**[Name of Firm]**

**FAIR VALUE POLICY**

The main responsibility for establishing **Fair Value** lies with the manufacturer of the insurance **product** however, everyone in the distribution chain has a responsibility to ensure Fair Value.

For each premium finance product/insurance policy/group of policies we sell we have assessed whether we manufacture, co-manufacture or distribute the product and this is documented. For each premium finance product/insurance policy/group of policies/ we sell we are Distributors and therefore do not need to comply with the requirements for manufacturers/co-manufacturers.

The definition of product includes services therefore, we recognise that we are responsible for ensuring fair value in respect of the services we provide to our customers alongside the products we distribute.

**Definitions applicable to this policy: -**

**Product:** Product refers to any general insurance contract or consumer credit agreement distributed to retail customers and any service which involves carrying out a regulated activity. The term product is intended to refer to the distribution of products or provision of a service generally and not, to arrangements with or in relation to individual customers.

**Value: -** the relationship between the overall price to the customer and the quality of the products and/or services provided.

**Manufacturer**: - Creating, developing, designing and or underwriting a contract of insurance.

**Distributor**: - Advising on or proposing a contract of insurance to a customer.

**Customer: -**

* A person who is a policyholder or prospective policyholder, whether or not they make the arrangements preparatory to the conclusion of the contract of insurance and
* A policy stakeholder including a residential leaseholder in respect of a multi-occupancy building insurance contract.

**Fair –** The FCA has not defined fair, however, the Collins dictionary defines Fair as, *‘reasonable and just’, ‘in agreement with rules’.*

**Assessment of Value (Manufacturer)**

Where [name of firm] has manufactured a product we must assess the value taking into consideration at least the following: -

1. the nature of the product including the benefits that will be provided, their quality and any limitations
2. the type and quality of services provided to customers
3. the expected total price to be paid by the customer when buying or renewing the insurance product and the elements that make up the total price including but not limited to: -
	1. The pricing model used to calculate the risk premium for the initial policy term and any future renewal.
	2. The overall cost to the firm of the insurance product
	3. The individual elements of the expected total price to be paid by the customer including but not limited to the price paid for
		1. The insurance product including any additional features which are part of the insurance contract
		2. Any additional products including premium finance offered alongside the insurance
		3. The distribution arrangements including the remuneration of any relevant person in the distribution chain and including where the final decision on setting the price is taken by another person.
4. How the intended distribution arrangements support, and do not adversely affect, the value of the product. *[we are not required to take into account product distribution arrangements that relate to the distribution of the product to a customer who is not habitually resident in the UK or where the state or the risk is not the UK unless it links to multi occupancy building insurance (PROD 4.2.14FA)*]
5. For non-investment insurance products used to effect a multi-occupancy building insurance contract, the interests of any policyholder making the arrangements preparatory to the conclusion of the contract of insurance, the freeholder and any other policyholder of the product and leaseholders.
6. Any administration charges.

**Assessment of FAIR Value (Manufacturer)**

Once, [name of firm] has assessed the **value** of a product to the customer i.e. the overall Price to the customer and the Quality of the product, we must then consider whether this value is fair i.e. is the value *reasonable and just/in agreement with the FCA’s rules (and principles)?*

The Fair Value assessment must include: -

1. the value of the core product
2. the value of any additional products and
3. the overall price of the product/package to the customer taking into consideration the proposed distribution arrangements

**Fair Value Assessments: Information to be used**

When assessing value, all necessary and appropriate data and information must be used. This includes, but is not limited to: -

* 1. Information available to [name of firm] internally including:
		1. Customer research
		2. Claims information such as handling times, frequency, severity of claims costs, claims ratios, rates of and reasons for claim acceptance/declinature, both expected for the product and/or any actual information from a comparable product and
		3. Complaints data (including root cause analysis and handling times) both expected for the product itself and/or any actual information from a comparable product and
	2. Public information or information obtainable by the firm from external sources including analysis of similar insurance products available from other firms and, where relevant, data published as part of the FCA’s work on value measures in the GI Market.
	3. Information available specifically from persons in the distribution arrangements including:
		1. Remuneration and its impact on the value of the product, package or component part
		2. Levels or quality of service provided by any person in the distribution chain and
		3. Any results of monitoring and oversight of the processes of any persons in the distribution chain for example, call monitoring or file checks. Including in relation to other products that person distributes

The information that will be needed to assess Fair Value will depend on the nature of the particular insurance product and the package, the particular distribution arrangement(s), the target market, the nature of any actual customer base and any existing information on customer outcomes (for example claims experiences, outcomes of claims and complaints related data).

