(1) its determination of the appropriate intervals for regular review; and

(2) the reasons for that determination.

4.2.36AD G Where the potential for *customer* harm arising from risk factors associated with a *non-investment insurance product* is greater, a *firm* should carry out

more frequent reviews under *PROD* 4.2.34R. This may result in reviews being carried out more frequently than once every 12 *months*. Conversely, where the potential for *customer* harm arising from risk factors associated with a *non-investment insurance product* is lower, a *firm* may carry out less frequent reviews under *PROD* 4.2 34R. This may result in reviews being carried out less frequently than once every 12 *months*.

4.2.36AE G The requirement in *PROD* 4.2.36AAR applies on an ongoing basis. A manufacturer should review its determination of the appropriate intervals for regular review where it becomes aware of relevant new information.

…

4.3 Distribution of insurance products

…

4.3.9 R The *firm's governing body* responsible for *insurance distribution activities* must endorse and be ultimately responsible for establishing, implementing and reviewing the product distribution arrangements and continuously verify internal compliance with those arrangements.

[**Note:** article 10(5) of the *IDD POG Regulation*]

4.3.10 R (1) A firm must regularly review its product distribution arrangements to ensure that those arrangements are still valid and up to date. The firm must amend product distribution arrangements where appropriate.

(2) A *firm* that has set up or applies a specific distribution strategy must, where appropriate, amend that strategy in view of the outcome of the review of the product distribution arrangements. When reviewing its product distribution arrangements, a *firm* must verify that the insurance products are distributed to the identified target market.

(3) A *firm* must determine the appropriate intervals for the regular review of its product distribution arrangements, thereby taking into account the size, scale and complexity of the different insurance products involved.

(3A) In relation to a *non-investment insurance product*, a *firm* must determine on an ongoing basis the appropriate intervals for the regular review of its product distribution arrangements based on the potential for *customer* harm arising from risk factors associated with the product.

(4) …

(5) In relation to a *non-investment insurance product*, a *firm* must make and retain a record of:

(a) its determination of the appropriate intervals for the regular review of its product distribution arrangements; and

(b) the reasons for that determination.

[**Note**: article 10(6) of the *IDD POG Regulation*]

4.3.10A R ~~A *firm* must review its product distribution arrangements in relation to a *non-investment insurance product* at least every 12 *months*.~~ [deleted]

4.3.10AA G Where the potential for *customer* harm arising from risk factors associated with a *non-investment insurance product* is greater, a *firm* should carry out more frequent reviews under *PROD* 4.3.10R. This may result in reviews being carried out more frequently than once every 12 *months*. Conversely, where the potential for *customer* harm arising from risk factors associated with a *non-investment insurance product* is lower, a *firm* may carry out less frequent reviews under *PROD* 4.3.10R. This may result in reviews being carried out less frequently than once every 12 *months*.

4.3.10AB G The requirement in *PROD* 4.3.10R(3A) applies on an ongoing basis. A manufacturer should review its determination of the appropriate intervals for regular review where it becomes aware of relevant new information.

…

Annex G

Amendments to the Supervision manual (SUP)

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

12 Appointed representatives

…

12.4 What must a firm do when it appoints an appointed representative or an FCA registered tied agent?

…

Knowledge and ability requirements

12.4.8AB G *SYSC* 28.1 (Minimum knowledge and ability requirements for carrying out insurance distribution activities), *SYSC* 28.2 (Knowledge and ability requirements) and *SYSC* 28.4 (Record-keeping requirements) apply in relation to a *firm's* ~~relevant~~ non-investment insurance employees and long-term insurance employees. This includes its *appointed representatives* and their *employees*.

[**Note:** articles 10(1), 10(2) and last paragraph of article 10(8) of the IDD]

…

12.6 Continuing obligations of firms with appointed representatives or FCA registered 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.

(2) The specific knowledge and ability requirements and guidance 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~~ non-investment insurance employee and to a long-term insurance employee (as defined in *SYSC* 28.1.2R and *TC* 4.2.3R and in *SYSC* 28.1.2AR and *TC* 4.2.3BR respectively) of the *firm*.

