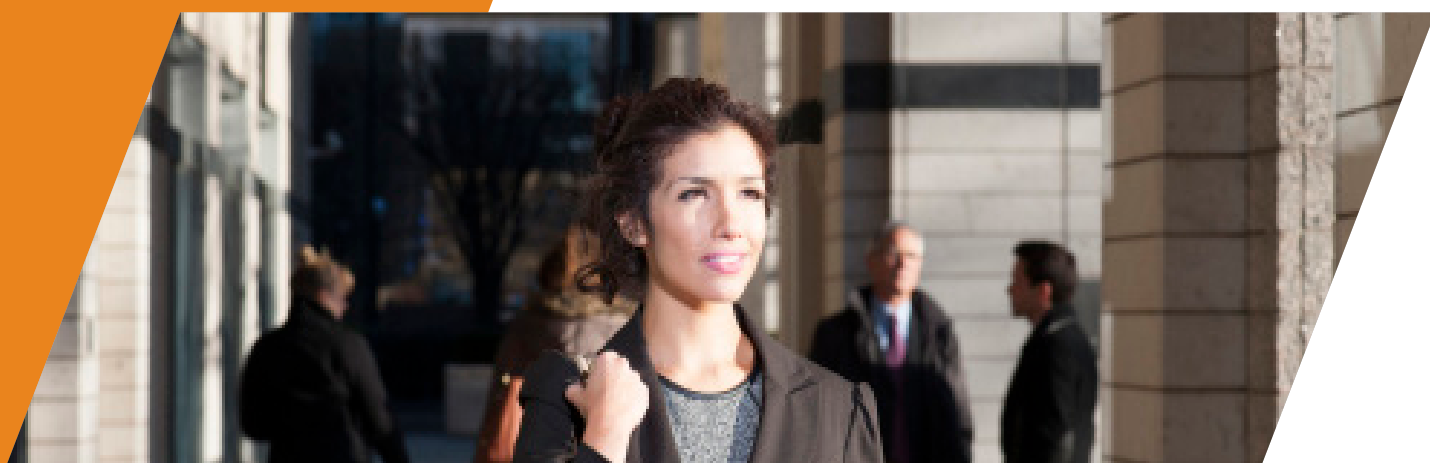


Delegated authority: Outsourcing in the general insurance market

June 2015



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1.

Executive summary

- 1.1** Insurers and intermediaries operating in the UK general insurance marketplace have developed a wide range of business models in order to meet the insurance needs of customers. One of the key components underpinning the diversity in business models is the delegation of authority to third parties.
- 1.2** The term 'delegated authority' is widely used in the general insurance industry to describe a variety of arrangements. At the core of these arrangements is external delegation by insurers, involving the outsourcing of functions to intermediaries and other third parties.¹ This is often accompanied by the allocation of other related functions between the parties involved.
- 1.3** Outsourcing and any accompanying allocation of functions can take many different forms and can relate to all stages of an insurance product life-cycle from product development, through underwriting, distribution and sales, to claims and complaint handling.
- 1.4** In the course of our supervision we identified concerns over firms' oversight of outsourced arrangements and the potential impacts any shortcomings could have upon the delivery of products and related services to customers. We wanted to better understand how firms approached outsourcing across the general insurance marketplace (including the activities and functions being outsourced) and the extent and impact of any accompanying allocation of functions and activities. More importantly we also wanted to understand how these factors impacted on customers.
- 1.5** In our review, we aimed to assess whether firms:
- Have robust systems and controls in place surrounding the decision to outsource functions to other parties.
 - Exercise appropriate oversight over outsourced functions.
 - Understand and fulfil the responsibilities they have to customers, where they have outsourced to another party, or where they are the party carrying out these outsourced functions.
 - Understand and fulfil the responsibilities they have to customers for related functions they perform under their own regulatory permissions.
- 1.6** All of these factors are important and, without appropriate consideration of them, outsourcing and the division of related functions can give rise to an increased risk of customers not being treated fairly and receiving poor outcomes.

¹ SYSC 3.2.4 G describes external delegation as 'outsourcing', noting that 'guidance relevant to delegation within the firm is also relevant to external delegation ('outsourcing').'

- 1.7** In selecting a sample of firms for this review it became apparent how many firms included outsourced underwriting, outsourced claims handling and other outsourcing arrangements within their business models. We are aware, for example, that the Lloyd's market received circa 30% of its premium income in 2013² through firms that held underwriting authority on behalf of Lloyd's syndicates. Although the extent and nature of outsourcing varied considerably, we found examples of outsourcing across the full spectrum of insurers we considered as part of the review. This ranged from large composite insurers to small insurers with particular underwriting specialisms.
- 1.8** In our sample of insurers, the proportion of business underwritten through delegated authority ranged from 10% to 100%, with this accounting for the majority of business for two of the insurers in our sample. In many cases firms also outsourced claims handling or other elements of product provision or servicing. Additionally outsourcing and the allocation of related functions is a feature of both the distribution of insurer-led products and the creation, delivery and servicing of products developed and managed by intermediaries.
- 1.9** In carrying out this review we focused on insurance products and services provided to UK retail and SME³ customers (75% and 25% of the sample respectively). We focused on the potential conduct risks associated with delegating underwriting and claims authority to third parties and the allocation of related functions between those parties. We have considered whether customers are genuinely placed at the heart of firms' business models where these models involve this type of outsourcing and division of related functions.
- 1.10** This report sets out our findings and how they relate to the rules and guidance set out in the Handbook and FSMA⁴ requirements with which insurers and intermediaries are required to comply. In particular our Principles for Businesses (PRIN), Senior Management Arrangements, Systems and Controls (SYSC), Threshold Conditions (COND), Insurance: Conduct of Business sourcebook (ICOBS) and The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD). Key parts of the existing Handbook rules, guidance and FSMA relevant to outsourcing and allocation of functions are set out in Section 2 of this report.

What we found

- 1.11** The outsourcing of functions by one party to another in relation to an insurance product can create an increased level of complexity due to the division of responsibilities and knowledge. This can also lead to increased risk of shortcomings in the delivery of products or services to customers. In the RPPD we set out our expectation that 'a customer's experience should not be affected by whether a product or service was provided and distributed by a single institution or by two or more institutions'⁵. We expect firms to take account of this and to have considered the high level requirements of PRIN and SYSC when entering into arrangements that involve outsourcing and the division of responsibility for related functions.
- 1.12** We found that many of the firms included in our review, both insurers and intermediaries, did not appear to have adequately considered or recognised their regulatory obligations. This was both in relation to outsourcing and the functions they performed and roles they carried out in the context of these outsourced arrangements. Additionally, we found in many cases that

² Lloyd's Annual Report 2013, pg 17

³ The Department for Business, Innovation & Skills describes businesses with 0-49 employees as small businesses and businesses with 50-249 employees as medium businesses.

⁴ Financial Services and Markets Act 2000

⁵ RPPD 1.2

insufficient consideration had been given by all parties to the interests and fair treatment of customers and how this might be impacted by outsourced arrangements.

1.13 In relation to insurers we found that:

- Some insurers did not have or could not demonstrate clear arrangements for **assessing conduct risks** associated with delegating authority. Moreover, some insurers do not appear to regard the delegation of activities such as underwriting or claims handling to third parties as **outsourcing**.
- Some insurers did not perform **conduct focused due diligence** when selecting third parties, with the decision to outsource sometimes solely an underwriting decision with little consideration of conduct risks.
- Some insurers had not considered whether the products they underwrite **treat customers fairly**; both in terms of the value the products offered and the service delivered to customers. The primary (or only) focus of product diligence and review was sometimes on financial performance with limited regard for conduct risks.
- Some insurers exercised **insufficient control over outsourced claims functions**, in relation to both the design and operation of these functions. It was not always clear that potential conflicts of interest where claims were outsourced had been identified and mitigated.
- The quality of **insurer oversight** of outsourced functions varied significantly; as did the extent and quality of management information (MI) they received to facilitate effective oversight.
- Some insurers relied disproportionately on the **audit** of the third party rather than having appropriate internal controls around outsourcing. This over-reliance had the potential to produce a 'false positive' when the **scope or quality of the audit was insufficient**, particularly in relation to conduct issues.

1.14 In relation to both insurers and intermediaries we found that:

- For functions where activities and tasks could be performed by either party there was sometimes **no clear allocation of responsibilities**.
- Some intermediaries **designing insurance products** did not appear to recognise the extent of the product provider responsibilities they had acquired by virtue of acting as the **retail manufacturer**⁶ of the product. In some cases this was reflected in a **lack of appropriate consideration of customer needs** when designing products.
- There was a **lack of appropriate oversight and monitoring** by many product providers (both insurers and intermediaries) of the delivery and performance of the product, particularly in relation to meeting customers' needs. This was often contributed to by **poor or incomplete MI**.
- Lack of oversight also extended in some cases to **shortcomings in complaint processes, handling and outcomes**. It was not clear that complaints data was complete and accurate, or that it was collated, analysed, reviewed and acted upon.

⁶ RPPD 1.15

- Product providers did not always appreciate that as the **complexity of the distribution chain** increases, so do the potential challenges in overseeing it and the potential for consumer detriment. We found examples of **insufficient consideration of the risks of the distribution model**, particularly where sales to customers are made by exempt or non-regulated firms.

1.15 Our findings are set out in more detail in Section 3 of this report.

What concerns do we have?

1.16 It is important to note that the issues identified were not universal across the sample of firms included in the review. However, our findings give rise to significant concerns about the fair treatment of customers where functions are outsourced and multiple firms may be involved in the provision of products and services. These concerns relate to all stages of the product life-cycle and stem from the absence of a customer focused approach.