**Fair Value - individual insurance products and packages (Manufacturers)**

Where [Name of firm] is acting as Manufacturer we must ensure that the product approval process identifies whether the product provides **Fair Value** to customers in the target market and whether it will continue to do so for a reasonably foreseeable period including the following renewal.

Fair Value must be a consideration at every stage of the product approval process including when: -

* Identifying the target market and the interests needs, objectives and characteristics of such customers
* Undertaking product testing
* Selecting any distribution channel

Where an insurance product is to be distributed with one or more additional products [name of firm] must identify whether: -

* 1. each component product and
	2. the package as a whole

will provide Fair Value to the customer and will continue to do so for a reasonably foreseeable period (including following renewal).

**Reasonably Foreseeable Period**

What constitutes reasonably foreseeable period will depend on the type of product, term of the policy and underlying risk and the expected length of time the customer will keep the product for. The following needs to be considered: -

1. Any expected changes to the total price a customer would pay during the period they hold the product
2. Any change to the insured risk over time
3. Whether the number of expected claims that may be made or financial value of any such claim would be expected to change over time due to the nature of the product, the customer needs or any relevant features of the insured risk.
4. Whether the total premiums expected to be paid over the length of time a customer holds the product would exceed the benefits that could be received from claims.
5. Whether the benefits offered by the policy at inception may not be available at subsequent renewals due to exclusions or claims limited, without any commensurate reduction in premium
6. Whether customers could be discouraged from or, be unable to renew due to the level of ongoing premiums including increases at renewal meaning they may not be receiving the full intended benefits of the product.

[Name of Firm] is not required to assess the value of a component product where the component is an insurance product we do not manufacture.

**Record Keeping and steps following a value assessment**

[Name of Firm] when acting as Manufacturer must: -

1. be able to clearly demonstrate how any product provides Fair Value and
2. make and retain a record of the value assessment.

If it cannot be identified and clearly demonstrated that the insurance product will provide Fair Value, [name of firm] must NOT market the product or permit the product to be distributed or, must ensure appropriate changes are made so that Fair Value is provided.

**Fair Value: retail premium finance guidance**

The responsibility for assessing the value of any particular retail premium finance falls to [name of firm] as manufacturer. When we allow another firm to provide the option for customers to buy an insurance product using retail premium finance, we need to consider if the additional costs of or relating to the premium finance have a materially detrimental effect on the value of the insurance product when the two products are taken together.

[Name of firm] recognises that the benefit of premium finance is, it allows customers to spread the cost and access the insurance product which would otherwise be inaccessible due to financial commitments.

When assessing the value of any particular retail premium finance we should consider the relationship between:

* + 1. The total price a customer would pay for the retail premium finance
		2. The quality of that retail premium finance including any relevant factors and features and the benefit of spreading the cost of the insurance instead of paying up front, taking into account the overall price the customers will have to pay.

**Fair Value – Distribution Arrangements (General)**

Where [Name of firm] acts as distributor, we must have in place adequate arrangements to understand the outcome of the value assessments (conducted by the Manufacturer) and understand which groups of customers the insurance product is not intended for because it is not expected to provide fair value.

As distributors we must understand the impact we may have on the intended value which, may not have been taken into account by the manufacturer. We must not negatively impact on the fair value of the product or package.

When considering the costs of or associated with, any distribution arrangements [name of firm] should consider the justification, in value terms, of any difference between the risk price and the total price paid by the customer including where the difference is mainly due to the costs (including remuneration) of any person in the distribution chain or, where this is due to the combined costs or multiple parties.

Where it is identified that an insurance product, package or individual component has poor value or, there is an unreasonable relationship between either the cost to the firm and the price paid by the customer or the price paid by the customer and the product quality or service provided, the product or package will not be providing Fair Value.

