



**ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY**

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*Lught-Reill Shirveishyn Argidoil Ellan Vannin*

**Conduct of Business Code for Long Term  
Insurance**

**Consultation Paper**

**CP17-05/T06**

**May 2017**

**This consultation paper is issued by the Isle of Man Financial Services Authority (“the Authority”), the regulatory authority responsible for the supervision of the financial services, insurance and pensions sectors in the Isle of Man.**

### **What is it for?**

In June 2013 the IPA<sup>1</sup> published its Roadmap for updating the Isle of Man’s regulatory framework for insurance business and through that document set out the objective to establish a project to enhance the Island’s regulatory framework to ensure that it remains up to date, proportionate and, where appropriate, consistent with the updated and revised ICPs. Since its issue the Roadmap has been updated regularly to reflect progress made across the various work streams established under the project.

A key element of the developments proposed within the Roadmap is the enhancement of requirements in matters related to conduct of business. Following the feedback given in response to DP14-05, CP15-02 and CP16-03 in relation to the Authority’s proposals to enhance existing conduct of business requirements for long-term insurers, the purpose of this consultation is to obtain views on the final draft of the Code.

### **Who is affected by it?**

Consistent with the previous consultation papers, this document will be of direct interest to existing and prospective life insurance companies carrying on third party business in or from the Isle of Man. In particular, it will be of interest to those with responsibility for the management and oversight of the operational, compliance, marketing, product development and risk management functions within those companies.

Other parties with an interest in the Isle of Man insurance sector, including independent financial advisors, general insurance intermediaries and the legal and auditing professions may also find this consultation paper and the issues raised of interest.

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<sup>1</sup> With effect from 1<sup>st</sup> November 2015 the functions of the Insurance and Pensions Authority were transferred into the Isle of Man Financial Services Authority  
<http://www.iomfsa.im/ViewNews.gov?page=lib/news/iomfsa/transferoffuncti.xml&menuid=11570>

### Responding to CP17-05/T06

The closing date for comments is **16<sup>th</sup> June 2017**.

Please send comments in writing and preferably by email to:

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**Isle of Man Financial Services Authority**

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### *Confidentiality*

*The information you send may be published in full or in a summary of responses.*

*All information in responses, including personal information, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2015 and the Data Protection Act 2002). If you want your response to remain confidential you should explain why confidentiality is necessary. Your request will be acceded to only if it is appropriate in the circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.*

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## Glossary of Terms

<b>Term</b>	<b>Meaning in this document</b>
<b>Authority</b>	The Isle of Man Financial Services Authority
<b>Code</b>	The draft Insurance (Conduct of Business) (Long Term Insurance) Code 2017
<b>IAIS</b>	International Association of Insurance Supervisors
<b>ICPs</b>	Insurance Core Principles (of the IAIS)
<b>KID</b>	Key Information Document
<b>IPA</b>	The former Insurance and Pensions Authority
<b>Roadmap</b>	Roadmap for updating the Isle of Man's regulatory framework for insurance business

## Executive Summary

Over the last few years the Authority has issued a number of papers setting out its views on developing the Island's existing regulatory framework to enhance the fair treatment of policyholders in relation to long-term insurers.

The Code set out within this paper brings together the Authority's work in this area and places conduct of business requirements on Class 1 and 2 authorised insurers.

The Authority welcomes feedback on the Code and the associated guidance.

## 1 Introduction

As part of the regulatory development work outlined in the “Roadmap for updating the Isle of Man’s regulatory framework for insurance business” the Authority has identified that more detailed conduct of business requirements are needed to complement or replace (where appropriate) the Island’s existing regulatory framework, in order that it remains up to date, appropriate to the characteristics of the Island’s insurance sector, and consistent with international market developments and standards.

The enhanced conduct of business requirements have been consulted upon previously and earlier versions of the Code have been released for consideration by the industry.

The Code has been refined, as a result of the consultation feedback, and a revised draft of the Code is now issued for a final consultation. Readers will note that the Code has been redrafted into the formal legislative style, which has affected the numbering. Also, in some areas the wording has been updated to reflect that style; however, the meaning of the Code should remain the same as in previous drafts unless changes have been highlighted within the rest of this consultation paper.

## 2 Revisions to the Code

A summary of responses to the feedback received on the most recent conduct of business consultation for long-term business (CP16-03) was published by the Authority in January 2017 and this set out the proposed implementation measures for the Code. In light of the responses received, the Code has been revised to reflect the following:

### 2.1 Timescales

On the basis of the feedback received, the Authority proposes to implement the Code in two stages:

- 1) Requirements within the Code to be brought into effect from 1 January 2018, with the exception of the requirement for a policyholder specific Key Information Document (“KID”); and
- 2) The sections relating to a policyholder specific KID to be brought into force no later than the 1 January 2019, with early adoption by firms encouraged.

Additionally, the Code allows an additional 6 months (until 30 June 2018) for the insurers to ensure that its terms of business with existing brokers are brought into line with the requirements of paragraph 18 of the Code.

## **2.2 Basis of commission disclosure pre-sale**

The proposal within CP16-03 required the inclusion of specific commission disclosure for each policyholder within the KID. An observation made in feedback to the Authority was that such information might only be finalised at point of sale when policy terms are agreed, rather than early in the pre-contractual discussions with policyholders. Following further consideration, the Authority has redrafted the Code to allow for the KID to be a standard, pre-contractual document including details of the maximum commission payable. This standard KID would need to be made available to policyholders early in the sales process and may facilitate the potential applicant to negotiate terms with their intermediary. Under this approach, the actual commission paid to the intermediary will be disclosed later in a policyholder specific KID.

Following further discussions with the industry on the process for obtaining policyholder acknowledgement of the policyholder specific KID, it has been determined that this would be most practicable if the policyholder specific KID was issued and acknowledged at the point of sale. A duplicate policyholder specific KID could also be issued with the post-sale cancellation notice, thereby allowing the client to withdraw from the product if dissatisfied or not fully aware of the terms agreed.

## **2.3 Scope of the Code for Closed Products**

Some respondents highlighted the practical considerations of developing or amending systems and processes to enable commission disclosure and the production of KIDs for top-ups of existing products.

Additionally, as a top-up is normally a contractual right of the policyholder it was suggested that it may be difficult to obtain timely policyholder acknowledgement of the KID. This requirement may introduce a delay to investing the additional premiums, potentially resulting in the policyholder not obtaining the most beneficial unit or share price. It is therefore proposed that any products closed to new business (and any top up/additional single premium/increment in regular premium within those product lines) remain out of scope from the implementation of this aspect of the Code. However for top ups on products that continue to be available for new investment, a KID should be provided. In order to deal with the issue raised regarding timely execution, the revised Code provides scope for the KID for top up premiums to be issued post sale (with the cancellation notice) and not to be subject to policyholder acknowledgement.

Importantly, those sections of the Code that are relevant to in force business e.g. post sale disclosure, claims and complaint handling, will remain a requirement for products closed to new business.

Guidance on the application of the Code for closed products has been drafted and is included in this consultation pack at Appendix 6.

## **2.4 Exemptions**

The Authority recognises that certain requirements proposed in the Code are very similar to requirements in other jurisdictions and so proposals for exemptions from certain, specific requirements of the Code have been developed and are reflected within the Code.

The Authority will continue to review jurisdictions that have been flagged as potentially equivalent (such as Singapore and South Africa) and provide exemptions where considered relevant.

## **3 Guidance to accompany the Code**

Whilst developing the framework, the Authority has noted that in certain areas it will be necessary to supplement the binding requirements in the Code with further non-binding guidance setting out the Authority's view on how insurers might meet the requirements of the Code. A number of guidance notes have been prepared for this purpose and are attached to this consultation paper for information.

Although the Authority is not obliged to consult on the guidance that it issues, it is acknowledged that it will be important for insurers to see the conduct of business framework as a whole when providing feedback on the Code. Feedback on the draft guidance is welcomed, and insurers should note that it may be subject to further amendments before it is published by the Authority as it will be kept under review.

The guidance is as follows:

- 3.1** Guidance on conduct of business issues within single premium portfolio bonds, which links into paragraph 6 of the Code (at Appendix 2);
- 3.2** An example policyholder specific KID - this example has been prepared by the Authority for a hypothetical product, to inform and guide insurers as to the level of detail expected to be contained within the sections of the KID. The example KID is not a definitive or comprehensive set of all the disclosure options that could be used for different products. Different information will be relevant depending on the

individual features of the product offering and insurers need to consider their own products carefully when preparing the KID (at Appendix 3);

- 3.3** Guidance on procedures for monitoring terms of business with brokers, which links into paragraph 19 of the Code (at Appendix 4). These detailed requirements were originally written into the Code but the Authority has moved them into guidance as a result of the consultation feedback. The requirement to ensure that procedures are in place to regularly monitor brokers to ensure that they remain appropriate distribution channels for that insurer remains in the Code;
- 3.4** Guidance on post sale disclosure requirements to clarify the differing requirements for the two classes of long term insurance business, which links into paragraph 25 of the Code (at Appendix 5);
- 3.5** Guidance on the application of the Code to products closed to new business (at Appendix 6);
- 3.6** Guidance on the provision of illustrative projections for products that require a KID to be provided (at Appendix 7); and
- 3.7** Guidance on the meaning of the term “remuneration” under paragraphs 8 and 11 of the Code (at Appendix 8).