1.17 Our principle concern is the increased risk of poor customer outcomes arising from the division of knowledge and responsibility that occurs in outsourcing underwriting and claims handling authority and other related functions to third parties. Where firms had considered these risks they were able to respond clearly to the following questions:

- Why has the outsourced party been chosen and do they have appropriate capabilities to deliver what customers could reasonably expect?
- Is it clear who designed and 'owns' the product and where the relevant responsibilities lie as a result, and have they adequately considered how the product performs for customers?
- Are the claims processes in place appropriately designed and controlled to deliver fair customer outcomes?
- Is there appropriate monitoring and MI in place to assess customer outcomes?
- Is it clear that the outputs of any monitoring and MI are reviewed, understood, shared as necessary and acted upon?
- Do firms know who is selling their product and how, and exercise any meaningful oversight of this?
- Are significant conduct issues related to the product likely to be promptly identified and acted upon?

1.18 In a significant number of cases firms were not able to evidence how they had made these judgements in relation to the questions posed above. This was particularly concerning given the potential impact of such failings. It also raises questions as to whether some firms are able to demonstrate compliance with the Handbook requirements set out in SYSC and PRIN.

Our expectations and next steps

- 1.19** We are sharing these findings with the industry so that firms can consider to what extent these issues are relevant to their business and what changes they may need to make as a result.
- 1.20** In particular we expect:
- Insurers outsourcing to third parties to ensure that they have effective and risk-based controls in place that appropriately mitigate any associated conduct risks.
 - Insurers and intermediaries to ensure that appropriate monitoring activity and MI is in place to identify instances where customers may not be treated fairly (most notably in claims outcomes), and that this information is reviewed appropriately, shared as necessary and acted upon.
 - Insurers and intermediaries to consider the extent to which they are acting as a ‘product provider’⁷ and appropriately identify and, where circumstances and responsibilities allow, allocate responsibilities for product design and the ongoing monitoring of the performance of the product for customers.
 - Insurers and intermediaries with ‘product provider’ responsibilities to assess the appropriateness of the distribution channel and sales activities, and to exercise appropriate ongoing oversight.
- 1.21** Following the publication of our findings we will continue to engage with industry stakeholders to address the issues identified. We intend to:
- Provide individual feedback to firms included within the review.
 - Follow up on specific issues identified in the review to determine whether this may have resulted in customer detriment.
 - Focus on these issues in our ongoing supervisory work with insurers and intermediaries
 - Engage with relevant industry trade bodies to facilitate further discussion of our findings, expectations and how best to address the issues identified.
 - Consider how firms respond to forthcoming changes in governance requirements on firms in Prudential Regulatory Authority rules transposing the Solvency II Directive⁸, the applicable Solvency II Regulation⁹ and EIOPA guidelines¹⁰ and whether any further work is required¹¹.
- 1.22** Our expectations and next steps are set out in more detail in sections 4 and 5 of this report.

⁷ RPPD 1.15

⁸ See PRA Policy Statement PS 2/15: Solvency II: A new regime for insurers, in particular Appendix 1.12.

⁹ The directly applicable Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 adopted in accordance with the Solvency II Directive, particularly articles 258 to 275, including article 274 on outsourcing.

¹⁰ See PRA supervisory statement SS4/13 of December 2013 re firms having due regard to the European Insurance and Occupational Pensions Authority’s (EIOPA) preparatory guidelines including the Guidelines on the System of Governance (EIOPA/13/413), dated 27 September 2013. See also the EIOPA Final Report on Public Consultation No. 14/017 on Guidelines on systems of governance, dated 28 January 2015.

¹¹ See FCA Policy Statement PS 15/8 particularly the changes to SYSC and COND in Annex B and Annex C of Appendix 1 which take effect from 1 January 2016. These include changes to SYSC 1.1A.2G and COND 2.4G for Solvency II firms. See also FCA proposed changes to SYSC set out in FCA CP 15/16 (chapter 5).

2. Existing rules and guidance

- 2.1** Delegation is a feature of the way that parts of the general insurance market operates. The term 'delegation' is frequently used by firms where outsourcing is taking place. The Handbook defines outsourcing as 'the use of a person to provide customised services to a firm' (other than a member of the firm's governing body or an individual employed by the firm) or 'an arrangement of any form between a firm and a service provider by which that service provider performs a process, a service or an activity which would otherwise be undertaken by the firm itself'¹².
- 2.2** This means that external delegation of underwriting authority and other significant functions such as claims handling is by definition outsourcing and subject to the relevant requirements in the Handbook. All of the arrangements considered in the context of this review involved outsourcing of some functions by the insurer to regulated intermediaries or other third parties operating as service providers.
- 2.3** In respect of some functions, the term 'delegation' is also used by firms to refer to commercial arrangements between firms where respective responsibilities are apportioned between them. In some cases these arrangements may not involve delegation or outsourcing. There is a wide variety of such relationships and firms should note that responsibilities flow from the actual roles or functions undertaken in a transaction.
- 2.4** These arrangements can be complex and the delineation of responsibilities and tasks can become unclear, including those responsibilities that arise from any outsourcing relationship and those from a firm's own role as a regulated firm. We expect firms to understand the scope of their regulatory responsibilities and that those responsibilities that could fall to different parties are clearly identified and, where possible in the circumstances¹³, allocated.
- 2.5** Our rules and FSMA, supplemented by guidance, set out the extent of the obligations to which firms are subject. The following is not intended as an exhaustive summary but describes the more relevant provisions.

Threshold Conditions (COND)

- 2.6** All firms¹⁴ are subject to the Threshold Conditions. For firms whose business model includes outsourcing, and/or who enter into arrangements with another firm that acts to provide products or services, the following Threshold Conditions may be particularly relevant¹⁵:

¹² <https://www.handbook.fca.org.uk/handbook/glossary/G814.html>

¹³ RPPD 1.16

¹⁴ For EEA firms only in relation to top-up permissions.

¹⁵ Paragraphs 2D, 2E, 2F, 3C, 3D, and 3E of Schedule 6 to FSMA, Threshold Conditions sourcebook (COND) 2.4.1A, 2.4.1C, 2.5.1A, 2.5.1C, 2.7.1 and 2.7.3

- suitability
- business model
- appropriate resources

Principles for Businesses (PRIN)

2.7 The Principles for Businesses¹⁶ are obligations that all authorised firms must comply with. The following Principles are particularly relevant in identifying the responsibilities of firms in relation to the regulated activities they undertake where multiple firms are involved in providing insurance products, including where they are outsourcing these activities or performing these activities under an outsourcing arrangement:

- Principle 2 - 'A firm must conduct its business with due skill, care and diligence'.
- Principle 3 - 'A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems'.
- Principle 6 - 'A firm must pay due regard to the interests of its customers and treat them fairly'.
- Principle 8 - 'A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client'.

Senior Management Arrangements, Systems and Controls (SYSC)

2.8 SYSC contains rules and guidance to amplify Principle 3 relating to operational risk (including the risk that firms do not meet our Principle 6 expectations with regard to treating their customers fairly) including outsourcing.

Insurers¹⁷

2.9 SYSC requires that a firm must take reasonable care to establish and maintain such systems and controls that are appropriate to its business¹⁸. Guidance set out in SYSC indicates that the complexity and diversity of its business should be relevant factors to be considered by a firm, and that firms should carry out regular reviews to ensure ongoing appropriateness¹⁹.

2.10 One of the key issues that a firm is expected to consider in establishing and maintaining the systems and controls appropriate to its business, as required by our rules, relates to situations where a firm's governing body delegates to a third party and thereby outsources functions or tasks for the purpose of carrying out its business²⁰.

2.11 Functions typically outsourced by insurers include:

¹⁶ PRIN 2.1.1 R

¹⁷ Including incoming EEA firms in respect of (in general) business carried on from a UK establishment, save to the extent that the matter is reserved under EU law to the home state regulator

¹⁸ SYSC 3.1.1 R

¹⁹ SYSC 3.1.2 G

²⁰ SYSC 3.2.1 G and SYSC 3.2.4 G

- underwriting
- claims management
- complaint handling

2.12 Reasonable care should be taken to supervise the discharge of outsourced functions by the third party. **A firm cannot contract out of its regulatory obligations**, and appropriate safeguards should be put in place, including the following²¹:

- A firm should assess whether the recipient is suitable to carry out the delegated function or task, taking into account the degree of responsibility involved.
- The extent and limits of any delegation should be made clear to those concerned.
- There should be arrangements to supervise delegation, and to monitor the discharge of delegates functions or tasks.
- If cause for concern arises through supervision and monitoring or otherwise, there should be appropriate follow-up action at an appropriate level of seniority within the firm.
- A firm should take steps to obtain sufficient information from its delegate to enable it to assess the impact of delegation on its systems and controls.

2.13 SYSC also applies to incoming EEA firms in relation to activities carried on from an establishment in the UK.

Intermediaries

2.14 An intermediary must have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility. Furthermore it must have effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.²² These arrangements, processes and mechanisms should be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the firm's activities.²³ Where the intermediary is carrying out provider and distributor functions, it is likely that the complexity of the risks inherent in the business model and of the firm's activities will be increased.

2.15 An intermediary should also take reasonable steps to avoid undue additional operational risk arising out of outsourcing arrangements, or the assumption of provider functions, and should take care not to impair materially the quality of the firm's internal control.²⁴

Insurance: Conduct of Business sourcebook (ICOBS)

2.16 ICOBS 8 sets out the regulatory requirements applicable to insurers in relation to claims handling. ICOBS 8.1.1R states that 'an insurer must handle claims promptly and fairly; provide

²¹ SYSC 3.2.3 G and SYSC 3.2.4 G

²² SYSC 4.1.1 R

²³ SYSC 4.1.2 R and SYSC 4.1.2A G

²⁴ SYSC 8.1.1 R and SYSC 8.1.1A G

reasonable guidance to help a policyholder make a claim and appropriate information on its progress; not unreasonably reject a claim (including by terminating or avoiding a policy); and settle claims promptly once settlement terms are agreed’.

