



Product Oversight and Governance – Home Insurance



Introduction

The Insurance Distribution Directive's ("IDD") Product Oversight and Governance ("POG") requirements require firms to consider the best interest of customers during product design and throughout the lifecycle of a product, including distribution. Regulators expect firms to be effective, efficient, and actively monitor POG metrics to ensure customer impacting issues are identified and addressed in a timely manner. Products are expected to be suitable for the target market and consumer-centric – aligned to the needs of their consumers to produce good outcomes. Regulatory, government and media scrutiny in retail insurance have increased the focus on consumer protection, particularly surrounding pricing and transparency.



'Dear CEO' Letter – Product Oversight and Governance

In line with these regulatory expectations, the Central Bank of Ireland ("CBI") published a 'Dear CEO' Letter in September 2022 which highlighted the findings of a Thematic Review ("the Review") the CBI performed on the risk posed to consumers by having inadequate home insurance cover.

A key finding of the Review relates to the disparity between POG processes in the insurance industry when identifying issues of under-insurance.

The Review completed by the CBI includes an expectation that insurance providers improve the POG of their products, specifically home insurance products. The risks identified and actions required in relation to POG processes include the following:

- The CBI expects firms to strengthen their POG processes, thereby ensuring that their product suite is fit for purpose and meeting the needs of customers;
- It has been noted that there is an over-reliance on customer complaint information to identify events of under-insurance;
- There is an action required of insurers to increase the usage of Management Information ("MI") to identify POG issues, and to alleviate the over-reliance of firms using customer complaints to identify issues regarding under-insurance;
- Insurance firms must record all instances of reduced claim payments, analysing these to identify trends and action items which have the potential to cause customer detriment; and
- Insurers are expected to align their data and MI to their Consumer Protection Risk Management Frameworks, ensuring that firms take positive action to address any risk limits have been reached.



The Why

Prescriptive guidelines, such as those from the IDD and EIOPA, build a clear pathway for Regulators to supervise, inspect and where necessary, enforce non-compliance with regulations. Therefore, a proactive and preventative approach will demonstrate adherence to the guidelines, while reducing the possibility of enforcement or remedial action in the future.

Current trends:

- Existing industry-standard assurance models tend to lack end-to-end oversight and transparency over products, processes and interdependencies;
- Reputational damage is caused by restitutions and associated negative publicity;
- Customers are not receiving good customer outcomes from their interaction with firms; and
- Legacy systems are in operation without comprehensive documentation and full understanding.



Considerations for firms:

- Do you have effective controls in place to ensure that suitability requirements are considered for new and existing customers?
- Does your suitability statement meet regulatory requirements?
- Are you proactive in outlining under-insurance as a risk to customers?
- Do you have relevant POG processes in place?
- Is all relevant MI leveraged within your POG processes or is there a reliance on customer complaints to identify issues once they have occurred?
- Do you leverage MI to actively identify trends in claim payments?
- Do you have a Consumer Protection Risk Management Framework in place?
- Do your current POG processes allow you to identify consumer risks promptly?
- Are these aligned to your data and MI to identify early warning indicators of consumer protection risks?

Expansive use of data across the insurance value chain and increasing sophistication of modelling techniques have brought the role of big data and analytics to the forefront. Firms must harness data to identify and prevent issues customer impacting issues.



How can KPMG help?

KPMG has a bespoke methodology which will provide firms with a comprehensive framework for POG, ensuring end-to-end oversight and regulatory compliance:

- Harnessing a data-driven approach is a natural fit for POG arrangements in order to assess and monitor product risk.
- Our methodology utilises MI to ensure that your products are fit for purpose and operating as intended.
- We will use our specially designed data led risk assessment framework to assist in managing consumer protection risk, using quantitative data which is over laid with qualitative key performance indicators.

For more information on our Product Assurance Framework, visit our website:

<https://home.kpmg/ie/en/home/insights/2020/12/product-assurance.html>

We will provide a core team that you can trust, with a track record of delivery and extensive experience of consumer focussed operating models. Our team has the right skills to mobilise quickly and efficiently, to ensure smooth and effective delivery of the project. We bring a distinctive variety of skills from product subject matter expert knowledge, conduct and risk expertise to data analytics and applied intelligence.



Contact us



Gillian Kelly
Partner & Head of
Conduct Risk Services
Risk Consulting
t: +353 87 744 1120
e: gillian.kelly@kpmg.ie



Shane Garahy
Director
Risk Consulting
t: +353 87 050 4848
e: shane.garahy@kpmg.ie



Donata Halpin
Associate Director
Risk Consulting
t: +353 87 050 4417
e: donata.halpin@kpmg.ie

kpmg.ie

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