## **4 Responding to this consultation**

The Authority welcomes general feedback to this paper and the revised draft Code. Written responses to this document should be provided by email, by 16 June 2017, to:

Paul Ellison - ACII

Senior Manager – ICP Project Lead

Email: paul.ellison@iomfsa.gov.im

## Appendices

Appendix 1 - Draft Insurance (Conduct of Business) (Long Term Business) Code 2017

Appendix 2 - Guidance for unit linked single premium bonds – suitability of assets to policyholders

Appendix 3 - Example Key Information Document

Appendix 4 - Guidance on procedures for monitoring terms of business with brokers

Appendix 5 - Guidance on post-sale disclosure requirements

Appendix 6 - Guidance on application of the Code for products closed to new business

Appendix 7 - Guidance on the provision of illustrations for long term insurance products

Appendix 8 - Guidance on the meaning of remuneration within the Code

## APPENDIX 1

### DRAFT INSURANCE (CONDUCT OF BUSINESS) (LONG TERM BUSINESS) CODE 2017

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Statutory Document No. XX/20XX

*Insurance Act 2008*

## **DRAFT INSURANCE (CONDUCT OF BUSINESS) (LONG TERM BUSINESS) CODE 2017**

*Laid before Tynwald:*

*Coming into Operation:*

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The Isle of Man Financial Services Authority makes the following Guidance Notes under section 51 of the Insurance Act 2008 as binding guidance, after carrying out the consultations required by section 51(6) of that Act.

### **1 Title**

These Guidance Notes are the Insurance (Conduct of Business) (Long Term Business) Code 2017.

### **2 Commencement**

These Guidance Notes come into operation on 1 January 2018.

### **3 Interpretation**

In these Guidance Notes –

“**the Act**” means the Insurance Act 2008;

“**board**” means the board of directors of the regulated entity or, where the regulated entity has no board of directors its equivalent governing body;

“**durable medium**” means any instrument which enables the recipient to store information addressed personally to him or her in a way accessible for future reference for a period of time adequate for the purposes of the information and which allows the unchanged reproduction of the information stored;

“**IVA**” means investment value adjustment;

“**KID**” means key information document;

“**policyholder**” includes prospective policyholder;

“**regulated entities**” means entities authorised to carry on insurance business of Class 1 or Class 2, pursuant to the Insurance Regulations 1986;

**“senior management”** means, in relation to a regulated entity, any person whose appointment is required to be notified to the Authority under the Act, excluding its —

- (a) non-executive directors;
- (b) external auditor; and
- (c) controller where such a controller is not a person whose appointment is required to be notified to the Authority under the Act other than as a controller;

**“SID”** means summary information document; and

**“top up”** means —

- (a) any premium paid after the initial premium, in respect of single premium policies; and
- (b) any additional non-contractual payment or increase in the amount of regular premium paid, in respect of regular premium products.

#### **4 Application**

These Guidance Notes apply only in relation to business written by regulated entities under Class 1 and 2.

#### **5 Fair treatment of policyholders – general principles**

- (1) In paying due regard to its policyholders and treating them fairly, a regulated entity must —
  - (a) establish and implement policies and procedures for the fair treatment of policyholders as an integral part of its business and culture; and
  - (b) ensure that its policies and procedures for the fair treatment of policyholders are set out in writing and are provided to all relevant staff.
- (2) The policies and procedures at (1) should include a consideration of how a regulated entity —
  - (a) develops and markets its products in a way that pays due regard to the interests of policyholders;
  - (b) ensures policyholders are provided with clear information before, during and after the point of sale;
  - (c) only permits distribution methods that are appropriate to the regulated entity’s products and its policyholders’ needs;
  - (d) deals with policyholder complaints and disputes in a fair and transparent manner;
  - (e) manages the reasonable expectations of policyholders;

- (f) monitors the regulated entity's performance with respect to the fair treatment of policyholders;
  - (g) ensures that its staff and management are aware of their obligations in relation to the fair treatment of policyholders including through regular training; and
  - (h) ensures that any performance and reward strategies for a regulated entity's staff and management are aligned with the principles of the fair treatment of policyholders and do not result in unfair policyholder outcomes.
- (3) The responsibility for the design, implementation and monitoring of adherence to the policies and procedures in (1) rests with the board and senior management of the regulated entity.
  - (4) A regulated entity must regularly review, and update where necessary, the policies and procedures in (1) to ensure that they remain valid and up to date.

## **6 Product development, marketing and promotion**

- (1) A regulated entity must establish and implement product development oversight and governance arrangements designed to treat policyholders fairly. Such arrangements should aim to minimise the risk of potential policyholder detriment, provide for proper management of conflicts of interest and ensure that the interests of policyholders are duly taken into account.
- (2) A regulated entity's product development arrangements must identify and manage any conflicts of interest in the product design and distribution.
- (3) A regulated entity must take all reasonable steps to identify the intended target market for its products, including an assessment of the level of information available and the degree of financial capability of the target market, and maintain a record of this.
- (4) A regulated entity must only design and market products with features, charges, fees and risks that meet the interests, objectives and characteristics of the identified target market. When deciding whether a product meets the interests, objectives and characteristics of a particular target market, the regulated entity should include the identification of any groups of policyholders for which the product is not considered suitable, as may be the case.
- (5) A regulated entity must monitor its products on an ongoing basis to ensure that the product continues to meet the interests, objectives and characteristics of the identified target market. Where the regulated entity identifies a risk of policyholder detriment after designing and bringing products to the market or after carrying out product monitoring, the

regulated entity should take timely, appropriate and proportionate action to mitigate the situation and prevent the occurrence of detriment.

- (6) A regulated entity must ensure that any staff responsible for designing products possess the appropriate skills, knowledge and competence and are appropriately trained in order to understand the operation of the products' main features and characteristics as well as the interests, objectives and characteristics of the target market.
- (7) A regulated entity must assess the appropriateness of the distribution channels for its products and target market. Such an assessment must include consideration of whether—
  - (a) persons distributing products have the appropriate skills, knowledge and experience to properly distribute each product to the market and, where considered necessary for the product and characteristics of the target market, to provide appropriate advice to policyholders;
  - (b) persons distributing products are able to provide appropriate information to policyholders, as required; and
  - (c) persons distributing products hold the necessary regulatory permissions, authorisations, licences or other forms of consent required for the distribution and, if necessary advisory, activity concerned.
- (8) In selecting a distribution channel and promoting its products through it, a regulated entity must provide information to the distributor that is of an adequate standard, which is clear, precise and up-to-date. The information provided to distributors must be sufficient to enable them to—
  - (a) understand and place the product properly to the target market;
  - (b) identify the target market for which the product is designed and also identify any group(s) of consumers, whose interests, objectives and characteristics the product is considered likely not to meet; and
  - (c) meet any other obligations under applicable legislation with regard to the target market, notably with regard to the relevant information that needs to be communicated to policyholders.
- (9) A regulated entity must take all reasonable steps to ensure that distribution channels act in compliance with the objectives of its product oversight and governance arrangements. Where a regulated entity considers that the distribution channel does not meet the objectives of its own product governance oversight arrangements, the regulated entity should take timely remedial action with regard to the distribution channel.
- (10) Where a regulated entity outsources the design and marketing of its products to a third party, it retains full responsibility for compliance with product oversight and governance arrangements as described in these Guidance Notes.

**7 Key information documents for long term insurance products with an investment element**

- (1) Subject to (2), a regulated entity must prepare –
  - (a) a standard KID for each policy; and,
  - (b) from 1 January 2019, a policyholder specific KID for each policy and issue these in accordance with paragraphs 9 and 12 respectively.
- (2) Sub-paragraph 1 does not apply to –
  - (a) contracts under which benefits are payable only on death or in respect of incapacity due to injury, sickness or infirmity; or
  - (b) any product that is closed to new policyholders.
- (3) A KID must be accurate, fair, clear and not misleading. A regulated entity must put in place a process to regularly review the information contained in a KID.
- (4) A KID must be a stand-alone document, clearly separate from marketing materials. It must not contain cross-references to marketing material. It may contain cross-references to other documents including a prospectus where applicable, and only where the cross-reference is related to the information required to be included in a KID by this paragraph.
- (5) By way of derogation from (4), where a regulated entity's product offers policyholders a range of options for investment, such that all information required in paragraph 8(3) with regard to each underlying investment option cannot be provided within a single, concise stand-alone document, a KID must provide at least a generic description of the underlying investment options and state where and how more detailed pre-contractual information and documentation relating to the investment products backing the underlying investment options can be found.
- (6) A KID must be drawn up as a short document written in a concise manner, generally no longer than 3 sides of A4-sized paper when printed, and –
  - (a) set out in a way that is easy to read, using characters of clearly legible size;
  - (b) focussed on the key information that prospective policyholders need; and
  - (c) facilitates policyholders' understanding by using language that is clear, succinct and comprehensible.
- (7) Where colours are used in a KID, these must not diminish the comprehensibility of the information if a KID is printed or photocopied in black and white.
- (8) Where corporate branding or logos are used in a KID, this must not distract the policyholder from the information contained in the document or obscure the text.