- 2.17** Insurers who outsource claims handling therefore need to ensure that they do so with appropriate care and diligence so that they are able to continue to satisfy this regulatory responsibility and ensure that customers receive fair outcomes.

The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD)

- 2.18** Principle 6 – ‘A firm must pay due regard to the interests of its customers and treat them fairly’ – sits behind many of our detailed rules and we expect customers’ interests to be at the heart of how firms do business.
- 2.19** RPPD is a Regulatory Guide that develops Principle 6 and sets out our view on what the combination of the Principles and detailed rules require respectively of providers and distributors who supply products or services to retail customers. It applies to both insurers and insurance intermediaries²⁵.
- 2.20** RPPD uses the terms ‘provider’ and ‘distributor’, but recognises that responsibilities flow from *‘the actual roles or functions undertaken in a transaction, and firms should take this into account in considering their responsibilities under the Principles. In considering which responsibilities apply to it, a firm should consider the functions and roles that it undertakes in the product life-cycle. Whether a particular role or function is fulfilled by the distributor or provider (or both) may vary based on the product or service, or particular arrangements in place, and it may be possible for a firm to act as both provider and distributor at the same time in respect of different products or services.’*²⁶
- 2.21** It follows that the status of a firm, whether insurer or insurance intermediary, does not determine whether such firm should be considered to be a ‘provider’ or a ‘distributor’ for the purposes of identifying relevant responsibilities. Instead the RPPD is clear that firms need to consider exactly what functions they are performing in relation to any given product/transaction in order to establish which responsibilities it has. The RPPD states that whether firms can agree to apportion responsibilities between themselves will depend on the circumstances, which will include:
- The nature of the regulatory responsibility.
 - The extent to which such an agreement would be reasonable.
 - Whether the arrangement is clear to both parties and properly recorded.
 - The systems and controls used to monitor whether the agreement continues to be appropriate in the circumstances.²⁷

²⁵ RPPD is not a complete exposition on provider and distributor responsibilities and does not replace applicable Principles or other requirements.

²⁶ RPPD 1.15

²⁷ RPPD 1.16

2.22 By way of example, the RPPD states that, where an insurer is commissioned by a distributor to create a product where the criteria for the product are specified by the distributor, many of the responsibilities fall to the commissioning distributor, as 'retail manufacturer' of the product, rather than the 'pure manufacturer' of the commissioned product or service. However, the pure manufacturer must still act in accordance with relevant Principles applicable to its functions including for example acting with due skill, care and diligence in accordance with Principle 2.²⁸

2.23 It goes on to address respective provider and distributor responsibilities, and to set out guidance as to how such responsibilities may be met.

Provider responsibilities

2.24 The provider responsibilities, which may, depending on the facts, be carried out by insurance intermediaries as retail manufacturers rather than insurers as pure manufacturers²⁹, are:

- product design
- provision of information to distributors
- provision of information to customers
- selection of distribution channels
- post-sale responsibility (including claims and complaints)³⁰

Distributor responsibilities

2.25 Distributor responsibilities, which may be assumed by insurers as well as carried out by insurance intermediaries, are:

- financial promotions
- provision of information to a customer before the point of sale
- advising on selection of provider
- post-sale responsibility³¹

Incoming EEA firms passporting on a services basis

2.26 Some incoming firms that passport into the UK on a services basis may not have considered whether or not they have established a branch by virtue of the functions they have outsourced to agents in the UK. Whether this is the case depends on the facts and various factors in line with established case law. The EU Commission has also produced some guidance on this subject³². We would expect firms to have obtained appropriate advice if they are unsure of the position.

²⁸ RPPD 1.15 (1)

²⁹ Insurers may also have some responsibility depending on the function and their own responsibilities, for example in relation to claims.

³⁰ RPPD 1.17 to 1.21

³¹ RPPD 1.22 to 1.25

³² See Commission Interpretative Communication on Freedom to provide services and the general good in the insurance sector (200/C 43/03)

3.

Our findings

How did we carry out our review?

- 3.1** We selected a sample of 12 insurers underwriting insurance products for UK retail and SME customers, who had delegated authority arrangements that either comprised or included outsourcing. We selected a broad range of insurers in terms of size, marketplace, business model and age, and considered UK insurance companies, Lloyd's syndicates and EEA firms (operating on both a branch and services basis) within the sample.
- 3.2** We initially sought to establish the extent of the sample firms' outsourced arrangements and the nature of the relationships that were in place. In addition we requested information on the systems and controls relating to the decision to outsource and the subsequent monitoring and oversight of these relationships.
- 3.3** We also reviewed a list of all outsourced arrangements that these insurers had in place to select a sample of approximately ten relationships for each insurer and request further information on their operation.
- 3.4** We met with insurers' senior management to obtain their understanding of the firms' approach to outsourcing and how this was controlled.
- 3.5** We followed up with meetings with operational staff at the insurers to understand the individual relationships selected, how they operated and how this aligned to the documentation provided and senior management's view.
- 3.6** We selected between one and four outsourced arrangements for each insurer and met with the relevant intermediaries or third parties to establish their views of the relationship, their responsibilities, the communication between the parties and any oversight arrangements in place. We aimed to consider as broad a range as possible of intermediaries and third parties, including intermediaries acting as brokers and managing general agents (MGAs)³³, in wholesale and retail capacities and distributing through different sales channels. This was to ensure that a range of different activities and models present in the UK general insurance marketplace were considered as part of the review.

³³ The Managing General Agents' Association defines an MGA as an intermediary whose primary fiduciary responsibility is to the insurer(s) which provide its capacity.

Insurer assessment of conduct risk, third party selection and due diligence

Risk appetite and approach

- 3.7** In the course of our meetings with insurers it was apparent that there were marked differences in the approach to the delegation of underwriting and other significant authority to third parties. A minority of the firms in our sample had treated externally delegated underwriting as a form of outsourcing and had a clear risk appetite in place. These firms could articulate how this fitted with their wider corporate strategy and applied a risk-based approach to the selection of third parties, having considered the extent of the outsourcing arrangement and the level of authority being delegated.
- 3.8** In contrast a number of firms had not treated these arrangements as outsourcing and their risk appetite and approach to outsourcing was unclear. Moreover, there were instances where the firm's risk appetite was solely expressed in prudential terms with no regard to operational or conduct issues. The absence of a conduct risk appetite was evident both in terms of policies and procedures in place and what we observed in practice when new outsourcing arrangements were entered into, with limited appraisal of the relationships, products and potential risks for customers.
- 3.9** Three of the 12 insurers we visited either acknowledged in discussion that certain existing relationships were inconsistent with their risk appetite or reached this conclusion having re-considered these relationships of their own volition. In some cases this resulted in the insurer taking steps to exit those relationships because of the conduct issues identified.
- 3.10** The firms who had clear arrangements for assessing conduct risk and identifying circumstances where it may not be appropriate to enter into a particular relationship or underwriting a particular product were able to give examples of cases where they had decided not to enter into certain arrangements. Insurers who did not appropriately assess the ability of the selected third parties to provide products and services to customers presented potential risks to customers.

Due diligence and controls around outsourcing

- 3.11** A further area of concern was the extent of due diligence performed by insurers in relation to prospective relationships. This stemmed, in part, from many insurers not treating the delegation of authority to a third party as outsourcing. In the majority of cases we saw there was a tendency to focus predominantly or exclusively on underwriting and prudential matters with limited or no consideration of operational and conduct issues. In some cases the extent of due diligence appeared to be a tick box exercise considering solely whether the prospective third party was an authorised firm and solvent. Due diligence did not always appear to be risk-based and to consider, for example, the range of delegation, the number of customers involved, the products being underwritten or relevant operational issues.
- 3.12** The shortcomings in due diligence were often part of a broader failing in the controls in place around external delegation and how this was approached, with delegation controlled exclusively by the underwriting function with limited or no input from other functions. Consequently, even where considerable delegated authority was granted over claims and other functions, there were sometimes only limited underwriting led controls in place with no holistic operational consideration of the outsourced arrangement.
- 3.13** In addition, the contractual agreements surrounding outsourcing did not always accurately reflect the extent of the arrangement in place and the responsibilities flowing from it, or set service standards and reporting obligations. Additionally in some cases, particularly where

more than two parties were involved, it was not always clear that the contractual arrangements were up-to-date, consistent and appropriately captured the involvement of each of the relevant parties.

- 3.14** The failure to involve other functions and consider the broader capabilities of the third party could present risks for customers, as the decision to delegate may be made with no regard for conduct implications and customer needs. In these cases there is a significant risk that arrangements that are expected to perform well financially are entered into without due regard for likely customer outcomes.

Example 1

In one insurer we reviewed different arrangements, which the firm had classified as either outsourcing arrangements or delegation. Additional due diligence was undertaken in relation to the arrangements classified as outsourcing (which were narrow in scope and involved no discretion or delegation of underwriting authority). This was in contrast to those where the insurer was delegating significant underwriting authority to intermediaries who developed their own products and performed a wider range of functions.

