



Product Assurance

Insurance



The Evolving and Expanding Regulatory Environment

- Firms **must act now** to put a robust and comprehensive Product Oversight and Governance (“POG”) programme in place. Regulatory bodies have stressed the essential role that POG plays in consumer protection, stating the importance of **early and proper implementation** of POG from the outset.¹
- POG arrangements, as detailed in the Insurance Distribution Directive (“IDD”), are additionally **intertwined** with the established System of Governance Guidelines already in place under Solvency II. It is anticipated that a well-managed POG programme will **complement** the key facets of overall risk-based, prudent management of firms.
- In line with other EIOPA guidance², a firm’s approach to Conduct Risk in dealing with its consumers should focus on transparency, accessibility and fairness. POG regulations take this into account and expand on the detail of a dedicated programme required to support management of Conduct Risk. Of primary importance is ensuring that the POG programme is **risk-based, proportional and tailored** to the unique features of the business in terms of **scale, complexity and manufacturing / distribution strategies**.

- During the latter half of 2022, the Central Bank’s Governance and Operational Risk Division conducted a thematic inspection of POG arrangements in a selection of non-life insurance undertakings. This inspection aimed to observe a sample of insurance undertakings to assess the current level of **controls, processes and systems** in place in relation to POG as required by Solvency II and EIOPA guidelines.
- This inspection found that not all undertakings had sufficient second line and Board oversight for new and existing products. Some Chief Risk Officers (“CROs”) lacked **proactive risk monitoring and communication** with the underwriting function. While undertakings reviewed policy wording during the Covid-19 pandemic, plans for ongoing policy reviews were not consistently made.
- It was found that in general, the undertakings have been aware of the EIOPA expectation. The Central Bank emphasised the need to **reinforce awareness** of regulatory expectations, so the POG process considers both **prudential and consumer** risks. It also identified good practices, such as involving the CRO in product changes and implementing robust system controls over policy wording changes.

- **Consumer Duty**, which is currently being implemented in the **UK**, has required firms to review their product set, put robust assurance mechanisms in place and consider both simplifying and rationalizing their product set (where appropriate) so they can comply with the regulation.

¹ As highlighted in the Preparatory Guidelines on Product Oversight and Governance Arrangements by Insurance Undertakings and Insurance Distributors released in January 2019.
² Namely, Conduct of Business Supervision Strategy and the Framework for Assessing Conduct Risk Through the Product Lifecycle.

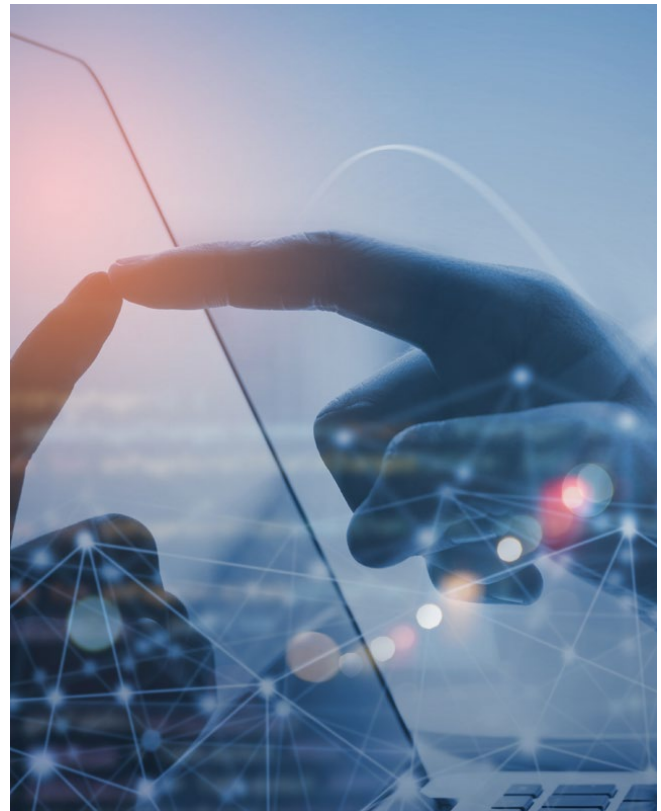
Consumer Protection on the Rise

- Regulators expect firms to be effective, efficient and proactive to ensure consumer detriment issues are identified and addressed in a timely manner. Products are expected to be **consumer-centric** – aligning to the needs of their consumers to produce good outcomes. Regulatory, government and media scrutiny on pricing practices in retail insurance have increased the focus on consumer protection, particularly surrounding transparency and pricing (e.g. CBI Differential Pricing Review, CP116, value for money).
- Products designed for consumers should meet their requirements by having terms and conditions and features that are suitable to meet their needs. This includes ensuring that the product is accessible, easy to use, and meets the needs and expectations of the **target market**. Firms must consider the potential impact on **vulnerable customers** when introducing new products or services, identifying and mitigating possible pain points throughout the digital customer journey. The technology used to interact with consumers must be accessible and inclusive, considering the diverse needs and abilities of different consumer groups.

The Business Case: Manual Assurance and Enforcement / Remedial Action

- Existing business models are too focussed on manual, resource-heavy assurance processes. A multitude of **legacy systems** are in operation within a complex IT environment without comprehensive documentation and a full understanding of system processes.
- Assurance models tend to **lack end-to-end oversight and transparency** over products, processes and interdependencies. There is an ongoing theme of **corporate knowledge gaps**, further complicated by firms' distribution models and reliance on third parties to deliver product offerings.
- Expansive use of data across the insurance value chain and increasing sophistication of modelling techniques has brought the role of big data and analytics to the forefront. Data collected across the product lifecycle and its role in product development was a key highlight of EIOPA's Thematic Review of Big Data and Analytics in April 2019.
- Harnessing a **data-driven approach is a natural fit for POG arrangements** to assess and monitor product risk. Furthermore, an in-depth understanding of products enables the expedited roll-out of any changes and associated assurance (e.g. change in product offering, proposition, or emergency situations).
- Assessing an organisations product set allows organisations to really consider simplification and rationalisation of products which can result in significant cost savings (product management, technology costs, regulatory issues) and reputational issues (compliance breaches).