## 8 Mandatory content of a standard KID

- (1) The title “Key Information Document” must appear prominently at the top of the first page of a KID.
- (2) The following explanatory statement must appear directly underneath the title—

“This document provides you with key information about this insurance investment product. It is not marketing material. The information is required by law to help you understand the nature, risks and cost of this product and to help you compare it with other products”.

- (3) A KID must contain the following information —
  - (a) at the beginning of the document, the name of the product, the identity and contact details of the regulated entity and confirmation of the entity’s authorisation by the Isle of Man Financial Services Authority;
  - (b) under a section titled “What is this product?”, the nature and main features of the product, including —
    - (i) the type of product;
    - (ii) its objectives and the means for achieving them, in particular whether it is intended that the objectives are achieved by means of direct or indirect exposure to the underlying investment assets;
    - (iii) a description of the policyholder type to whom the product is intended to be marketed, in particular in terms of the ability to bear investment loss and the investment horizon;
    - (iv) where the product offers insurance benefits, details of those insurance benefits, including the circumstances that would trigger them;
    - (v) the term of the product, if known;
  - (c) under a section titled “Could I lose money?”, a brief indication of whether loss of capital is possible, including:
    - (i) any guarantees or capital protection provided, as well as any limitations to these;
    - (ii) the availability of cancellation rights and the conditions attaching to those rights;
    - (iii) whether the product is covered by a compensation or guarantee scheme, including any protection available under the Life Assurance (Compensation of Policyholders) Regulations 1991;
  - (d) under a section titled “What are the risks and what might I get back?”, the risk and reward profile of the product and warnings in relation to any specific risks of the product;

- (e) under a section titled “How long should I hold it and can I take money out early?”
  - (i) details of the cooling off or cancellation period for the product;
  - (ii) an indication of the recommended and, where applicable, required minimum holding period;
  - (iii) the ability to make any conditions on disinvestments, withdrawals or surrender, including all applicable fees and penalties;
  - (iv) information about the potential consequences of cashing in or policy surrender, in full or part, such as the loss of a guarantee, bonuses or additional contingent fees;
- (f) under a section titled “How do I make a complaint?”, information about how and to whom a policyholder can make a complaint about the product and/or the conduct of the regulated entity (consistent with the regulated entity’s complaints procedures established under the Corporate Governance Code of Practice for Regulated Insurance Entities);
- (g) under a section titled “What are the costs?”, –
  - (i) where remuneration is paid to an intermediary at the commencement of a policy, disclosure in the following form in bold text—

**“Although the intermediary firm that has advised you may not charge directly for the advice received, if you take up this policy it will receive a payment from [regulated entity name] on the commencement of your policy. The maximum rate of this payment is [% commission rate, showing up to 3 decimal places] of the [single/annual (as applicable)] premium paid, the cost of which will be met by the charges you pay for the policy”;**

however, the wording **“the cost of which will be met by the charges you pay for the policy”** may be removed if it is included in a disclosure at (ii);
  - (ii) for single premium policies where ongoing remuneration is paid to an intermediary, disclosure of the maximum annual rate of ongoing remuneration in the following form in bold text—

**“In addition, after commencement of your policy, the intermediary firm that has advised you will receive ongoing remuneration from [regulated entity name] of a maximum of [% annual rate of ongoing remuneration, showing up to 3 decimal places] of your policy value each year for [duration of ongoing remuneration]. The costs of**

**these payments will be met by the charges you pay for your policy.”;**

however, the wording “**In addition,**” may be removed if no initial remuneration has been taken;

- (iii) for regular premium policies where ongoing remuneration is paid to an intermediary, disclosure of the maximum annual rate of ongoing remuneration in the following form in bold text—

**“In addition, after commencement of your policy, the intermediary firm that has advised you will receive ongoing remuneration from [regulated entity name] of a maximum of [% commission rate, showing up to 3 decimal places] of future premiums paid into your policy, each year for [duration of ongoing remuneration]. The costs of these payments will be met by the charges you pay for your policy.”;**

however, the wording “**In addition**” may be removed if no initial remuneration has been taken;

- (iv) disclosure of the maximum value of all fees and charges directly related to the insurance contract, in tabular format, setting out the annual level of charges and the duration of the charging period. Charges should be shown as a percentage annualised rate or value in the policy currency where the charge is calculable at policy outset as a monetary amount. The table should also describe where these costs will be deducted from.

## 9 Issue of the standard KID

- (1) A regulated entity must issue a standard KID to each policyholder either—
  - (a) on paper; or
  - (b) using a durable medium other than paper.
- (2) Subject to (3), a standard KID must be provided in good time before a policyholder is bound by contract or offer related to the regulated entity’s product. In considering what constitutes “in good time” a regulated entity should include a consideration of—
  - (a) the time necessary for a policyholder to read and understand a KID;
  - (b) the degree of financial capability of the target market for the product, as identified by the requirements set out in paragraph 6 of these Guidance Notes; and
  - (c) the complexity of the investment.
- (3) Policyholders paying a top up must be provided with a standard KID before or immediately after making the top up.

- (4) A regulated entity may provide a policyholder specific KID instead of a standard KID to satisfy the requirements under this paragraph and, where this is the case, the regulated entity does not have to comply with the requirement to prepare a standard KID in paragraph 7(1)(a).

## 10 Policyholder acknowledgement of a standard KID

- (1) Until 1 January 2019, and subject to (4), a regulated entity must obtain confirmation from a policyholder that he or she has received and understood the information provided in a standard KID before the policyholder is bound by the contract.
- (2) In order to demonstrate this acknowledgement, a KID must be signed by the policyholder on the same page as the disclosure made in compliance with paragraph 8(3)(g).
- (3) A record to demonstrate this acknowledgement from each policyholder must be maintained by the regulated entity.
- (4) Policyholder acknowledgement is not required for top ups.

## 11 Mandatory content of a policyholder specific KID

The content of a policyholder specific KID must be identical to that of the standard KID, as specified under paragraph 8, with the exception of the information under paragraph 8(3)(g) which should be replaced with a section titled "What are the costs?", to include the following information –

- (1) where remuneration is paid to an intermediary at the commencement of a policy, disclosure in the following form in bold text–,

**"Although the intermediary firm that has advised you may not charge directly for the advice received, if you take up this policy it will receive a payment from [regulated entity name] of [value of commission, in policy currency] on the commencement of your policy, the cost of which will be met by the charges you pay for the policy."**;

however, the wording **"the cost of which will be met by the charges you pay for the policy"** may be removed if it is included in a disclosure in (2);

- (2) for single premium policies where ongoing remuneration is paid to an intermediary, disclosure of the amount of the of ongoing remuneration where this is calculable at policy outset or the annual rate of ongoing remuneration where it is based on a variable calculation in the following form in bold text–

**"In addition, after commencement of your policy, the intermediary firm that has advised you will receive ongoing remuneration from [regulated entity name] of [annual value of ongoing remuneration in policy currency] or [% annual rate of ongoing remuneration, showing up to 3 decimal places of your policy value] each year for [duration of ongoing**

**remuneration]. The costs of these payments will be met by the charges you pay for your policy.”;**

however, the wording “**In addition**” may be removed if no initial remuneration has been taken;

- (3) for regular premium policies where ongoing remuneration is paid to an intermediary, disclosure of the amount of the of ongoing remuneration where this is calculable at policy outset or the annual rate of ongoing remuneration where it is based on a variable calculation in the following form in bold text—

**“In addition, after commencement of your policy, the intermediary firm that has advised you will receive ongoing remuneration from [regulated entity name] of [annual value of ongoing remuneration in policy currency] OR [% commission rate, showing up to 3 decimal places, of future premiums paid into your policy] each year for [duration of ongoing remuneration]. The costs of these payments will be met by the charges you pay for your policy.”;**

however, the wording “**In addition**” may be removed if no initial remuneration has been taken;

- (4) disclosure of all fees and charges directly related to the insurance contract, in tabular format, setting out the annual level of charges and the duration of the charging period. Charges should be shown as a percentage annualised rate or value in the policy currency where the charge is calculable at policy outset as a monetary amount. The table should also describe where these costs will be deducted from.