(3) For the purposes of (1) and (2), an *employee* or a ~~relevant~~ non-investment insurance employee or a long-term insurance employee of a *firm* includes an individual who is:

(a) an *appointed representative* of a *firm*; and

(b) 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.

…

16 Reporting requirements

…

16.23A Employers' Liability Register compliance reporting

[*Editor's note:* If the proposed amendments to SUP 16.23A are ultimately made by the FCA Board, we propose that the provisions of SUP 16.23A which are shown in this instrument as being retained be moved to ICOBS 8.4. SUP 16.23A would then be deleted.]

Application

16.23A.1 R (1) …

(1A) Where this chapter applies to a *TP firm*, *SUP* 16.23A.8G, *SUP* 16.23A.9G and *SUP* 16.23A.10G also apply to a *TP firm*.

(1B) Where this chapter applies to a *Gibraltar-based firm*, *SUP* 16.23A.8G, *SUP* 16.23A.9G and *SUP* 16.23A.10G also apply to a *Gibraltar-based firm*.

(2) In this section:

…

(e) the "register" is the employers' liability register complying with the requirements in *ICOBS 8.4.4R* and *ICOBS 8 Annex 1*; and

(f) ~~the "return" is the employers' liability register compliance return at *SUP* 16 Annex 44AR; and~~ [deleted]

…

Purpose

…

16.23A.2 G *ICOBS* 8.4.4R requires a *firm* to produce the register. The register must be produced in compliance with the updating requirements in *ICOBS* 8.4.11R(2). ~~*SUP* 16.23A sets out further requirements on the *firm* to obtain and submit to the *FCA* a statement that the *firm's* production of the register~~

~~complies with the requirements in *ICOBS* 8.4.4R, including supporting documents from a *director* and an auditor. It specifies the time, form and method of providing that information.~~ *SUP* 16.23A sets out further requirements on the firm to obtain a *director's* certificate and an auditor's report, which are required for compliance with *ICOBS* 8.4.

Reporting requirement

16.23A.3 R ~~(1) A *firm* must submit the return annually to the *FCA*.~~ [deleted]

~~(2) The return must be in relation to the register as at 31 March, covering the period of production of the register from 1 April to 31 March.~~

~~(3) The return must be submitted online through the appropriate systems made available by the *FCA*:~~

~~(a) between the 1 and 31 August each year;~~

~~(b) in the format set out in *SUP* 16 Annex 44AR; and~~

~~(c) any supporting documents must be provided in pdf format.~~

Content of return and supporting documents

16.23A.4 R ~~The return consists of the information required in the form at *SUP* 16 Annex 44AR and the supporting documents specified in *SUP* 16.23A.5R and *SUP* 16.23A.6R.~~ [deleted]

Director's certificate

16.23A.5 R (1) A *firm* must obtain ~~and submit to the *FCA*~~ a written statement, by a *director* of the *firm* responsible for the production of the register, that, to the best of the *director's* knowledge, during the reporting period the *firm* in its production of the register is either:

…

…

(4) …

(5) The *director's* certificate must be obtained by 31 August each year, covering the period of production of the register from 1 April to 31 March.

…

Auditor's report

16.23A.6 R (1) A *firm* must obtain ~~and submit to the *FCA*~~ a report satisfying the requirements of *SUP* 16.23A.6R(2), prepared by an auditor

satisfying the requirements of *SUP* 3.4 and *SUP* 3.8.5R to 3.8.6R, and addressed to the directors of the *firm*.

…

(2) …

(3) The report referred to in *SUP* 16.23A.6R(1) must be obtained by 31 August each year, covering the period of production of the register from 1 April to 31 March.

