



Guidance on procedures for monitoring terms of business with brokers

This guidance is issued in consideration of the requirements of paragraph 17 of the Insurance (Conduct of Business) (Long Term Business) Code 2018 and sets out the Financial Services Authority's ("the Authority's") expectations in respect of the procedures that regulated entities should have in place to ensure that any broker with which it has established terms of business remains an appropriate distribution channel for its products and target markets.

The Authority issues guidance for various purposes, including to illustrate best practice, to assist regulated entities to comply with legislation and to provide examples or illustrations. This guidance is, by its nature, not law, however it is persuasive. Where a person follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.

The monitoring procedures required under paragraph 17 should include, but not be limited to a consideration of:

- a) A review of the broker's authorisation, regulatory or licence permissions granted in the jurisdictions in which it operates. For the purposes of this review a regulated entity may use the information sources described in (i) where the regulated entity is satisfied and is able to demonstrate the veracity and reliability of the information source;
- b) Number of complaints received;
- c) Persistency Rate, including early cancellations and surrenders;
- d) Overdue premiums;
- e) The level of any advance commission debts;
- f) Any evidence of 'churning';
- g) Standards of documentation issued by the broker to which the insurance business is party;
- h) Any inconsistencies between the anticipated and actual levels and patterns of business; and
- i) Monitoring and review of information available through external databases, either proprietary or in the public domain.

The Authority expects that regulated entities will undertake a regular review of brokers with which it has established terms of business. This may be done using a risk based approach to determine the frequency of reviews.

Where a regulated entity chooses not to follow all aspects of this guidance, or considers other methods of monitoring brokers with which it has established terms of business to be appropriate, the consideration and rationale for the method adopted should be documented by senior management.