Where a product has negligible or no obvious benefit for the customer this will not be providing Fair Value regardless of the price.

When assessing whether a package provides Fair Value, the [Name of firm] needs to consider both the components individually and the package to identify whether there is Fair Value. This should include whether there is a risk that the individual components do not provide the same level of value to the customer when combined in a package. E.g. is there duplication of cover.

[Name of firm] must be able to demonstrate clearly that the selected distribution channel results in Fair Value to customers in the target market.

Whenever [Name of firm] makes a change to the distribution arrangements (as manufacturer or distributor) including adding a further distribution channel, we must:

1. Obtain all necessary information from any other person who will be involved in the distribution chain including in relation to remuneration and
2. Identify whether the proposed change to the distribution chain is consistent with the product providing Fair Value to customers in the target market and whether it will continue to do so for a reasonably foreseeable period.

The distribution arrangements for an insurance product must avoid or minimise the risk of negatively impacting on the Fair Value of the insurance product or package. This includes, but is not limited to: -

1. Reducing or avoiding the risks arising from:
	1. Remuneration to parties involved in the distribution arrangements increasing the total price paid by the customer without adequate monitoring or oversight of the nature, level and justification for their inclusion;
	2. Allowing another person to set the final price, without adequate monitoring or oversight of the final price paid by the customer
2. Ensuring that appropriate arrangements are in place to identify is the actions of another person involved in the distribution arrangements adversely affecting the value of the insurance product or package and
3. Reducing the scope for the overall effect of any distribution arrangements detrimentally affecting the value of the products or package including the cumulative effect of the remuneration of multiple parties to the overall price paid by the customer.

When considering the effects of the distribution arrangements on value we need to consider whether the additional costs, that add to the total price paid by the customer, deliver any or a proportional additional benefit. If not, we will not be able to meet our obligation to clearly demonstrate Fair Value to the customer.

**Information Requirements**

[Name of firm] must obtain from any person in the distribution chain relevant information to enable us to identify the remuneration associated with the distribution arrangements to allow us to assess the ongoing value of the product including at least:

1. The type and amount of remuneration of each person in the distribution chain where this is part of the premium or otherwise paid by the customer including in relation to additional products.
2. An understanding/explanation of the services provided by each person in the distribution chain
3. An explanation of how access to the product for customers in the target market is increased by the distribution arrangements (if at all) and
4. Confirmation from any firm in the distribution chain that any remuneration is consistent with their regulatory obligations

Where [Name of firm] acts as a distributor we must be ready and able to provide the information above to the manufacturer of the product. Where we act as Manufacturer or Distributor, we must be ready and able to request this information from persons in the distribution chain between our firm and the customer.

**Additional Provisions**

Where [Name of firm] manufactures an insurance product (or equally distributes a product) we must be driven by the features that benefit the customer and not by a business model which relies on poor customer outcomes to be profitable.

In relation to an insurance product sold as a package [Name of firm] must not set or increase the price of those additional products to the customer in a way that detrimentally impacts the package delivering Fair Value.

[PROD 4.3.6A]

1. The product distribution arrangements must enable [Name of Firm] to identify: -
2. The value that the insurance product is intended to provide to the customer
3. The impact that the distribution arrangements (including any remuneration we or another person in the distribution chain receives) have on the overall value of the insurance product to the customer.
4. Any distribution strategy set up or applied by [Name of firm] as distributor must be consistent with the aim of providing fair value to the customer
5. In respect of 1 & 2 above, [Name of Firm] must consider at least the following:
6. The benefits the product is intended to provide to the customer
7. The characteristics, objectives, interests and needs of the target market
8. The interaction between the price paid by the customer and the extent and quality of any services [Name of Firm] provides
9. Whether any remuneration [Name of Firm] receives would result in the product ceasing to provide fair value to the customer
10. Any potential detrimental effect on the intended value where the insurance product is to be distributed as part of a package with or as part of the same agreement which provides another product or service and
11. Where the distribution strategy involves offering or arranging for the customer to be offered retail premium finance, we must ensure that, taking into account the costs of the retail premium finance, the customer does not pay a price that means if seen as a package the customer will not receive fair value.