- 3.15** Where firms do not treat external delegation as outsourcing and are not undertaking appropriate risk-based due diligence this will impact on the firm's ability to demonstrate compliance with relevant requirements including Principles 2 and 3 and parts of SYSC. EIOPA guidelines, which will be relevant to firms' obligations deriving from Solvency II (effective from 1 January 2016), also regard external delegation of underwriting authority as outsourcing.³⁴

Turnover in relationships

- 3.16** The lack of an appropriately articulated risk appetite, poor outsourcing controls and poor due diligence were of particular concern in firms taking on significant numbers of new outsourcing arrangements with multiple parties. This is because of the increased potential for poor customer outcomes, with the insurer having more limited knowledge or understanding of the third party in numerous cases, and insufficient time to focus on these new relationships and address any deficiencies in the initial due diligence.
- 3.17** Furthermore, these issues can serve to create a cycle, increasing the probability that the insurer will need to terminate the relationship in the short term, and thereby perpetuating a high level of turnover in relationships. Termination of relationships creates significant additional risks and issues for both the insurer (e.g. reputational risk, binding without authority, compliance with contractual terms, fraud and ability to exercise oversight) and the customer (e.g. continuity of cover, fair and consistent claims and complaint handling and quality of service). These risks will be exacerbated where termination is sudden (including in the event of insolvency) and could leave the insurer without necessary access to customer data or records.

³⁴ See PRA supervisory statement SS4/13 of December 2013 which set out the expectation that firms have due regard to EIOPA's preparatory guidelines in relation to Solvency II including the Guidelines on the System of Governance (EIOPA/13/413), dated 27 September 2013. Guideline 45 deals specifically with underwriting or claims settlement authority given to an insurance intermediary. See also the EIOPA Final Report on Public Consultation No. 14/017 on Guidelines on systems of governance, dated 28 January 2015, which includes guidelines on governance generally and specifically outsourcing at section 11. Guideline 61 deals specifically with underwriting or claims settlement authority given to an insurance intermediary.

Example 2

In one case a small insurer had entered into approximately 20 new outsourced relationships over a two year period, and had already exited approximately a third of these relationships. In this case it was apparent that the extent of due diligence generally was limited and almost entirely confined to prudential matters, with minimal evidence that the insurer had considered any conduct and customer issues.

- 3.18** The above example showed a lack of understanding of insurer obligations when selecting outsourcing relationships and also highlights the issues associated with this approach, with examples of customer detriment arising from some of these relationships, as well as instances of binding without authority and potential fraud. This gives rise to questions as to how the insurer is able to demonstrate that it meets regulatory obligations, for example, under PRIN 2, 3 and SYSC.

Insurer consideration of product – product due diligence and renewal

- 3.19** A key component of insurers' responsibilities when underwriting products involving significant outsourcing (such as delegated underwriting authority) is their obligation under PRIN 6 to treat customers fairly.
- 3.20** This obligation is in addition to SYSC requirements relating to outsourcing and is relevant to the due diligence process undertaken by insurers at the inception of new outsourced relationships, including in relation to the products themselves.
- 3.21** Some of the products being underwritten via delegated authority were the insurer's own products, supported by their knowledge and research, with outsourcing used to provide additional distribution routes.
- 3.22** However in other cases, insurers were underwriting new products designed by others that were not similar to their own core products and of which they had limited or no underlying knowledge or understanding. In a significant number of cases insurers did not appear to have carried out sufficient, or any, due diligence around the performance of these products for customers, or sought this from the intermediary. This potentially created significant risks for the insurer's customers purchasing these products.
- 3.23** The failure to consider the product outcomes from a customer perspective was often evidenced in three ways.
- 3.24** Firstly, there was frequently a lack of consideration of customer outcomes when entering into an outsourced relationship, with virtually no representation of the voice of the customer.
- 3.25** Some insurers did not request or receive any information relating to product performance (such as claims frequency, claim declination and repudiation rates or numbers of complaints) prior to renewing a product or underwriting a product previously underwritten by another insurer.

- 3.26** Secondly, where the product was newer or had no performance history some insurers had not asked for or received any information regarding the research done to create the product, the customers targeted or the expected performance of the product from a customer perspective.
- 3.27** Thirdly, there was often only limited consideration of the product wording at this stage, with the work that was done being a narrow exercise focused only on risks to underwriting results.
- 3.28** The lack of consideration of conduct risks of the product being underwritten at due diligence stage creates significant risks for insurers given their legal and regulatory responsibilities for customer outcomes, particularly around claims. In many cases, any shortcomings in customer outcomes at inception were likely to persist through subsequent renewals, with no additional focus on customer outcomes at these points. This raises questions as to how some insurers are able to demonstrate that they are treating customers fairly where there is limited or no understanding of the benefits and the utility provided by the product, the customers being targeted, how the product is sold or how post-sales services are delivered.
- 3.29** While these issues may not be unique to outsourcing arrangements, it appears more likely to be the case where the product development has not involved the insurer and they have limited knowledge of the product.
- 3.30** Furthermore, we are concerned that when delegating underwriting authority insurers write products they wouldn't otherwise underwrite. In some cases there may be valid reasons for this such as the expertise, knowledge and ability to access markets possessed by the third party. However, it is not appropriate when the product is likely to produce poor customer outcomes and would not have been underwritten by the insurer if it had properly considered the product and its customer outcomes. It appeared in some cases that this happened in part because the insurer regards this as presenting less risk where the product is distributed to customers under a different brand name.

Example 3

In one case an insurer was underwriting a number of single risk and add on personal lines products for a range of third parties under the umbrella of a new relationship with a MGA, entered into due to an existing relationship with a wholesale broker. It became apparent in the course of our review that the insurer had not considered or understood the products being underwritten, their distribution to customers or the delivery of post sales services prior to agreeing to underwrite these.

Consequently the insurer was almost entirely unsighted on these products and was unable to state whether customers buying these products were treated fairly or demonstrate that they had previously considered this question. The value of some of these products was unclear and in some cases they appeared to be targeted at more vulnerable customer groups, which should have indicated heightened levels of conduct risks to the insurer.

- 3.31** Whilst RPPD acknowledges that some responsibilities may flow from a firm's role as product designer, it also states that the insurer acting as a pure manufacturer still has obligations under the Principles, namely Principle 2 and 6³⁵.

Insurer control over outsourced claims functions

- 3.32** From a customer perspective, the claims cycle and process is the most important element of the delivery of insurance products and services. This is the point where a customer finds out whether the product meets their expectations, both in terms of whether any loss they have suffered is covered and the quality of service they receive through the claims process. In addition to the expectations set out in PRIN (fair treatment of customers and exercising due skill, care and diligence) and SYSC (control over outsourced functions), ICOBS 8.1 sets out in greater detail an insurer's claims handling obligations which, in line with general principles, remain with the insurer even if claims operations are outsourced.

Claims outsourcing decisions and claims processes

- 3.33** We found that approximately a third of the insurers in our sample exercised only limited control over the outsourcing of claims handling, the choice of claims handling partner and the design and implementation of the claims processes. These insurers either delegated claims handling authority to intermediaries (together with the delegation of underwriting authority) or to third party administrators (either directly or via sub-delegation by the intermediary).
- 3.34** In these cases, the claims handling arrangements and processes were often entirely designed and managed by the intermediary holding delegated authority from the insurer, including where sub-delegation to a third party was involved. Some of these arrangements also predated the point when the insurer began underwriting the relevant insurance products.
- 3.35** Whilst these arrangements may have been operating effectively and delivering appropriate outcomes, it was apparent that some insurers had very limited understanding of the design and operation of the claims processes in place and therefore no meaningful input to or control over any of the decisions and outcomes these claims processes produced for their customers.
- 3.36** The lack of understanding often manifested at both a conceptual and a practical level, with insurers sometimes unable to explain the claims philosophy, claims handling processes and service standards in place.

³⁵ RPPD 1.15

Example 4

An insurer underwriting a household product managed by an intermediary (acting as a MGA) and with another third party handling claims:

- Had played no active role in assessing the third party claims handler being used and performed limited due diligence on this party.
- Was unclear what would constitute making a claim in terms of what was recorded.
- Was unaware of the key validation steps in place that could result in a claim being declined or repudiated, and had not considered the appropriateness of these steps.
- Had limited knowledge of the customer service standards in place so had not assessed whether these were consistent with their own expectations or obligations for the fair treatment of customers.

3.37 Examples such as this carry risks for insurers, who are effectively entirely reliant on the intentions and actions of third parties to enable them to meet their obligations to customers regarding claims. In addition this gives rise to questions as to how such firms are confident that their customers are being treated fairly, and are able to demonstrate this.

Customer outcomes and conflicts of interest

3.38 Additional risks to customer outcomes may arise where decisions about their claims are being made by parties who have different regulatory responsibilities than the insurer for the outcome and who may have an interest in not agreeing their claim (depending upon the remuneration arrangements in place between the insurer and intermediary).

3.39 In some of the cases we reviewed it was not clear that the potential conflict of interest in giving claims handling authority to an intermediary who was materially incentivised via profit commission (or to a third party chosen and appointed by this intermediary) had always been identified and understood by the insurer. In these examples there was often limited evidence that the insurer had considered this specific risk when entering into the arrangement or that the intermediary had any formal measures in place to address this risk. Where an insurer has no knowledge of how this risk is appropriately managed and mitigated it is not clear how it can conclude that it is appropriate to allow these arrangements and incentives to be in place.

3.40 We found that in many of these cases intermediaries and third party claims handlers did appear to be employing an appropriate, controlled and fair approach to managing claims. However this was the consequence of their own actions rather than those instigated by the insurer. This was further evidenced by the material variation in claims approach and processes we sometimes observed in different outsourced arrangements of the same insurer. In these cases it was apparent that the approach, processes and service standards were designed by each of the different third parties, and there was limited evidence that these had been reviewed, benchmarked or qualitatively assessed against the insurers own claims approach and standards.