## 12 Issue of a policyholder specific KID

- (1) From 1 January 2019, a regulated entity must issue a policyholder specific KID to each policyholder either —
- (a) on paper; or
  - (b) using a durable medium other than paper.
- (2) Subject to (3), a policyholder specific KID must be provided before a policyholder is bound by a contract in relation to the product.
- (3) Policyholders paying a top up must be provided with a policyholder specific KID before or immediately after making the top up.

## 13 Policyholder acknowledgement of a policyholder specific KID

- (1) Subject to (4), a regulated entity must obtain confirmation from a policyholder that he has received and understood the information provided in a policyholder specific KID before the policyholder is bound by the contract.

- (2) In order to demonstrate this acknowledgement, the KID must be signed by the policyholder on the same page as the disclosure made in compliance with paragraph 11.
- (3) A record to demonstrate this acknowledgement from each policyholder must be maintained by the regulated entity.
- (4) Policyholder acknowledgement is not required for top ups.

#### **14 Summary information documents for long term pure protection insurance products**

- (1) A regulated entity must prepare and issue a SID for those contracts it produces under which benefits are payable only on death or in respect of incapacity due to injury, sickness or infirmity.
- (2) A SID must either be in a separate document or within a prominent separate section of another document clearly identifiable as containing key information that the policyholder should read.
- (3) A SID must properly describe the policy and be sufficiently concise not to overload a policyholder with detail.

#### **15 Mandatory content of a SID**

- (1) A SID must include the following information —
  - (a) a statement that the SID does not contain the full terms of the policy, but these can be found in the policy document;
  - (b) the name of the regulated entity;
  - (c) the type of insurance and cover;
  - (d) significant features and benefits;
  - (e) significant or unusual exclusions or limitations, and cross-references to the relevant policy document provision;
  - (f) the duration of the policy;
  - (g) a statement, where relevant, that the policyholder may need to review and update the cover periodically to ensure that it remains adequate;
  - (h) existence and duration of the right of cancellation (other details may be included);
  - (i) contact details for notifying a claim;
  - (j) how to complain to the regulated entity, including a statement that complaints may subsequently be referred to the Isle of Man Financial Services Ombudsman Scheme; and
  - (k) that, should the regulated entity be unable to meet its liabilities, the policyholder may be entitled to compensation according to the Life Assurance (Compensation of Policyholders) Regulations 1991.

**16 Issue of the SID**

- (1) A SID must be issued to the policyholder either –
  - (a) on paper; or
  - (b) using a durable medium other than paper.
- (2) A SID must be provided in good time before a policyholder is bound by contract or offer related to the regulated entity's product. In considering what constitutes "in good time" a regulated entity should include a consideration of the time necessary for a prospective policyholder to read and understand the SID.

**17 Policyholder acknowledgement of a SID**

- (1) A regulated entity must obtain confirmation from a policyholder that he or she has received and understood the information provided in the SID before the policyholder is bound by the contract.
- (2) A record to demonstrate this acknowledgement from each policyholder must be held by the regulated entity.

**18 KID as an alternative to a SID**

A regulated entity may provide a document that has the contents of a standard KID instead of a SID. The document must include details for notifying a claim.

**19 Procedures for granting terms of business to brokers**

- (1) This paragraph applies if a regulated entity permits the distribution of its products through an intermediary acting on behalf of a policyholder, hereafter referred to as a "broker". For the avoidance of doubt, the requirements in this paragraph shall not apply where an intermediary is appointed as an agent to act on behalf of the regulated entity.
- (2) In the circumstances at (1), a regulated entity must establish documented procedures for the appointment and granting of terms of business to brokers.
- (3) The procedures referred to in (2) must take account of any requirement as may be prescribed in the Island's Anti-Money Laundering and Combatting the Financing of Terrorism legislation, relevant to the regulated entity establishing terms of business with intermediaries.
- (4) The procedures referred to in (2) must include a requirement for an application to be made by a broker to a regulated entity, which must be completed by the broker applying for terms of business, and a regulated entity must use this, and where relevant other, information to assess the suitability of the broker for its products and target markets. The application should allow the regulated entity to conduct a fit and proper

assessment of the broker based on the review of the following types of information –

- (a) regulatory matters, including –
    - (i) details of the applicant’s authorisation, regulatory or licence permissions granted in the jurisdictions in which the applicant operates. Copies of documents certifying such permissions should be requested; and
    - (ii) details of any affiliations or membership of relevant professional bodies or trade associations;
  - (b) corporate status; and
  - (c) jurisdictional risk.
- (5) Terms of business established under (2) must, as a minimum, require the applicant for terms of business to warrant that–
- (a) the introduction of business by the broker to the regulated entity pursuant to the agreement does not breach any legal obligation or laws of any competent authority in any relevant jurisdiction;
  - (b) the applicant will use all reasonable efforts to observe the conditions of the agreement;
  - (c) the applicant will at all times act only as the agent of policyholders and not for or on behalf of the insurer;
  - (d) the applicant will at all times maintain every obligatory licence, authorisation and registration and comply with or procure compliance by its officers and agents (as the case may be) with all applicable laws and regulations of jurisdictions in which they operate and notify the regulated entity without delay in the event of any material breach or non-compliance with same;
  - (e) the applicant will comply with all anti-money laundering and countering the financing of terrorism laws, regulations, instructions, guidance or rules applicable to the applicant, issued in the Island or elsewhere;
  - (f) where documents and other information are provided by a regulated entity for the attention of the policyholders via the applicant, the applicant will ensure that the policyholders receive such information in good time to enable them to properly consider that information.
- (6) Terms of business entered into with brokers before the implementation of these Guidance Notes that do not comply with (5) may continue in operation until 30 June 2018, by which time they must be replaced with terms of business that do comply with (5).

## 20 Procedures for monitoring terms of business with brokers

A regulated entity must establish procedures to regularly monitor brokers with which the regulated entity has established terms of business to ensure that each broker remains an appropriate distribution channel for its products and target markets.

## 21 Cancellation rights for long term insurance business

- (1) Subject to (5) and (6), contracts of insurance of the description falling within Class 1 and Class 2 as set out in the Insurance Regulations 1986, are cancellable contracts.
- (2) Subject to the provisions set out within these Guidance Notes, policyholders have the right to cancel a cancellable contract within the cancellation period and obtain a refund of premiums paid.
- (3) By exercising a right to cancel, a policyholder withdraws from the contract and the contract is terminated.
- (4) Subject to (6), initial premiums and any top ups paid in respect of single premium policies attach the rights of cancellation set out in these Guidance Notes.
- (5) Initial premiums and any top ups paid in respect of regular premium policies shall attach the rights of cancellation set out in these Guidance Notes. Subsequent premiums made falling contractually due under existing terms and conditions of regular premium policies do not have attached rights of cancellation.
- (6) In the case of top ups, the right to cancel will only apply to the additional premium paid. By exercising a right to cancel, a policyholder withdraws from any additional contract in force as a result of the top up and that contract is terminated. If there is no additional contract as a result of the top up, by exercising a right to cancel, a policyholder has the right to a refund of the additional premium paid.

## 22 Cancellation disclosure requirements

A regulated entity must disclose to a policyholder in good time before or immediately after, a policyholder is bound by a contract that attracts a right to cancel and in a durable medium —

- (a) the existence of a right to cancel, its duration and any conditions attaching to the exercising of the right to cancel; and
- (b) practical instructions to a policyholder on how to exercise the right to cancel.

## **23 Start of and duration of the cancellation period**

- (1) The cancellation period shall commence on the date of the delivery of the policy contract documentation and any accompanying pre-contractual information as may be required under applicable legislation made in the Island or elsewhere.
- (2) The cancellation period must be a minimum of 30 days.
- (3) Where applicable legislation made outside the Island requires a different cancellation period to that required under these Guidance Notes, the longer duration must be observed.

## **24 Exercising the right to cancel**

- (1) A policyholder may exercise the right to cancel before the expiry of the cancellation period disclosed in accordance with 22. This condition shall be deemed to have been observed if notification from a policyholder to cancel is dispatched before the cancellation period expires and is subsequently received in a durable medium accessible to the regulated entity.
- (2) When complying with policyholders' right to cancel, a regulated entity has the right to deduct, from the refund of premiums paid under a cancellable contract, an investment value adjustment ("IVA"), to reflect the loss a regulated entity may incur in realising the value of any assets purchased by or in respect of the premiums paid under the cancellable contract.
- (3) For the avoidance of doubt, any IVA should not include any allowance for other expenses, including acquisition costs incurred in connection with issuance of the cancellable contract unless applicable legislation made outside the Island permits the inclusion of such expenses.
- (4) The details of the IVA must be set out in the notice required under 22 and in a KID or SID required under these Guidance Notes.