- Prescriptive guidelines such as those outlined in the EIOPA approach build a **clear pathway** for Regulators to supervise, inspect and where necessary, enforce non-compliance with regulations. Recent thematic reviews, heightened consumer expectations and media scrutiny all converge on a firm's product offering. A **proactive and preventative approach** will demonstrate adherence to the spirit and letter of the guidelines, while **reducing the possibility of enforcement or remedial action in the future**.



KPMG's Bespoke Methodology

KPMG have assigned a bespoke methodology to arm organisations with tools and techniques to control its product set and align with the evolving and expanding POG requirements. The methodology focusses on building a **comprehensive process** to assure products, **across the entire consumer lifecycle** with a focus on regulatory compliance, transparency and fair treatment of consumers.

The methodology is designed to provide organisations with a comprehensive understanding of their products and underlying control environment, **reducing the time 1st LOD and 2nd LOD spend** on assuring products through **introducing automation and preventative controls**. In the current environment, firms are striving to **reduce costs** and our methodology assists by **reducing the manual effort required** and building data-oriented predictive tooling that **places consumers at the center**.

Product Assurance Approach

Assurance Approach



Product Event Mapping



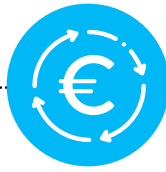
Risk Control Matrix



Target Market Analysis



3rd Party Outsourcing



Premiums & Chargebacks



Complaints Analysis



Issues Management



Product Rules Testing



Product Change Testing



Pricing Assurance



T&C Review

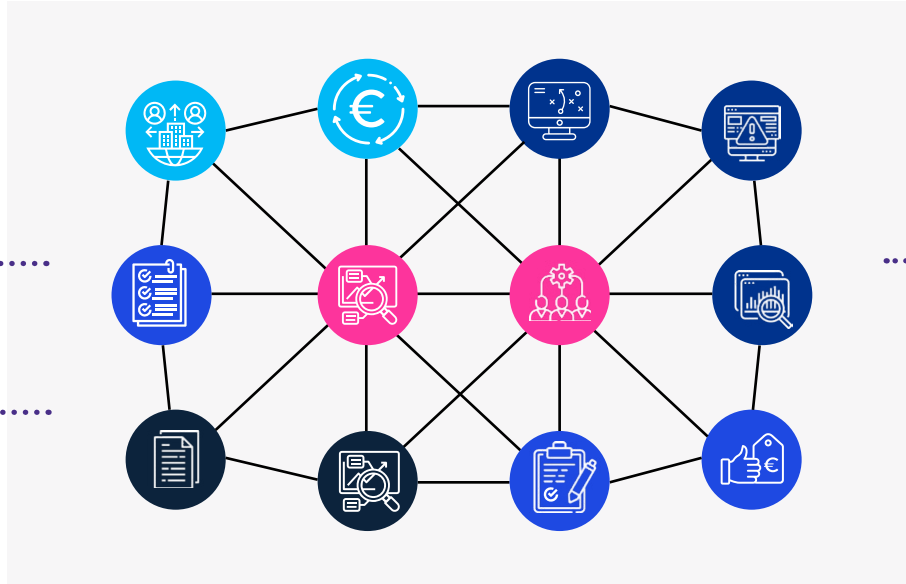


Compliance Gap Analysis

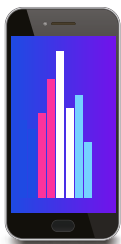
Strategic Product Assurance

Interaction of Events & use of Natural Language Processing

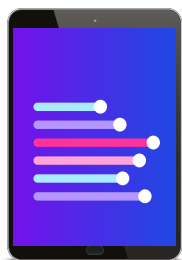
Interrogation of Data



Interrogation of Data



Strategic tool



Results Visualisation



Attribute Testing

Why KPMG?

01.

We understand how consumer-centric firms will look in the future. This is reflected in our bespoke Product Assurance Framework created by our Irish Practice; it incorporates the role of assurance for competitive advantage and is informed by our extensive experience of leading remediations and restitutions and unique in-depth financial products experience, in particular with large financial and insurance institutions in Ireland where we also have unparalleled experience in assisting our clients in enhancing various aspects of their Risk frameworks.

02.

KPMG has extensive experience in conduct related remediation projects and has critical insights into the underlying root causes of conduct issues and importantly how firms can embed a suitable risk framework to prevent conduct issues arising in the future. In addition, KPMG has worked with a number of firms to develop their conduct risk frameworks both at entity levels and operating model levels, including those specific to Product Assurance.

03.

We will leverage our client base to support the implementation of your Product Assurance Framework by providing insight into what peers are doing in relation to Product Assurance. We work closely with our colleagues in the Netherlands, the UK and Australia in particular to bring our clients leading insights and direction, both from an industry and regulatory perspective.

04.

We will provide a core team that you can trust, with a track record of delivery and extensive experience of client 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 ("SME") knowledge, conduct and risk expertise to data analytics and applied intelligence.

05.

We have detailed and nuanced knowledge of regulator expectations (in Ireland, the Netherlands, the UK and Australia) and clear understanding of industry standards for Product Assurance within the financial services sector. Our knowledge and understanding are based on a first-hand experience of working with industry peers and regulators on their Conduct Risk Programmes.

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