[PROD 4.3.6E] [Name of Firm]’s distribution arrangements including any distribution strategy we set up, should not result in: -

1. Us receiving a level of remuneration which does not bear a reasonable relationship to our actual costs, or our contribution, level of involvement or the benefit we add to the distribution of the product (including where we provide little or no benefit beyond that which the customer would receive if they obtained the insurance product through another distribution channel)
2. Us having remuneration arrangements which give an incentive to propose or recommend an insurance product which either does not meet the customer’s needs (or not as well as another product would) or is not in accordance with the customer’s best interests rule.
3. The overall prices of the package of insurance not bearing a reasonable relationship to the overall benefits provided by the package or
4. The level of any remuneration (for which the firm is responsible for setting) not being reasonably reflective of the costs actually incurred.

Where a product is distributed alongside one or more other insurance products or any additional product then [Name of Firm] should be able to demonstrate these arrangements are consistent with the aim of providing fair value to a customer and any package does not have a detrimental effect on the intended value of any insurance product.

Where more than one insurance product is part of a package [Name of Firm] should consider whether the products have consistent target markets and provide cover in respect of the same risk and subject matter which could result in duplicate cover that could affect the intended value of each product.

**Retail Premium finance**

[Name of Firm] as distributor should consider the effects of any retail premium finance we offer to customers alongside an insurance product and assess the impact the payment method has on the fair value of the product or package. This assessment needs to consider the increased cost incurred by the interest charge against the benefit of being able to spread the cost of the insurance which may make the product more affordable. [PROD 4.3.6C]

Failure to consider whether premium finance negatively affects the value of the product or package, could result in this payment method being withdrawn by the manufacturer following their own fair value assessments.

**Remedial Action (Distributors)**

[Name of Firm] must regularly review our product distribution arrangements to ensure that they remain valid and up to date. The frequency of the review is determined by the size, scale and complexity of the different insurance products involved however, the review must take place at least once every 12 months. We must amend the product distribution arrangements where appropriate and as a result of a review. Our review must verify that the insurance products are distributed to the identified target market.

As a distributor [Name of Firm] must take appropriate remedial and mitigating action, including to amend its product distribution arrangements where we identify:-

1. The insurance product is not providing fair value for customers or
2. Any aspects of a product or package that may mean it does not offer fair value or
3. The distribution arrangement including remuneration structures may mean the customer is not being provided with fair value.

As a distributor the actions [Name of Firm] take must: -

1. Aim to mitigate the situation and prevent further occurrences of any possible harm to customers including where appropriate amending the distribution strategy for that product and
2. Include informing any relevant manufacturers promptly about any concerns they have and any action the [Name of firm] is taking

The steps we may need to take in respect of the above may include but are not limited to: -

1. Amending our remuneration structures
2. Amending the distribution arrangements
3. Improving the quality of or ceasing any service or benefits provided
4. Negotiating the terms of the current arrangements relating to additional products or selecting alternative providers or distributors
5. Ceasing to distribute certain insurance products or ceasing to use certain distribution channels.
6. Contacting existing customers to inform them of the issues and of the measures being taken to rectify them and
7. Providing redress to customers.

Any action we take in relation to our products distribution arrangements must be documents, kept for audit purposes and made available to the Financial Conduct Authority on request.

Our product distribution arrangements must be a written document and be available to all relevant staff.

Upon request [Name of Firm] will provide a manufacturer of an insurance product with: -

1. Information on the firm’s remuneration
2. Information on any ancillary product or service that firm provides to the customer which may affect the manufactures intended value of the insurance product
3. Confirmation that the distribution arrangements are consistent with the obligations of the firm under the FCA handbook including conflicts of interest and remuneration incentives and,
4. That the firm has reviewed the product distribution arrangements

If we become aware of that an insurance product is not in line with the interests, objectives and characteristics of its identified target market or become aware of any other product related circumstances that may adversely affect the customer we must promptly inform the manufactures and where appropriate amend our distribution strategy for that product.

**Value Measures Reporting**

We must be ready and able to meet the requirements under the value measures reporting requirements.