## **25 Records**

Without limiting any other applicable legislative or regulatory requirement, a regulated entity must maintain records concerning the exercise of a right to cancel in accordance with the requirements of the Corporate Governance Code of Practice for Regulated Insurance Entities.

## **26 Post-sale disclosure requirements**

- (1) A regulated entity must ensure a policyholder receives, on an ongoing basis, adequate and appropriate information on the product and services provided by the regulated entity.
- (2) Without limiting requirements in the Corporate Governance Code of Practice for Regulated Insurance Entities, a regulated entity must put into

place procedures to ensure effective communication to policyholders of information regarding the regulated entity. Such information should include—

- (a) any change in the name of the regulated entity, its legal form, the address of its registered office and any other offices as appropriate; and
  - (b) any transfer of the regulated entity's voting shares which has a material effect on its immediate or ultimate control.
- (3) Where an insurance contract issued by a regulated entity allows for changes in terms and conditions, in exercising any change to terms and conditions, a regulated entity must disclose to a policyholder the policyholder's rights and obligations regarding such changes and obtain a policyholder's consent, as appropriate, in accordance with the terms and conditions.

## 27 Claims procedures for long term insurance businesses

- (1) For the purposes of this paragraph the term "claim" does not include payments to policyholders or annuity holders under which a policy is voluntary, wholly or partially, terminated before its maturity or the insured event occurs, for example the payments of a full or part surrender value.
- (2) A regulated entity must —
  - (a) handle claims promptly and fairly;
  - (b) publish and provide reasonable guidance or a summary of its claims procedures to help policyholders make a claim;
  - (c) provide appropriate and timely information on the progress of claims to policyholders, or persons acting on their behalf;
  - (d) not unreasonably reject a claim (including by terminating or voiding a policy); and
  - (e) settle claims promptly once settlement terms are agreed.
- (3) In relation to 2(d), a rejection of a policyholder's claim is unreasonable (except where there is evidence of fraud) where it is rejected for any of the following reasons —
  - (a) under contracts requiring the disclosure by a policyholder of material facts, the non-disclosure of a fact material to the risk which a policyholder could not reasonably be expected to have disclosed;
  - (b) non-negligent misrepresentation of a fact material to the risk; or
  - (c) for breach of warranty or condition unless the circumstances of the claim are connected to the breach and unless —
    - (i) under a 'life of another' contract, the warranty relates to a statement of fact concerning the life to be assured and, if the

statement had been made by the life to be assured under an 'own life' contract, the insurer could have rejected the claim under this paragraph; or

- (ii) the warranty is material to the risk and was drawn to the policyholder's attention before the conclusion of the contract.

## 28 Exemptions

- (1) A regulated entity is exempt from paragraphs 7 to 13 of the Guidance Notes, in relation to a product that is to be distributed in Hong Kong, if an Important Facts Statement and a Key Facts Statement have been produced for the product and issued to a policyholder in accordance with the Guidance Note on Underwriting Class C Business issued by the Office of the Commissioner of Insurance and the Updated Requirements Relating to the Sale of Investment Linked Assurance Schemes to Enhance Customer Protection issued by the Hong Kong Federation of Insurers.
- (2) A regulated entity is exempt from paragraphs 7 to 13 of the Guidance Notes if the product is sold through an entity regulated by the United Kingdom Financial Conduct Authority.
- (3) A regulated entity is exempt from paragraphs 7 to 9 and 11 to 12 of the Guidance Notes if it has been required to draw up a KID for that product under Regulation (EU) No 1286/2014 ("PRIIPs Regulation"). The requirements in paragraphs 10 and 13 relating to policyholder acknowledgement of the KID apply with references to a KID being references to the KID prepared under the PRIIPs Regulation.

**MADE**

*EXPLANATORY NOTE**(This note is not part of the Code)*

This Code is in the form of binding Guidance Notes issued by the Financial Services Authority. It requires insurers authorised by the Authority to carry on long term business under Class 1 or Class 2 to put in place measures to ensure the fair treatment of its customers before, during and after the point of sale.

It applies a range of principles to insurers' business practices in order that policyholders of such insurers are treated fairly, including:

- consideration of the customers interests when developing, marketing and promoting insurance products;
- standardised information to be provided to customers in the form of a Key Information Document or a Summary Information Document. The Key Information Document contains disclosure of the commission paid to intermediary firms; from 1 January 2018 this must be disclosed as a maximum commission per product and from 1 January 2019 this must be disclosed per policy. These documents must be acknowledged by the customer;
- ensuring that intermediary firms used are suitable distribution channels for the insurer's products;
- creating cancellation rights for long term insurance products and ensuring that customers are made aware of these; and
- prompt and fair treatment during the claims process.



## Appendix 2 - Guidance for unit linked single premium bonds – suitability of assets to policyholders

### 1. Introduction

The Insurance (Conduct of Business) (Long Term Business) Code 2017 (“the Code”), binding guidance issued under the Insurance Act 2008, requires insurers authorised to carry out insurance business of Class 1 and 2, pursuant to the Insurance Regulations 1986 (hereafter “insurers”), to apply a range of principles to business practices in order that policyholders of such insurers are treated fairly.

In particular, insurers are required to design and market their products in a way that pays due regard to the interests of policyholders and ensure that policyholders are provided with clear information about insurers’ products before, during and after the point of sale.

**The Isle of Man Financial Services Authority (“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.**

### 2. Single premium “portfolio bonds”

This guidance applies to insurers authorised to undertake Class 1 linked long term business and specifically relates to “portfolio bond” style contracts, under which the policyholder may link the value of benefits payable under the policy to a wide range of assets that are provided by parties external to the insurer.

As with other unit-linked insurance contracts, under such structures investment risk is borne by the policyholder and therefore investment due diligence is the responsibility of the policyholder and is typically undertaken by an adviser acting on his or her behalf.

Because the insurer is, in legal terms, the investor in any underlying assets held to match the unit linked liability under the contract, and will almost always be deemed to be a sophisticated or professional investor, the Authority considers that a risk associated with this product structure is that less sophisticated or less experienced policyholders, may indirectly “invest” in an asset that is ordinarily not suitable, or in certain instances not permissible, for policyholders to access on a direct basis.



Paragraph 6 of the Code sets out the principles that insurers should apply to the development, marketing and promotion of products such that policyholders are treated fairly and the risk of potential policyholder detriment is minimised.

The Authority issues this guidance to set out, in more detail, how insurers may approach the oversight of portfolio bond products:

## 2.1 Asset vetting

In deciding what assets may be made available for linking to a portfolio bond product, insurers will typically develop investment acceptance guidelines to set out the categories of asset that will be considered acceptable and the additional information that insurers may consider when reviewing the acceptability of an asset.

The Authority considers that in complying with the Code, in particular paragraph 6, within this process insurers should consider including the following when reviewing the acceptability of an asset for a particular product and target market:

- a) whether the asset is regulated;
- b) whether the asset is held on a list considered suitable for retail investors e.g. of a type falling with the UK Financial Conduct Authority's definition of 'retail investment products';
- c) whether there is any protection against loss of capital, either by means of a guarantee or a compensation scheme;
- d) the minimum investment level established by the asset / fund manager or by any regulatory requirements applicable to the asset / fund, and a comparison made to the minimum premium level for the insurer's product. **The Authority does not consider the pooling of multiple policyholder investments to meet minimum investment levels for an asset / fund to be an appropriate practice in the context of the requirements of the Code;**
- e) the dealing frequency of the asset and the likelihood that it may become illiquid; and
- f) the level of charges associated with the asset.

## 2.2 Disclosure and informed consent

Paragraph 6(3) of the Code requires a regulated entity to take reasonable steps to identify the intended target market for its products, including an assessment of the degree of financial capability of the target market policyholders.



Accordingly, insurers would be expected to have a reasonable understanding of their target market and the typical policyholder expectations within such groups.

As noted, the Authority considers that the particular characteristics of portfolio bonds are such that there is increased potential for adverse policyholder outcomes, for example in circumstances where the assets being selected by the policyholder are of a type that the policyholder would not be considered sufficiently experienced or sophisticated to invest into directly.

Accordingly, where an insurer has made available assets for linking to its portfolio bond products that are stated to be suitable only for experienced, sophisticated or professional categories of investor, the Authority considers it appropriate for insurers to take steps to determine that the policyholder meets the criteria for investment in the chosen asset, including obtaining informed consent from the policyholder. This may be in the form of disclosure to the policyholder and informed consent / certification by the policyholder that he or she is of the required investor status for the asset / fund. The specific form of disclosure may be determined by the insurer, although it should meet the requirements of the Code in that information should be clear and provided before, during and after point of sale, as required.

### **2.3 Portfolio product design**

Where an insurer makes available assets for linking to its product that are stated to be suitable only for experienced, sophisticated or professional categories of investor, insurers may consider only making these assets available through products that have been developed and marketed specifically for those categories of investor.