3.41 The issues highlighted above were more common in relation to retail general insurance products with relatively high claims frequency and low severity, including single risk consumer products often sold through extended distribution chains or by non-regulated parties. It appeared that the low level of prudential risk meant that the insurer had limited (or no) oversight of the claims cycle, provided the target loss ratio was achieved.

- 3.42** This does not necessarily lead to poor customer outcomes but there is an increased risk of harm where the party managing claims is incentivised to achieve a particular loss ratio, with limited associated controls in place. We note that in all cases, even where no exacerbating features are present, we would expect that profit commissions are only in place where robust controls exist to mitigate the conflicts of interest these and similar incentives can give rise to.

Example 5

An insurer was underwriting a retail product designed by an intermediary (acting as a MGA) and ultimately sold via unregulated retail outlets (under the connected contract exemption). The insurer had limited understanding of the types of claims received, the claims processes followed, the services provided, historical issues with the supply of these products and services, the parties involved in the supply chains to deliver these services and what could result in customers' claims being turned down.

The MGA was responsible for managing the claims fund and materially incentivised to achieve targeted loss ratios, with the large majority of profits around and above these targets accruing to the MGA. Other than by exception, in the event of a claim leading to a complaint that escalated to that level, the insurer had limited ability to assess whether their customers were being treated fairly by the claims process.

Sub-delegation and claims supply chains

- 3.43** In the course of handling claims for insurers, some intermediaries sub-delegated elements of claims handling to third party providers. Additionally in some cases both intermediaries and third parties managed extensive service provider networks or customer helplines involved in the claims handling process.
- 3.44** The involvement of additional parties provides a further challenge to the insurer being able to demonstrate control over their outsourced claims processes and outcomes, particularly where there was no direct contractual link or relationship between the insurer and these parties. It was evident in many of these cases that there were standards and processes (evidenced to varying extents) in place to manage these, but there was often little or no evidence that the insurers had instigated these or understood how these elements of the claims process operated.

Insurer oversight, monitoring and MI

- 3.45** Insurers outsourcing functions or tasks need to organise and control their affairs responsibly and effectively, and to have in place appropriate systems and controls to manage the operational risks outsourcing gives rise to, including any risks around treating customers fairly³⁶. The shortcomings detailed above in due diligence, understanding the products underwritten and controlling claims handling processes, heighten the need for effective risk-based oversight to ensure appropriate customer outcomes.
- 3.46** In many cases, however, there was a lack of monitoring and MI relating to customer outcomes. This raises questions as to how insurers satisfy themselves that they comply with the regulatory responsibilities that they continue to have even where they are not the party who designed the product.

³⁶ Principles 3 and 6, SYSC 3

Insurer oversight and monitoring framework

- 3.47** In many of the cases we reviewed insurers performed very limited monitoring activity and received limited or no conduct focused MI in relation to the product they were underwriting and its customer outcomes. There was often limited evidence that insurers had considered what monitoring and MI would be required to exercise appropriate oversight of these outsourced functions other than from a prudential perspective. In the majority of cases we reviewed, whilst there were clear requirements in place for bordereaux submission and other financial data, there were limited or no equivalent reporting obligations or MI requirements regarding customer outcomes or service standards. Even where contractual requirements were in place this did not always result in any MI being received or monitoring activity occurring.
- 3.48** We observed many instances of the insurer not performing conduct focused monitoring or receiving MI even where relevant information was actually available at the outsourced partner. In these cases it was often not obtained or reviewed by the insurer, or key issues revealed by data were not properly analysed, understood or followed up on.

Example 6

In two cases insurers underwriting personal lines products did not obtain any regular MI (from the intermediaries designing and delivering this product under delegated authority) about the resultant customer outcomes. These insurers had very limited or no knowledge of how and by whom the product was sold, levels of cancellations, claims frequency, claims repudiations, claims service standards or complaints volumes, or indeed any other conduct related or customer outcomes focused information.

The only feedback mechanism in place which they relied on to verify whether customers were being treated fairly was being contacted by external parties in relation to complaints which had escalated to that stage. In both these cases there were clear indicators that significant customer issues (e.g. service delivery failings and high volumes of claims declinatures/repudiations) had occurred without the insurer being aware of these or having any ability to understand and seek to address these issues.

- 3.49** The extent of direct oversight and detailed monitoring expected of insurers may be informed by their role and function, for example if they are not the designer of the product and have outsourced elements of its delivery to other parties. It may also be informed by the extent of the risk posed by the customer, product or distribution method. However, it is necessary for insurers to appreciate their regulatory responsibilities, and design and implement a control framework, monitoring activity and MI to ensure that they are meeting their regulatory obligations and delivering fair customer outcomes.³⁷

Insurer monitoring activity and use of MI

- 3.50** In a minority of cases, we saw insurers seek to meet their regulatory obligations and ensure that fair customer outcomes were being delivered by setting appropriate standards, expectations and thresholds (around underwriting, claims handling and complaint handling) and then reviewing performance against these key performance indicators regularly to identify exceptions. These processes were supported by appropriate MI and were frequently performed alongside the processes in place to monitor the financial performance of the product.

³⁷ See also FCA Thematic Review TR15/6: Handling of insurance claims for small and medium-sized enterprises.

- 3.51** Where such arrangements are robust and proven then this may allow the insurer to consider these issues at a relatively high level and to take a holistic view of these issues. In the limited number of cases we saw where this was effective it was often supported by evidence of regular substantive interactions between the insurer and the third party to consider any conduct issues identified from the MI, perform root cause analysis and remediate issues to improve customer outcomes.

Example 7

One insurer had a longstanding relationship with an intermediary who had developed a limited portfolio of products for a particular SME customer niche. The insurer received regular conduct related MI from the third party which included information on claims frequency, repudiations, declinatures and complaints volumes, amongst other things. The insurer then had regular meetings with the intermediary which included the consideration of this information and facilitated the performance of root cause analysis to identify any issues indicating that customers were not treated fairly.

Extent of intermediary and third party monitoring and oversight

- 3.52** In virtually all the cases we reviewed intermediaries (usually MGAs) designing and overseeing products produced and considered a wider variety of MI (including conduct focused MI) than was made available to or requested by the insurer. However, the extent to which this MI was appropriate and sufficient to effectively identify conduct issues varied from case to case (this is considered in more detail in paragraph 3.88-3.98).
- 3.53** It was evident in many instances that these intermediaries own, and take responsibility for, the day-to-day management of processes and customer outcomes with insurers entirely reliant on these intermediaries. This was particularly the case where intermediaries managed claims on behalf of a number of insurers and uniformity of the process was essential to the effectiveness of their business model and consistent customer outcomes.
- 3.54** The additional responsibilities that are passed onto intermediaries do not necessarily lead to insurers being unable to fulfil their regulatory obligations or to have assurance over customer outcomes. However, it is necessary for an appropriate governance framework to be put in place providing suitable mechanisms and MI to allow the insurer to exercise meaningful oversight of the processes and outcomes for which they retain regulatory responsibility. This MI needs to encompass the range of potential conduct issues relevant to the relationship and the product being underwritten.

Consequences and risks of failings in oversight

- 3.55** A lack of appropriate oversight of outsourcing arrangements can give rise to risk of customer detriment when the insurer may be unaware of instances where their customers are not being treated fairly.
- 3.56** Our concerns in this area were heightened for two of the insurers included in our sample where, in addition to an absence of appropriate oversight, there was a lack of awareness that such oversight might be required and an inability to describe at a practical level what this might entail. This further increased our concerns about the shortcomings we had identified by indicating a potential inability to appropriately diagnose and remediate any problems with customer outcomes.

- 3.57** The findings above are also consistent with examples we have considered in our reactive supervision work, where issues arising from inadequate oversight of outsourced relationships have resulted in customer detriment.

Audit of outsourced partners

- 3.58** We also considered the role of audit in the suite of controls that insurers put in place around outsourced functions and activities. The involvement of specific resources, often with at least some degree of independence from the day-to-day operation of the relationship with the third party, has clear potential control benefits, and in some of the firms included in our sample these were evident.
- 3.59** However, the role and use of audit in relation to the outsourced activities also had a number of potential limitations and pitfalls, which were evidenced in approximately half of the firms included in the review.
- 3.60** Firstly, some insurers in our sample appeared to be overly reliant on the audit of outsourced parties and functions to evidence the effective operation of the outsourced function. In a minority of these cases audit seemed to be viewed as an alternative to controls such as performing appropriate due diligence and having in place appropriate standards and monitoring controls around outcomes. Insurers where we identified this issue did not always recognise audit as a third line of defence detective tool rather than a preventive measure that acts to identify issues before they result in poor customer outcomes. An over-reliance on audit was particularly concerning where the scope and output of the audit indicated that it had encompassed tasks usually associated with due diligence. We reviewed a number of audits that included significant fact-finding and information gathering work, in place of a more targeted review.
- 3.61** The second area of concern was in relation to the scope and outputs of the audit. This had four main components:
- breadth
 - resourcing
 - conduct focus
 - follow-up actions
- 3.62** In many of the examples we found, particularly where audit was outsourced to third parties, the breadth and scope of the requested audit was very broad and, on occasion, appeared unachievable. This stemmed both from the scope, which effectively required the auditor to consider and assess every element of the outsourced party's operations, and from limited resources being allocated to performing the audit. The breadth of scope sometimes related, in part, to the absence of due diligence or internal controls. It appeared in some cases that the insurer requesting the audit was unable to narrow the scope on the basis of assurance already derived from their own controls. This approach had the potential to produce a 'false positive' when the firm derived assurance from the audit despite the depth or quality of the audit work appearing insufficient to reliably support the conclusions reached.
- 3.63** A lack of conduct focus was also evident in the majority of the audits of outsourced third parties. In many cases the audits were based on historic checklists and heavily focused on

matters such as solvency, compliance with binder terms and claims leakage, with minimal or no consideration of customer outcomes or any conduct related measures. Although the conclusions reached appeared appropriate based on the work performed they offered little or no insight into whether the customers purchasing the product received fair outcomes.