16.23A.7 R ~~For the purposes of *SUP* 16.23A.5R(1) and *SUP* 16.23A.6R(1) the *director's* certificate and report prepared by an auditor must be obtained and submitted to the *FCA* within the timeframe set out in *SUP* 16.23A.3R(3)(a) and in the format set out in *SUP* 16 Annex 44AR.~~ [deleted]

16.23A.8 G Where either the *director's* certificate or the auditor's report indicates that the *firm* is not materially compliant with the provisions referred to in *SUP* 16.23A.5R(1)(a), the *firm* will need to consider whether notification to the *FCA* is required under *SUP* 15.3.11R(1) (Breaches of rules and other requirements in or under the Act or the CCA).

16.23A.9 G *SUP* 15.3.12G sets out guidance on how significance should be determined for the purposes of *SUP* 15.3.11R(1).

16.23A.10 G Where a *firm* is not materially compliant with the provisions referred to in *SUP* 16.23A.5R(1)(a) solely as a result of:

(1) the unavailability of data on historical policies; or

(2) the unavailability of data following an insurance business transfer,

the *FCA* considers that the *firm* is unlikely to be required to notify the *FCA* under *SUP* 15.3.11R(1).

SUP 16 Annex 44A (Employers' Liability Register compliance return) and SUP 16 Annex 44B (Guidance notes for the completion of Employers' Liability Register compliance return in SUP 16 Annex 44AR) are deleted in their entirety. The deleted text is not shown but the annexes are marked [deleted] as shown below.

16 Annex 44AR **Employers' Liability Register compliance return [deleted]**

16 Annex 44B **Guidance notes for the completion of Employer's Liability Register compliance return in SUP 16 Annex 44AR [deleted]**

Annex H

Amendments to the Perimeter Guidance manual (PERG)

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

2 Authorisation and regulated activities

…

2.8 Exclusions applicable to particular regulated activities

…

Dealing in investments as agent

2.8.5 G The *regulated activity* of *dealing in investments as agent* applies to specified transactions relating to any *security* or to any *relevant investment*. The activity is cut back by exclusions as follows.

…

(3) In addition, exclusions apply in specified circumstances (outlined in *PERG* 2.9 (*Regulated activities*: exclusions available in certain circumstances)) where a *person* enters as agent into a transaction:

…

(i) that involves a *contract of insurance* covering large risks situated outside the ~~*EEA*~~ *UK* (see *PERG* 2.9.19 G);

…

…

Arranging deals in investments and arranging a home finance transaction

…

2.8.6A G The exclusions in the *Regulated Activities Order* that relate to the various *arranging* activities are as follows.

…

(13) The following exclusions from both article 25(1) and (2) (outlined in *PERG* 2.9) apply in specified circumstances where a *person* makes arrangements:

…

(k) that involve a *contract of insurance* covering large risks situated outside the ~~*EEA*~~ *UK* (see *PERG* 2.9.19 G);

…

…

…

Advising on investments

…

2.8.12A G Advice given by an *unauthorised person* in relation to a *home finance transaction* or *advising on regulated credit agreements for the acquisition of land* in the circumstances referred to in *PERG* 2.8.6AG (5)(a) or (b) (Arranging deals in investments and arranging a home finance transaction) is also excluded. In addition:

…

(2) the following exclusions apply in specified circumstances where a person is *advising on investments*:

…

(f) that are covering large risks situated outside the *UK* (see *PERG* 2.9.19 G)

…

…

…

5 Guidance on insurance distribution activities

…

5.11 Other aspects of exclusions

…

Large risks

5.11.16 G Article 72D (Large risks contracts where risk situated outside the ~~EEA~~ *United Kingdom*) provides an exclusion for large risks situated outside the ~~*EEA*~~ *United Kingdom*. Broadly speaking, these are risks relating to:

(1) railway rolling stock, aircraft, ships, goods in transit, aircraft liability and shipping liability;

(2) credit and suretyship where relating to the *policyholder's* commercial or professional liability;

(3) land vehicles, fire and natural forces, property damage, motor vehicle liability where the *policyholder* is a business of a certain size.

~~For a fuller definition of *contracts of large risks* see the definition in the *Glossary*.~~

…

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