Under such a segregated product approach separate products may be designed for specific customer groups such as retail<sup>1</sup> and non-retail policyholders.

The Authority considers such an approach to be consistent with the intended outcome of paragraph 6(4) of the Code.

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<sup>1</sup> the term “retail” is used for the purpose of this guidance note to describe a customer’s financial capability and investment expertise. In this context, retail policyholders are those considered to not possess the required expertise, experience and knowledge to adequately understand the features and risks associated with the product and services being offered to them.



## **2.4 Use of a discretionary asset / fund manager (“DFM”)**

Where the policyholder has appointed a DFM, that DFM will have an obligation to ensure that the investment decisions made are suitable for the policyholder. Under such arrangements DFMs may operate different client agreements for specific customer types, for example, retail or non-retail clients.

Additionally, DFM agreements will typically contain categories of investment that are permitted under the agreement.

In allowing policyholders to access DFM services the Authority considers it appropriate that insurers take steps to:

- Review the standard of disclosure in DFM client agreements to ensure that information is provided in a clear manner that explains the features and risks of the service;
- Ensure information provided to policyholders clearly signposts the degree of discretion allowed under the agreement for the DFM to act without permission of the policyholder, for example;
  - the purchase and sales of assets;
  - the collection of income;
  - the application of dividends;
  - voting, accepting takeovers or the taking up and exercising of rights
- Review the permitted investments under the agreement to ensure they fall within insurers’ investment acceptance guidelines as set out in 2.1; and
- Review any reference to the suitability / non-suitability of the DFM service to particular customer groups e.g. retail or non-retail against the insurers’ own assessment of the target market under paragraph 6(3) of the Code.

# Key Information Document

*for an open architecture single premium insurance investment product*

[Product name and type e.g. ABC product]

This document is issued by ABC Insurance Company.

Registered office address:

Telephone number:

Email address:

ABC Insurance Company is regulated by the Isle of Man Financial Services Authority.

**This document provides you with key information about this insurance investment product. It is not marketing material. The information is required by law to help you understand the nature, risks and costs of this product and to help you compare it with other products.**

## What is this product?

It is a unit linked insurance policy that can be set up on either a capital redemption or life assurance basis.

### OBJECTIVES

Its objectives are to increase the value of the money you pay into the product and to provide a high level of flexibility and investment choice. It gives you access to a wide range of assets, including external funds and cash deposits, with the option to nominate an Investment Adviser or External Manager to select and manage your linked investments. The premiums you pay, after deduction of any applicable fees and charges of the product, will be linked by ABC Insurance to the investments you select and will accordingly determine the value of your policy. The value of your policy will rise and fall in line with these linked investments.

### WHO SHOULD INVEST?

This product is intended for people who can invest £50,000 over the medium to long term (a period of 5 to 10 years), and whilst there is no fixed length of time that the product has to be held for, it is recommended that it should be held for at least 5 years.

Investments carry varying degrees of risk. The value of these funds can fall as well as rise so you must be prepared to get back less than you originally invested.

## Could I lose money?

This product does not have any guarantee or capital protection provided. You may not get back the full amount of premium you pay and may suffer investment losses [OR state the guarantee and state that if the guarantee condition is not satisfied, policyholders will not be able to get the guarantee].

You have the right to cancel this contract within 30 days of receiving the product documents. If you decide to cancel, you will get your money back (less any charges already paid for advice (UK)) unless the value of the product has fallen, in which case you will not get back the full amount you paid in. There may be a delay in paying the cancellation value until all trades have been completed.

ABC Insurance Company is a participant insurer in the Policyholders Compensation Scheme established under the Life Assurance (Compensation of Policyholders) Regulations 1991 and the Policyholders' Compensation Fund established under that Scheme shall pay a sum equal to 90% of the amount of any liability of ABC Insurance Company under this contract, should the company become insolvent

Please note that this scheme is in relation to the company becoming insolvent and does not relate to the underlying investments chosen by you, with the assistance of your advisor. **All underlying investments are made in the name of ABC Insurance Company, and so you will not be eligible to take advantage of any investor compensation scheme or any Depositors Compensation Scheme, which may otherwise exist if you had directly invested with the underlying fund manager, bank or building society.**

## INSURANCE BENEFITS

### Life assurance

For the life assurance version of this policy, there can be up to ten lives insured. On the start date of the policy all lives insured must be aged at least 3 months and the youngest life insured must be aged no more than 79 years. On the death of the last surviving life insured before the tenth anniversary of the start date of the policy, we'll pay the higher of:

- 100.1% (110% if death is due to an accident) of your policy surrender value, and
- Your total payments, less any regular withdrawals, and reduced each time you take a one-off withdrawal, by the proportion of the policy value that you cash in.

If death is ten years or more after the start date of the policy, we'll pay 100.1% of your policy value.

### Capital Redemption

For the capital redemption version, there are no lives insured and the policy will continue until it is fully cashed in, or until it matures at the end of its 99 year term.

*The Authority has used an unusual structure here to show the level of detail that can be contained within a KID if necessary.*

## What are the risks?

**Investment involves risks. The value of your policy can go down and you may get nothing back depending on the performance of the investments chosen. Please refer to the product brochure for full details of the risk factors.**

### INVESTMENT RISK

The investment options that ABC Insurance Company makes available under this product have very different features and risk profiles. The level of risk and potential investment performance will depend on the underlying investments you choose.

You should ensure that you are aware of the risks relating to investments that you choose under this product, including reading the relevant fund literature.

It is **your responsibility** in conjunction with your advisor, to select appropriate underlying funds to match your risk profile.

### OTHER PARTICULAR RISKS

**CURRENCY** - if the underlying investments chosen are held in a currency which is different to that of your policy, currency conversion will apply. All the costs associated with the currency conversion will be charged to the policy. Changes in exchange rates between currencies could reduce your policy value.

**PERFORMANCE** - some investments may have fees associated with them, as set by the underlying fund manager. If the growth of the underlying investments does not cover the charges of the product, then this will reduce the value of your investment.

**LIQUIDITY** - if you ask us to invest in a bank or building society account the deposit will be bound by the terms and conditions as applied by the deposit taker. This means you may not be able to access the value of the deposit until the end of a fixed term or without giving notice. Where the deposit taker does agree to close the account early a charge may be made by the deposit taker, which may mean you do not receive back the full amount of investment made. *A similar statement could be made in relation to fund liquidity regarding the ability for the fund manager to suspend dealing.*

*<<insert, under headings, any other relevant penalties, fund risks, market risks, life coverage etc., as relevant>>*

## How long should I hold it and can I take money out early?

### COOLING OFF PERIOD AND CANCELLATIONS

If you change your mind there is a 30 day cooling off period within which you can cancel the policy. When we issue your documents, we will send you details of how to cancel your policy. You will have 30 days from receiving these documents to do this. Where applicants are at separate addresses the cancellation notice will only be issued to the address of the first applicant. You can also cancel before you receive your policy documents by calling us or your adviser.

If you decide to cancel, we will give you your money back unless the value of the investment has fallen, in which case you will not get back the full amount you paid in. There may be a delay in paying the cancellation value until all trades have been completed.

### WITHDRAWALS AND SURRENDER

This product is intended for people who can invest over the medium to long term (a period of 5 to 10 years), and whilst there is no minimum holding period, it should be held for at least 5 years.

If you decide to take withdrawals from the product or to surrender the product there will be a dealing charge for the sale of any external funds or withdrawals from cash deposits. There may be a delay in receiving your money depending on the frequency of dealing in the investments chosen. There may be a charge for breaking a fixed deposit early or not providing the required notice. Some external assets may carry exit charges. Further details on these charges can be found in the <<insert details of fund literature>>.

*[If applicable]* There will be an early surrender / withdrawal charge applied in case of [policy termination / surrender / suspension of or reduction in premium payment] within the first [x] years. You may also lose your entitlement to bonuses. This charge is shown in the table below.

## How do I make a complaint?

If you need to complain about this product, please contact us using the details at the top of this document. You can ask us for a copy of our complaints handling process, and this is also detailed on our website.

Complaints that cannot be resolved can be referred to the Financial Service Ombudsman Scheme ("FSOS") for the Isle of Man. The FSOS is specifically aimed at individuals. You are not eligible to make a complaint against us to the UK Financial Ombudsman Service.

Complaints related to advice, suitability of the product or investments selected and the performance of the assets would not be covered by FSOS and should be directed to your advisor.

The Ombudsman's contact details are:

The Financial Service Ombudsman Scheme for the Isle of Man  
Government Buildings  
Lord Street Douglas  
Isle of Man  
IM1 1LE  
01624 686500.

## What are the costs?

Although the intermediary firm that has advised you may not charge you directly for the advice received, if you take up this policy it will receive a payment from ABC Insurance Company of £2,000.00 on the commencement of your policy.