- 3.64** The last element we considered was the follow-up of audit findings. In the majority of cases, and subject to the limitations of the audit work performed, it was clear that some follow-up work had been undertaken by the insurer. However, it was not always possible to evidence who was responsible for this remedial work, whether this work responded to all of the points raised, whether it had been completed and how effective the actions taken were in mitigating the risks arising from the outsourced relationship. A further concern was that there was no clear framework or risk tolerance around the audit outputs and findings, so it was not apparent whether a more significant finding, particularly around conduct, would be recognised and prioritised.
- 3.65** Audit clearly has a role to play in the control framework in relation to outsourcing. However, it is important that it is not seen as a panacea or substitute to robust internal controls. Furthermore its effectiveness as a control is dependent on appropriate scoping and resourcing, a suitable focus on conduct issues and a robust framework to act on the findings.
- 3.66** Many of the issues identified around insurers' use of audit on their outsourced arrangements were also relevant to intermediaries' use of audit when they had themselves outsourced functions.

Allocation of responsibilities

- 3.67** The above sections relate to the outsourcing of functions by insurers. However, there are other elements of the provision of insurance products and services where responsibilities may fall to other parties, depending on the functions being performed, regulatory status and responsibilities of those parties. These responsibilities largely stem from the Principles for Businesses, in particular Principles 2, 3 and 6.
- 3.68** Areas such as product design and development, distribution, as well as elements of post-sales responsibilities and oversight may fall to intermediaries or other third parties according to the individual circumstances and arrangements. The RPPD (applicable to firms involved in the provision and distribution of products and services to retail customers) provides guidance regarding what a firm may do to meet its PRIN obligations in these scenarios.
- 3.69** Our principal view is that 'a customer's experience should not be affected by whether a product or service was provided and distributed by a single institution or by two or more institutions'. For this to be achieved consistently it is necessary for tasks and roles to be clearly allocated between the parties involved. Where there is no clear allocation of responsibilities and tasks this creates the risk of detriment for customers because:
- Tasks may fall between the parties, not be actioned or be actioned without appropriate care and diligence.
 - It may not be clear who should generate, review and act on MI, particularly in relation to customer outcomes.

- There is a lack of overall ownership of the products and services meaning that necessary decisions affecting customer outcomes are not made.

3.70 In a minority of the cases included in the review it was not clear who was responsible for the delivery of certain elements of the product or service, or who held responsibility for some of the judgements that needed to be made in the performance of the task. This was more often the case where there were complex relationships with multiple parties involved, such as when there was a degree of sub-delegation or when a separate third party provider performed functions such as claims handling.

3.71 In some of these examples, the failure to clearly allocate tasks and responsibilities came to light when comparing the contractual documentation to what happened in practice. This revealed differences including examples where the contractual arrangements (frequently generic and off-the-shelf) failed to reflect significant components of what was being carried out as well as cases where contractual arrangements set out numerous tasks and reporting obligations that were not being delivered. The consequences of this could be material for consumers, for example we saw instances where these differences and gaps meant that:

- Shortcomings in product design and wordings were not identified and persisted.
- Customers experienced delays in service and decision making.
- Claims were not promptly dealt with.
- Complaints were not always identified and properly handled.

3.72 We also noted that the failure to consider and allocate responsibilities was common in the case of relationships of long duration, with the sample of relationships we considered including a number of delegated arrangements in place for in excess of ten years. The familiarity created the risk that there was insufficient challenge of product and outcomes, with the absence of appropriate analysis or scrutiny leading to the product(s) being renewed on an ongoing basis with limited or no consideration of customer outcomes. We expect firms to periodically reconsider their arrangements to check they remain suitable³⁸.

3.73 The majority of the firms involved in our review did not appear to have appropriately assessed how the relevant rules and guidance within the Handbook applied to the portfolio of outsourced arrangements they had in place and affected the allocation of responsibilities in these arrangements. This was of concern given the need to meet these responsibilities to help produce good customer outcomes.

Product design

3.74 The task of designing an insurance product can be undertaken by either an insurer or an intermediary. Where intermediaries undertake the product design function, they have responsibility for this as part of their own regulated activities (e.g. arranging deals or making arrangements with a view to transactions in investments) in addition to meeting the requirements of the insurer who has outsourced functions to the intermediary.

³⁸ RPPD 1.21(2)

3.75 When performing this function, a firm needs to consider its obligations under Principles 2 and 6 to exercise due skill, care and diligence and treat customers fairly. The RPPD gives guidance for providers of retail products about how a firm may seek to comply with their obligations under PRIN. This indicates that firms should identify target customer markets (considering suitability), assess how the product might perform for customers and have in place systems and controls to adequately manage the risk posed by the product design. The RPPD also sets out that 'responsibilities flow from the actual roles or functions undertaken.....and firms should take this into account in considering their responsibilities under the Principles'³⁹.

3.76 Our work uncovered two significant areas of concern in relation to product design. Firstly, issues around the understanding of product design responsibilities and clear allocation of these in the context of outsourced arrangements. Secondly, in many cases it was not clear that all of the responsibilities were being met by the party or parties responsible.

Understanding and allocation of product design responsibilities

3.77 The sample of arrangements we reviewed included a wide range of scenarios, from cases where the intermediary was involved purely to distribute the product (and the insurer designed the product) to examples where the product was the entire business of an intermediary (and the intermediary designed the product).

3.78 However, we also found a significant number of arrangements where more than one party had an involvement in product development. In some of these cases there was a lack of clarity as to who owned the product design responsibilities, and therefore who was responsible for considering whether the product produced fair customer outcomes. This gives rise to the risk that nobody has taken ownership of these responsibilities and considered potential shortcomings either in the product design or ongoing oversight.

Example 8

In one case, a household product was developed by the intermediary based on the insurer's own comparable products and wordings, with various insurer inputs to the process. The insurer indicated that they believed the product was designed and owned by the intermediary (per the branding) while the intermediary considered that they had relied extensively on the insurer's work in developing the underlying product, and remained reliant on them for issues such as identifying any customer issues with the product or identifying the need for updates.

3.79 This type of example illustrates the potential risks for customers, as a lack of ownership of product design and gaps in the subsequent monitoring of customer outcomes could produce customer detriment or allow this to persist. This is particularly concerning when it is also allied to the lack of appropriately allocated monitoring responsibilities. Less than half of the firms involved in the review could evidence that they had taken steps to ensure that it was clear who was responsible for the various elements of product design, suggesting that they had not considered RPPD.

3.80 We also had concerns regarding some intermediaries who designed products in a purely wholesale capacity with no direct interaction with customers. In a number of cases these firms were unable to demonstrate that they had understood their responsibilities to the customers

³⁹ RPPD 1.17

buying the product they designed and incorrectly identified either the underwriter or the retail intermediary as holding most if not all of the customer responsibilities.

- 3.81** It is worth noting that even where intermediaries have some regulatory responsibilities flowing from their product design functions this does not mean that the insurer has no regulatory responsibilities. The insurer still needs to consider the extent of its responsibilities under the Principles among other things, including Principles 2 and 6.

Meeting product design responsibilities

- 3.82** We found that about a third of the firms in our sample who undertook product design, both insurers and intermediaries, had not always adequately considered customer needs when developing products. This was evidenced by a lack of explicit consideration and documented evidence relating to target market, how the product would perform for customers or what controls would need to be put in place to manage any risks posed by the product.
- 3.83** In a number of these cases the party responsible for product design did not appear to recognise that they had these responsibilities or that gaps existed in the work they had carried out before bringing the product to market. These issues are particularly relevant to intermediaries acting in a wholesale capacity who may take on product design responsibilities without appropriate consideration of the customer outcomes, particularly when developing products in conjunction with/to be sold by non-regulated parties.
- 3.84** In other examples we found products that had been developed based on existing products in the marketplace with limited or no explicit consideration of whether they would deliver appropriate customer outcomes. This approach to developing products, even with 'standard' products like household or motor, was of particular concern where the product was then adjusted in a way that might serve to generate additional exclusions or barriers to claim, which we saw in a small number of cases.

Example 9

A wholesale intermediary developed numerous retail customer products ultimately sold by an extensive network of appointed representatives, generally owned and managed by non regulated groups. In developing these products it was clear that the primary stakeholders were the parties looking to sell these products. However it was not clear in a number of cases that any material activity had been undertaken to consider the customer implications of these products. These products were also sold by the wholesale intermediary at a net price, with limited or no control over the end price charged to customers. It was not apparent that the wholesale intermediary had considered the impact of this approach upon the risks posed by the product or how the product performed for the customer.

- 3.85** The above example created material risks of customer detriment, with significant potential for products of limited or no utility for customers to be produced and distributed. It also gave rise to questions as to how the intermediary in that instance was meeting their regulatory responsibilities as product designer.
- 3.86** Another issue we identified was where an existing book of customers/portfolio of business was taken on by a new provider, which on occasion involved both a new insurer and a new intermediary. In one example we saw there was no evidence that the new 'product provider'

had considered product design and customer issues when taking on a large book of UK retail consumer business, with the intention of continuing to support and sell this product. In this case, there seemed to be an assumption that because the product previously existed then it must produce appropriate outcomes. This gives rise to questions as to how this party could demonstrate that they were meeting their regulatory responsibilities.

