

Important Communication

Protection Product Governance (incl. value for money (“VFM”) assessment undertaken by insurance firms and distributors)

FCA PS 21/5 ‘General Insurance pricing practices market study’

As you will be aware PS 21/5 introduces, amongst other things, a number of FCA Rules (and Guidance) which seeks to clarify and enhance the governance connected to the VFM assessment currently undertaken by Insurance firms and distributors. The new rules and transition period commence in October 2021; therefore we are taking this opportunity to inform you about some of the enhancements we will be introducing to existing processes and how these will impact you, as a distributor of our products.

Set out below is our current approach to Product Governance and the matters we consider when assessing VFM relating to our Retail Protection and Group Protection businesses:

Product development and management at L&G is conducted through our robust Product Lifetime Management (PLM) process.

Before we launch a product, it needs to satisfy a number of internal governance assessments including:

- customer need,
- identified target customer group,
- customer value,
- any necessary complexity is explicitly called out and clear explanation provided for customers,
- any opportunity for customer confusion is identified and mitigated, and
- agreement of appropriate distribution channel(s).

This may include customer research if the proposition is considered sufficiently different from that we have current experience of.

Once launched we will review the new proposition within a year to ensure it is performing as expected and conduct further reviews at regular intervals thereafter, even when a product is no longer open to new business. The reviews include VFM, lapse investigations, cancellation analysis, feedback from distributors, claims paid as a percentage of expected, claims not paid with reasons, plus customer complaints by cause. We believe these reviews provide on-going diligence that the propositions are performing as they were designed to for our customers.

We can confirm that we price our protection products to ensure that our policyholders receive fair value for money from their policies.

We do this by regularly checking the following metrics;

- our expected claims experience
- the amount of commission due to the distributor
- ensuring that we do not write excessive profits or losses at a product, channel, and individual policy level.

Our value for money assessment can only consider the cashflows (including fees or charges) that we have been informed of by our distribution partners involved in the sale or servicing of a policy, or helping provide on-going guidance and administration support relating to the employee benefits of our Group Protection customers. In the event we have not been made aware by our distribution partners of any additional fees or charges incurred by their customers, we will be separately commencing an activity to collate this information to ensure it is considered as part of our VFM activities.

The outcome from our current VFM assessments satisfy us that our Product(s) meet or exceed VFM - however this is a continuing assessment and we may need to appraise each other periodically should relevant circumstances change. The above should give you all you need when considering your own VFM assessment.

As indicated above, the new Rules and Guidance introduced by PS 21/5 have added clarity about the steps both firms and distributors need to undertake and the level of cooperation required in order to carry out VFM assessments effectively. In particular we (as is currently the case) need to assess our distribution arrangements for fairness, and whilst this is an aggregate review undertaken at Product level where unfairness is identified (including at individual customer / distributor level) we will take appropriate corrective action. We will be communicating with you separately about the level, frequency and timing of information required by us, however set out below is a useful summary of the information required:

- Confirmation of your business model and services that you provide;
- Any additional remuneration you receive from the customer - linked to our product(s);
- The type of remuneration you receive and how this is calculated;
- Confirmation why additional remuneration received by you is required and satisfies your VFM assessment.

Our expectation is that we will continue to work together collaboratively as ultimately it is in our mutual customers' best interests.

We will keep you apprised of any developments that impact you (including as already indicated, the requirement for additional information) we will do this in a structured and proportionate way so as to minimise any adverse impact on your business and appreciate your continued support and assistance in this regard.