In addition, after commencement of your policy, the intermediary firm that has advised you will receive ongoing remuneration from ABC Insurance Company of 0.5% of your policy value each year for the lifetime of your policy.

The costs of these payments will be met by the charges you pay for your policy.

Other charges associated with this policy are reflected in the table below:

	Amount of charge	Charge Basis	
Allocation Rate	100% Allocation	<b>100% of each relevant premium paid into the policy will be used to purchase units in your chosen investments.</b>	
Establishment Fee	0.5% per year	The charge is calculated as a percentage of the value of the investments linked to your policy. It is levied in arrears by deduction of units on the last business day of each month for a period of 5 years, and is mainly used to cover the payment made to the intermediary firm disclosed above.	
Regular policy management charge	0.5% per year	The charge is calculated as a percentage of the value of the investment funds linked to your policy. It is levied in arrears by deduction of units on the last business day of each month for a period of 5 years.	
Policy Fee	£60 per year, levied in arrears on the last business day of each month by deduction of units in the investment funds linked to your policy.		
Early surrender / withdrawal charge	An early withdrawal charge is levied, if policy termination or surrender occurs within the first 5 years.		
	The early withdrawal charge is 2.5% during the first quarter after policy inception, reducing by 0.125% per quarter to nil after 5 years, based on the relevant premium paid. The fee is mainly used to recover any outstanding establishment fee. The applicable rates of the charge are shown below:		
	Duration from payment of the relevant premium	Early withdrawal charge	Quarter from payment of the relevant premium
	0 years 3 months	2.50%	2 years 9 months
	0 years 6 months	2.38%	3 years
	0 years 9 months	2.25%	3 years 3 months
	1 year	2.13%	3 years 6 months
	1 year 3 months	2.00%	3 years 9 months
	1 year 6 months	1.88%	4 years
	1 year 9 months	1.75%	4 years 3 months
2 years	1.63%	4 years 6 months	
2 years 3 months	1.50%	4 years 9 months	
2 years 6 months	1.38%	5 years	
Part surrender or regular withdrawals can be made with no early withdrawal charge.			
Additional Charges	The funds that are held within your policy may be subject to additional charges, such as a fund manager initial charge, a management charge taken by the fund manager and early exit penalties. The charge may vary per fund chosen and may be reflected in the unit price of the underlying funds or units will be redeemed from your investment options to pay for these. Further details can be obtained from <<insert details of fund literature >>		
There may also be charges associated with the payment of premiums or withdrawals by telegraphic transfer and other means.			

I have received and understood the information provided within this key information document.

Signed \_\_\_\_\_ Date \_\_\_\_\_



## Appendix 4 - Guidance on procedures for monitoring terms of business with brokers

This guidance is issued in consideration of the requirements of paragraph 19 of the Insurance (Conduct of Business) (Long Term Business) Code 2017 (“the Code”) and sets out the Isle of Man Financial Services Authority’s (“the Authority”) 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 19 of the Code 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 insurer 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.



## Appendix 5 - Guidance on post-sale disclosure requirements

This guidance is issued in consideration of the requirements of paragraph 19.1(b) of the Corporate Governance Code of Practice for Regulated Insurance Entities and paragraph 26 of the Insurance (Conduct of Business) (Long Term Business) Code 2017 and sets out Isle of Man Financial Services Authority's ("the Authority") expectations in respect of the considerations that regulated entities should make in considering what information must be provided to policyholders.

**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.**

As a general principle a regulated entity should take account of the fact that the information needs of policyholders differ depending on the type of insurance product, which should influence the frequency and content of information to be provided. Without limitation to this principle, the following guidance is issued by the Authority in respect of classes of long term insurance business.

### Class 1 unit linked business

#### Periodic Reporting

A regulated entity should periodically report appropriate and timely on-going information to existing policyholders, including the investment progress of unit linked policies.

#### Frequency of reporting

The frequency of reporting may vary in accordance with the nature and complexity of assets to which the benefits payable under a unit linked policy are linked, however, reporting should not be less frequent than on an annual basis.

Where a policyholder requests to receive information on a reasonable, more frequent basis, a regulated entity should comply with such requests.

In general, the Authority considers a reporting frequency of at least every three months to be appropriate where assets to which the benefits of a Class 1 unit linked policy are linked are external to the insurer i.e. portfolio bonds.

#### Content of reports

Information to be provided on an ongoing basis will vary by type of policy but in most cases should include:

- the name of the firm;



- the name and reference number of the policy;
- premiums paid to date;
- a valuation statement of the linked investments, including details of:
  - each linked investment held and its market value, or fair value if market value is unavailable;
  - the current cash surrender value;
  - where applicable to the product, the cash balance at the beginning and at the end of the reporting period; and
  - the performance of the portfolio during the reporting period;
- details of fees and charges levied during the reporting period (where appropriate to the product, fees should be itemised between total management fees and costs associated with execution, or if not, a statement that a more detailed breakdown will be provided on request);
- details of investment performance during the period covered by the statement and a comparison with the investment performance benchmark (as applicable);
- the total amount of dividends, interest and other payments received during the reporting period; and
- information about other corporate actions giving rights in relation to designated investments held in the portfolio.

## **Occasional Reporting**

### **Unit linked transactions including switching, withdrawal, part and full surrenders**

Where a regulated entity receives instructions from policyholders (or persons appointed to act on behalf of policyholders) to switch or redeem unit linked investments, a regulated entity should report appropriate and timely information to those policyholders to confirm the fulfilment of such requests. Information reported should include:

- the date of execution of the sale and purchase (as applicable) of units / shares;
- the number of units / shares involved;
- the price at which the units / shares were subscribed or redeemed;
- the reference valuation date; and
- the value of any charges, commissions or expenses levied for subscription or redemptions.



## Class 2 non-linked with-profit business

### Principles and Practice of Financial Management (“PPFM”) – with-profits business

#### Definitions:

“established surplus” means excess of assets representing the whole or a particular part of the long-term business fund<sup>1</sup> or fund over the liabilities, or a particular part of the liabilities, of the insurer attributable to that business as certified by the appointed actuary.

“inherited estate” means an amount representing the fair market value of the with-profits assets less the realistic value of liabilities of a with-profits fund

“With-profits business” means any business of an authorised insurer that may affect the amount or value of the assets comprising a with-profits fund

“With-profits fund” means a long-term business fund in which policyholders are eligible to participate in any established surplus.

“With-profits policy” means a contract falling within Class 2 of long-term insurance business, pursuant to the Insurance Regulations 1986, which is eligible to participate in any part of any established surplus

“With-profits policyholder” means a policyholder under a with-profits policy

#### Production of PPFM

- 1) A regulated entity should:
  - a) establish and maintain the PPFM according to which its with-profits business is conducted (or, if appropriate, separate PPFM for each with-profits fund); and
  - b) retain a record of each version of its PPFM for five years.
- 2) A regulated entity's with-profits principles should:
  - a) be enduring statements of the standards it adopts in managing with-profits funds; and
  - b) describe the business model it uses to meet its duties to with-profits policyholders and to respond to longer-term changes in the business and economic environment.
- 3) A regulated entity's with-profits practices should:
  - a) describe how a regulated entity manages its with-profits funds and how it responds to shorter-term changes in the business and economic environment; and
  - b) be sufficiently detailed for a knowledgeable observer to understand the material risks and rewards from effecting or maintaining a with-profits policy with it.

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<sup>1</sup> To be reviewed on removal of the long term business fund under the enactment of the Insurance (Amendment) Bill 2017 and associated new solvency and capital requirements



- 4) A regulated entity should not change its PPFM unless, in the reasonable opinion of its board of directors, that change is justified to:
  - a) respond to changes in the business or economic environment; or
  - b) protect the interests of policyholders; or
  - c) change the regulated entity's with-profits practices better to achieve its with-profits principles.
- 5) A regulated entity may change its PPFM if that change:
  - a) is necessary to correct an error or omission; or
  - b) would improve clarity or presentation without materially affecting the PPFM's substance; or
  - c) is immaterial.

### **Scope and content of PPFM**

A regulated entity's PPFM should cover any matter that has, or it is reasonably foreseeable may have, a significant impact on the regulated entity's management of with-profits funds, including:

- 1) any requirements or constraints that apply as a result of previous dealings, including previous transfers of insurance business; and
- 2) the nature and extent of any shareholder commitment to support the with-profits fund.