- 3.87** These issues and examples highlighted that many firms fail to appreciate the extent of their responsibilities as product designers, or in some cases to realise that they are acting as product designers. Where firms do not understand their responsibilities for product design it increases the likelihood of products being brought to market without due consideration of their implications for customers, which may result in detriment. Whilst this product risk also exists where there is no outsourcing or division of responsibilities, our findings indicate that it is more likely to manifest in this context, due to the division of roles and responsibilities.

Product delivery, oversight and monitoring

- 3.88** Firms acting as 'product providers' (in the context referred to in the RPPD) should review whether certain types of products remain fit for purpose and that there are appropriate systems and controls in place to manage the risks associated with product or service designs⁴⁰. At least half of the product providers we considered in our review did not appear to be carrying this out in all cases, sometimes due to the failure to understand and allocate responsibilities arising from the outsourced arrangement.
- 3.89** Product providers should also act fairly and promptly when handling claims, meeting any reasonable customer expectations that may have been created regarding the process and outcomes. Where the product provider is an intermediary this requirement is complementary to the insurer requirements set out above. In a minority of cases it was not clear that providers had fully understood their regulatory responsibilities in this regard.
- 3.90** Our concerns in relation to product delivery, oversight and monitoring relate to instances where firms included in our review had either failed to appreciate their role as product provider and the extent of the post-sales responsibilities it involved, or had not taken appropriate steps to meet these responsibilities. We saw examples where this led to some or all of the following issues:
- No regular processes in place for product review or clear ownership of these processes.
 - Product review focused entirely on financial performance.
 - Limited evidence produced or outputs resulting from product review.
 - Shortcomings in claims processes and outcomes.
 - Insufficient data regarding product and customer outcomes to allow an effective review of product performance to take place.
 - Limited analysis and sharing of conduct related MI.
 - Over-reliance on reactive customer led information to assess performance.

⁴⁰ RPPD 1.21 (2) and 1.17 (3)

- 3.91** These issues give rise to the risk of customer detriment occurring, and of any such detriment not being identified or persisting. Firms need to have appropriate processes to deliver the product and appropriate information and processes to monitor and analyse customer outcomes. In a number of cases we saw that firms acting as product provider did not have a comprehensive view of the delivery of the product to customers or of how the product performed for customers.

Examples 10 and 11

An intermediary acted as product provider for a personal lines product, with claims handling authority sub delegated to a third party administrator. The intermediary had limited input to the design and operation of the claims process and received very limited information in relation to claims outcomes. Whilst the intermediary took the first notifications of loss from the customer it did not know whether individual claims were subsequently settled or rejected, receiving only summary financial data in relation to claims.

Two other intermediaries acting as product providers with no claims handling authority received regular line by line claims data from the parties handling claims (an insurer and a TPA respectively). This basic data included declinatures and repudiations, which was supplemented by additional information around the claim process and outcomes (e.g. timelines, reasons for declinature, etc). The basic and supplementary data was received in a format which allowed the intermediaries to run reports and further analyse this information. This information was supported by regular interaction between the parties, including face to face meetings, helping the intermediaries to assess the ongoing performance of their products for customers.

- 3.92** In the above examples it was clear that in order for appropriate customer outcomes to be delivered by outsourced arrangements it is essential for appropriate MI to be generated and shared between different parties. Where this is not the case, as we found in a significant number of examples, this presents the risk of poor customer outcomes.
- 3.93** Where the product provider is an intermediary these issues also have significant potential implications for the insurer who has outsourced to the intermediary. This is because where the intermediary is not fulfilling their oversight obligations as part 'product provider', they are unlikely to be able to provide appropriate MI and insight to allow the insurer to meet their obligations, for example in relation to claims outcomes. These shortcomings may also reflect failures at due diligence stage or in specifying appropriate reporting requirements for the outsourced party.
- 3.94** Another common issue we found relating to product providers when considering product performance was an over-reliance on complaints information as the primary way for firms to 'hear' the customer voice. Complaints are a valuable source of information that helps to identify potential issues with the product, however, this may only enable reactive analysis and relies on policyholders actively raising concerns or complaining when they receive poor outcomes. In other cases product providers showed good practice in that they had taken more proactive steps to better understand customer needs.

Example 12

One wholesale intermediary acting as product provider for a retail customer product demonstrated extensive evidence of consumer research undertaken in the last two years and how this had informed its product review project, including marketing materials and product training. This intermediary had recognised shortcomings in its previous approach, initially highlighted by customer feedback and service issues, and had decided to change this and bring customer needs into focus. This had resulted in significant improvements to customer outcomes.

- 3.95** The final factor affecting a robust review of product performance was an absence, in many cases, of consistent MI, both in content and format. This meant that it was very hard for intermediaries acting in part as 'product providers' to form views regarding the comparative performance of different products.
- 3.96** In considering the performance of the product, there is clearly no 'one size fits all' approach. However we were concerned that in about half of the cases we reviewed firms acting as product providers were not able to demonstrate how they assessed customer outcomes.
- 3.97** The majority of the firms included in the review (both insurers and intermediaries) indicated that they were in the process of enhancing their monitoring activity and MI around customer outcomes. This varied between firms indicating that they had sufficient levels of information already but required more analysis, to firms where there was a lack of appropriate MI with a significant amount of work to do to enable them to make judgements about performance.
- 3.98** Where product review, supported by appropriate MI and analysis, did identify issues with the product, it was not always clear how quickly these issues were escalated and acted upon. Where issues identified by product review are not addressed poor customer outcomes are likely to persist.

Complaint handling

- 3.99** All regulated firms involved in delegated arrangements have regulatory responsibilities in relation to complaint handling arising from the activities they perform. Where underwriting authority or claims handling is outsourced, multiple parties may be involved in complaint handling.
- 3.100** This segregation of responsibilities brings three main risks in relation to complaints, all of which were highlighted in the course of our review.
- 3.101** These are:
- Completeness of complaints information.
 - Consistency of complaint-handling approach, service standards and outcomes.
 - Analysis of complaints and follow-up actions.
- 3.102** We noted that some products we considered attracted a very limited number of recorded complaints, given the volumes of customers involved and our knowledge of the level of

complaints associated with similar products. Some of the firms in the review acknowledged that the complaints data they had was probably incomplete, particularly in relation to non-reportable complaints. Where complaints information is not complete firms may not be aware of poor customer outcomes.

- 3.103** Of greater concern were the inconsistencies in complaint handling we saw in a minority of cases between insurers, intermediaries and other third parties involved in the provision and delivery of the same product. In these examples variances in complaint-handling processes, service standards or the approach to similar complaints led in some instances to customers receiving different outcomes depending on which party they chose to complain to.
- 3.104** The risks created by variations in complaint handling were compounded in the majority of cases we reviewed by the absence of a single oversight point where details of all of the complaints received in relation to all aspects of the product, including sales and claims handling stages were collated and analysed. In some examples, sales, customer service or claims related complaints could go to the insurer, an intermediary with underwriting authority, a third party undertaking claims handling, an intermediary selling the product to customer or a non-regulated party selling the product.
- 3.105** A failure to collate and analyse complaints information means that the root cause of complaints, such as product or service shortcomings, is less likely to be identified and that any inconsistencies in complaint handling processes and outcome are more likely to persist. Approximately a third of the firms in our review were unable to demonstrate that they had analysed the complaints information relating to the product, or considered taking any actions as a result of the complaints received.
- 3.106** The issues we noted in this work around recording of complaints and root cause analysis were consistent with the findings of our thematic review on complaint handling⁴¹. We have also recently consulted on proposed changes to the complaints handling regime⁴².

Product distribution

- 3.107** The majority of the product providers we considered, both insurers and intermediaries, also designed and established the routes to deliver the product to customers. We reviewed arrangements involving products distributed through a wide range of channels including, for example, direct non-advised online sales by the provider, advised telephone sales by an intermediary with sub-delegated underwriting authority and non-advised face-to-face sales by unregulated entities under the connected contract exemption.
- 3.108** We found that some providers had not:
- Appropriately considered or identified the risks associated with the distribution channel selected.
 - Designed the arrangements and processes for distributing the product in a way which reduces these risks.

⁴¹ TR14/18 Complaint handling - <http://www.fca.org.uk/your-fca/documents/thematic-reviews/tr14-18>

⁴² CP14/30 Improving complaints handling - <http://www.fca.org.uk/news/cp1430-improving-complaints-handling>

- Put in place appropriate controls to oversee these distribution chains and mitigate the risks they give rise to.

3.109 In some of the sample of the relationships we reviewed, this led to considerable risk that customers were not being treated fairly, particularly where the parties selling the product were not regulated.

Selecting the distribution channel

3.110 RPPD provides guidance in relation to Principles 2, 3 and 6 when product providers are establishing the distribution channels for their products. Firms acting as product providers are expected to decide whether this is a product where customers would be wise to seek advice⁴³, building on their earlier product design work to identify which types of customer the product is likely to be suitable for. Product providers therefore need to consider the appropriateness of the channels and parties they select for the distribution of their products to help ensure the product is delivered as they envisaged and that customers are likely to be treated fairly.

3.111 In about 15% of the examples we considered, product providers were unable to provide basic details about the sale of the product, such as whether the sale was advised or non-advised and whether the product could be sold online, via telephone sales or face to face. In these instances the product providers had not considered whether the sale of their product should be made on an advised basis, amongst other things. This raises the question as to how product providers with limited understanding of, and influence over, the sales processes and selected distribution channel are able to assess whether customers are treated fairly.

Arrangements and processes for distributing the product

3.112 In the majority of cases we considered, the product provider (insurer or intermediary) exercised significant control over the distribution network, adding and removing distributors (including other intermediaries, Appointed Representatives or unregulated retailers) as they considered appropriate. The distribution network was usually proactively managed by product providers, for example via clear processes around adding new distributors or by restricting access to IT systems required to deliver the product.

3.113 However, we found that some product providers did not have a clear approach to managing the distribution chain or an ability to articulate and demonstrate how they effectively controlled who was distributing their product. In the poorest examples some providers were unable to provide a complete and up to date list of their distributors and were therefore unable to explain where and how their product was being sold. These issues were often compounded by a lack of clarity and consistency around the systems for recording sales, with providers entirely reliant on distributors of whom they had little knowledge accurately and completely recording sales. This creates increased risk of fraud or of some customers' purchases not being recorded.

3.114 We also saw a limited number of cases, relating to net priced products, where processes to limit the risks to customers associated with the distribution chain were either not in place or were not being consistently applied.

43 RPPD 1.20 (1)

Example 13

An intermediary acting as product provider for a net priced retail product sold by an extensive network of ARs stated that the retail cost of the product for the customer should not exceed a certain threshold and that there would be consistency in the price charged to customers at a single location by each distributor. They also explained that the IT platform used to sell the product supported this. However, some of the sales information we reviewed indicated significant variances in price in individual locations. On further investigation, it became apparent that the IT platform was configured differently for some distributors so that individual sales staff could determine the price charged on a case by case basis, without any effective threshold in place. This resulted in customers buying identical products in the same location on the same day being charged materially different amounts. The provider was also unaware of the existence or nature of any staff incentives at any of the distributors.

3.115 This raises questions as to how the provider (and the insurer) is able to demonstrate that they are treating their customers fairly.

3.116 The primary concern emanating from the issues we identified is that some product providers do not appear to have adequately considered and assessed the risks in the distribution chain, and had not designed arrangements and processes that mitigate the risks posed by the distribution channel. This creates significant risks that customers purchasing these products are not treated fairly.

Overseeing the distribution chain

3.117 Firms acting as product providers are expected to review whether what is happening in practice is consistent with their plans and expectations for the distribution of the product. This should involve collecting and analysing MI.⁴⁴

3.118 In some cases we reviewed, product providers had good MI showing how their product was being distributed, and could demonstrate that they regularly analysed this and compared this to their expectations. This enabled them to identify any variances indicating potential conduct issues and address these.

3.119 In other cases the information produced, received and analysed by the provider was limited and providers (both insurers and intermediaries) were not able to demonstrate that they had considered whether the product was being distributed as they intended. In these cases, providers often had limited information on changes in sales patterns and cancellation rates, raising questions as to whether they have the ability to identify factors which might indicate their product is being mis-sold.

3.120 Many providers relied on regular engagement with the parties in the distribution chain as a core part of their monitoring activities. This direct engagement was most effective in assessing customer outcomes and other conduct considerations where it occurred alongside the production and analysis of appropriate MI regarding the distribution chain.

3.121 In one example, the product provider recorded all contacts and enquiries received from its distributors and analysed these to identify any necessary changes to the product or training needs for the distributor in question. This provider could demonstrate that this had led directly

⁴⁴ RPPD 1.20 (2)

to amendments to the product and measurable improvements in the quality of service provided to customers.

- 3.122** The final component of provider oversight of the distribution chains was the use of audit. In cases where there was an extensive distribution network in place, this often formed a key part of the control arrangements put in place by the product provider. Whilst we did see examples of audit identifying issue experienced by customers, it appeared in a minority of cases that a disproportionate degree of reliance was placed on audit, particularly where other elements of the oversight framework for distributors were weak or absent.
- 3.123** The effectiveness of audit in assessing distributor performance and identifying conduct issues was dependent upon factors including the scope and independence of the work, the amount and experience of the resource used, the quality of the output and the extent of follow-up actions. These also varied very widely across the sample of firms we saw, however it was generally apparent that audit alone was unlikely to be effective in addressing other shortcomings in oversight to mitigate risks posed to customer outcomes.

4. Our expectations

- 4.1** We are sharing these findings with the industry so that firms can consider to what extent they are impacted by these issues and what changes they need to make as a result to ensure that their customers are treated fairly.
- 4.2** In particular we expect:
- Insurers⁴⁵ delegating underwriting or other authority to external parties to recognise that they are outsourcing and to consider whether they have effective and risk-based controls (which appropriately consider conduct risks) in place. These controls should address both the initial decision to outsource and the ongoing monitoring of the performance of the outsourced function and resultant product(s). Insurers should take steps to address any gaps they identify in the control framework and should review their existing outsourcing relationships to identify and remediate any shortcomings in the operation of these arrangements.
 - Insurers to assess whether the claims handling approach and processes in place where they have outsourced claims handling are appropriate and will ensure that claims are handled promptly and fairly. This assessment should include the consideration of whether any potential conflicts of interest arising from incentive arrangements are appropriately mitigated. Where they identify deficiencies they should ensure that these are addressed⁴⁶.
 - Insurers to consider forthcoming changes to governance requirements for firms arising from Solvency II to assess how these impact their activities, particularly in relation to outsourcing, and to assess what actions they need to take to ensure that they are able to comply with these requirements.
 - Incoming firms that passport into the UK on a services basis to consider whether or not they have established a branch by virtue of the functions they have outsourced to agents in the UK. This will depend on the facts and various factors in line with established case law, and the EU Commission has also produced relevant guidance⁴⁷. We would expect firms to have obtained appropriate advice if they are unsure of the position. Where firms identify that they have established a branch in the UK they need to act promptly to adjust their permissions accordingly.
 - Insurers and intermediaries to consider the extent to which each may be performing the functions of a 'product provider' and to clearly identify what responsibilities flow from that for each including for product design and the ongoing monitoring of the performance of the insurance product for customers. To the extent that the circumstances and regulatory

⁴⁵ Including incoming EEA firms in respect of business carried on from a UK establishment.

⁴⁶ See also FCA Thematic Review TR15/6: Handling of insurance claims for Small and Medium-sized Enterprises

⁴⁷ See Commission Interpretative Communication on Freedom to provide services and the general good in the insurance sector (200/C 43/03)

responsibilities allow firms to agree the apportionment of responsibilities, this should be reasonable and clear to both parties.

- Insurers and intermediaries to review their existing monitoring activity and MI in relation to outsourced arrangements and allocated functions to assess whether this is appropriate and allows them to identify poor customer outcomes and instances where customers are not being treated fairly. Firms should also consider whether this information is reviewed appropriately, shared as necessary and acted upon. Where gaps and shortcomings are identified these should be addressed.
- Insurers and intermediaries acting as 'product provider' to assess the appropriateness of the existing distribution channel and sales activities, the efficacy of the arrangements and processes in place to mitigate the risks to customers posed by the distribution channel and the adequacy of the ongoing oversight and monitoring of the distribution chain (including the MI used to facilitate this). Any gaps or shortcomings identified should be addressed.
- Insurers and intermediaries should note that the recast Insurance Mediation Directive⁴⁸, which is currently under negotiation, could include measures relating to product oversight and governance. Additionally, EIOPA consulted on product oversight and governance guidelines⁴⁹ in relation to insurance undertakings manufacturing insurance products. These have the potential to strengthen the requirements placed on firms that manufacture insurance products and we expect firms to ensure that their practices are adjusted to meet any new requirements.

4.3 Where these expectations are based on our existing Handbook requirements, we expect firms who identify shortcomings when assessing how these expectations are relevant to them to act promptly to remediate these issues.

⁴⁸ Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation

⁴⁹ EIOPA Consultation Paper on the proposal for Guidelines on product oversight & governance arrangements by insurance undertakings, 27 October 2014

5. Next steps

- 5.1** Further to undertaking this review and reporting our findings we will continue to engage with industry to address the issues identified. We intend to:
- Provide individual feedback to firms included within the review, setting out any actions required as a result of our findings.
 - Follow up on specific relevant issues identified in the course of our review and other regulatory interactions, investigating whether these have resulted in customer detriment and using the full range of regulatory tools as appropriate.
 - Focus on the questions and issues highlighted in this report in our ongoing supervisory work with regulated insurers and intermediaries, to verify that firms have reviewed their activities in the context of these findings and have taken steps to address any issues identified.
 - Engage with relevant trade bodies and groups of firms to facilitate further discussion of our findings, expectations, examples of best practice and how best to embed this work.
 - Engage with other EEA regulators regarding our findings, where relevant and appropriate, particularly to allow a coordinated response to any issues identified in relation to passporting firms.
 - Consider how firms respond to forthcoming changes to governance requirements for firms in PRA rules transposing the Solvency II Directive⁵⁰, the directly applicable Solvency II Regulation⁵¹ and EIOPA guidelines⁵² and whether any further work is required⁵³.

50 See PRA Policy Statement PS2/15: Solvency II: A new regime for insurers, in particular Appendix 1.12.

51 The directly applicable Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 adopted in accordance with the Solvency II Directive, particularly articles 258 to 275, including article 274 on outsourcing.

52 See PRA supervisory statement SS4/13 of December 2013 re firms having due regard to EIOPA's preparatory guidelines including the Guidelines on the System of Governance (EIOPA/13/413), dated 27 September 2013. See also the EIOPA Final Report on Public Consultation No. 14/017 on Guidelines on systems of governance, dated 28 January 2015.

53 See FCA Policy Statement PS 15/8 particularly the changes to SYSC and COND in Annex B and Annex C of Appendix 1 which take effect from 1 January 2016. These include changes to SYSC 1.1A.2G and COND 2.4G for Solvency II firms. See also FCA proposed changes to SYSC set out in FCA CP 15/16 (chapter 5).



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