A regulated entity's PPFM should cover the issues set out in the following table:



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Subject		Issues	
(1)	Amount payable under a with-profits policy	(a)	Methods used to guide determination of the amount that is appropriate to pay individual with-profits policyholders, including:
		(i)	the aims of the methods and approximations used;
		(ii)	how the current methods, including any relevant historical assumptions used and any systems maintained to deliver results of particular methods, are documented; and
		(iii)	the procedures for changing the current method or any assumptions or parameters relevant to a particular method.
		(b)	Approach to setting bonus rates.
		(c)	Approach to smoothing maturity payments and surrender payments, including:
		(i)	the smoothing policy applied to each type of with-profits policy;
		(ii)	the limits (if any) applied to the total cost of, or excess from, smoothing; and
		(iii)	any limits applied to any changes in the level of maturity payments between one period to another.
(2)	Investment strategy	Significant aspects of the regulated entity's investment strategy for its with-profits business or, if different, any with-profits fund, including:	
		(a)	the degree of matching to be maintained between assets relevant to with-profits business and liabilities to with-profits policyholders and other creditors;
		(b)	the regulated entity's approach to assets of different credit or liquidity quality and different volatility of market values;
		(c)	the presence among the assets relevant to with-profits business of any assets that would not normally be traded because of their importance to the regulated entity, and the justification for holding such assets; and
		(d)	the regulated entity's controls on using new asset or liability instruments and the nature of any approval required before new instruments are used.
(3)	Business risk	The exposure of the with-profits business to business risks (new and existing), including the regulated entity's:	
		(a)	procedures for deciding if the with-profits business may undertake a particular business risk;
		(b)	arrangements for reviewing and setting a limit on the scale of such risks; and
		(c)	procedures for reflecting the profits or losses of such business risks in the amounts payable under with-profits policies.
(4)	Charges and expenses	(a)	The way in which the regulated entity applies charges and apportions expenses to its with-profits business, including, if material, any interaction with connected firms / persons.
		(b)	The cost apportionment principles that will determine which costs are, or may be, charged to a with-profits fund and which costs are,



		or may be, charged to the other parts of its business of its shareholders.
(5)	<b>Management of inherited estate</b>	Management of any inherited estate and the uses to which the regulated entity may put that inherited estate.
(6)	<b>Volumes of new business and arrangements on stopping taking new business</b>	If a regulated entity's with-profits fund is accepting new with-profits business, its practice for review of the limits on the quantity and type of new business and the actions that the regulated entity would take if it ceased to take on new business of any significant amount.
(7)	<b>Equity between the with-profits fund and any shareholders</b>	The way in which the interests of with-profits policyholders are, or may be, affected by the interests of any shareholders of the regulated entity.

The following table sets out guidance on how various information relevant to some of the issues covered in a regulated entity's PPFM (as above) might be split between with-profits principles and with-profits practices. This is an example of the matters a regulated entity should address in its with-profits principles and with-profits practices and is not exhaustive. A regulated entity should consider carefully the scope and content of its PPFM as appropriate.

Reference to PPFM issues	With-profits principles	With-profits practices
(1) Amount payable under a with-profits policy	<u>General</u> (a) Circumstances under which any historical assumptions or parameters, relevant to methods used to determine the amount payable, may be changed;	<u>General</u> (e) For each major class of with-profits policy, methods establishing the main assumptions or parameters that decide the output of methods that determine the amount payable; (f) Degree of approximation allowed when assumptions or parameters are applied across generations of with-profits policyholders or across different types or classes of with-profits policies; (g) Formality with which the methods, parameters or assumptions used are documented; (h) Target range, or target ranges, that have been set for maturity payments; (i) Factors likely to be regarded as relevant to address policyholders' interests or security when determining excess surplus; and Investment return, expenses or charges and tax (j) How investment return, expenses or charges and tax are brought into account and how the impact of those items is



		<p>determined on the amount payable. In particular:</p> <p>(i) any distinctions made in recognising the investment return from a subset of the total assets of a with-profits fund;</p> <p>(ii) whether expenses are apportioned between all the policies in a with-profits fund or apportioned in some other way;</p> <p>(iii) the relationship between the liability to tax attributed to a with-profits fund and the tax that the regulated entity imputes to determine the amount payable;</p> <p>(iv) impact on the amount payable of any attributed liability to tax of a with-profits fund as a result of the regulated entity making a transfer to shareholders; and</p> <p>(v) how any other items are brought into account.</p>
	<p><u>Bonus rates</u>            (b) General aims in setting bonus rates and the constraints to which the regulated entity may be subject in changing economic circumstances;            (c) How the range of with-profits policies or generations of with-profits policies over which the regulated entity believes a single bonus rate would be appropriate is determined and the circumstances under which it believes a new bonus series would be necessary; and</p>	<p><u>Bonus rates</u>            (k) Current approach to setting bonus rates, including the weight given to recent economic experience. For final bonus rates, the description should include any distinctions made between with-profits policies that remain in force until contractual dates, or dates on which no market value reduction applies (for example, maturity or retirement dates) and policies that are surrendered or transferred at other dates;            (l) Frequency at which bonus rates are re-set or expected to be re-set and the circumstances under which changes in the economic environment would cause the time between re-setting to change;            (m) Maximum amount by which annual bonuses would alter if annual bonus rates were reset;            (n) Approach to setting any interim bonus rates before the next declaration of annual bonus rates;            (o) Relationship or interaction between final bonus rates and any market value reductions, if both can apply at the same time;            (p) How final bonus rates influence the value of with-profits policies that have formulaic surrender or transfer bases (for example,</p>



		older conventional policies rather than unitised policies); and
	<p><u>Smoothing</u> (d) Statement as to whether smoothing is intended to be neutral over time.</p>	<p><u>Smoothing</u> (q) Any differences in approach for:</p> <p>(i) the various types of with-profits policy;</p> <p>(ii) different categories of pay-out, such as between surrendered policies and maturing policies; and</p> <p>(iii) different generations of with-profits policyholders.</p>
<b>(2) Investment strategy</b>	<p>(a) How the types, classes or mix of assets are determined; and (b) Strategy in respect of derivatives and other instruments.</p>	<p>(c) Whether and to what extent there is hypothecation of assets; (d) Period between formal reviews of investment strategy; (e) Approach to investment in different asset classes, and assets of different credit or liquidity quality, including assets not normally traded; and (f) Details of any external support available to the with-profits fund and how this affects the investment strategy.</p>
<b>(3) Business risk</b>	<p>(a) Where a regulated entity explicitly excludes business risk from a class of with-profits policies but there are residual risks, clarification where these risks such as guarantee and smoothing costs are borne; and (b) Define where compensation costs from a business risk would be borne.</p>	<p>(c) Current limits which apply to the taking on of business risk; and (d) Whether and to what extent particular generations of with-profits policyholders or classes of with-profits policies bear or might bear particular business risks, including for example, crystallised or contingent guarantees to other classes of policyholders or whether the out-turn from all business risk is pooled across all with-profits policies.</p>
<b>(4) Charges and expenses</b>	<p>(a) Factors that would drive any change to the basis on which the regulated entity applies charges to or apportions its actual expenses amongst with-profits policies, or exercises any discretion to apply charges to particular with-profits policies.</p>	<p>(b) Charges currently applied and the expenses currently apportioned to major classes of with-profits policies; (c) Relationship between the regulated entity's actual charges and expenses, as applied to determine the amounts payable under with-profits policies, and the charges and expenses borne by the with-profits fund; (d) Circumstances under which expenses will be charged to the with-profits fund at an amount other than cost, and the reasons why; and (e) Interval for reviewing any arrangements for out-sourced services, including those</p>



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		provided by connected parties, giving a broad indication of the terms for termination.
<b>(5) Management of inherited estate</b>	(a) Preferred size or scale of inherited estate and implications for the values of the-with profits policies; and (b) Any existing division of the inherited estate between with-profits funds; and (c) Any constraints on the freedom to deal with the inherited estate as a result of previous dealings.	(d) How the inherited estate is used, for example, in meeting costs; (e) Whether the investment strategy for the inherited estate differs from the rest of the with-profits fund; and (f) Any current guidelines in place as to the size or scale of the inherited estate or as to how and over what time period the inherited estate would be managed, if it becomes too large or too small.
<b>(6) Equity between the with-profits fund and any shareholders</b>	(a) Arrangements for, and any changes to, profit sharing between shareholders and with-profits policyholders.	(b) Current basis on which profit between with-profits policyholders and shareholders is divided; and (c) Whether the pricing of any policies being written, and particular policies open to new business, appear to be significantly and systematically reducing the inherited estate if the shareholder transfer is taken into account.



## Appendix 6 - Guidance on application of the Insurance (Conduct of Business) (Long Term Business) Code 2017 for products closed to new business

This guidance is issued in consideration of the requirements of the Insurance (Conduct of Business) (Long Term Business) Code 2017 (“the Code”) and sets out the Isle of Man Financial Services Authority’s (“the Authority”) expectations in respect of products that are closed to new business.

**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 Code explicitly exempts regulated entities from the requirement to produce a Key Information Document (“KID”) for any product that is closed to new business (under paragraph (7)(2)(b)) and so paragraphs (8)-(13) in relation to content and issue of the KID also would not apply. This also means that any top up made on a product that is closed to new business would not require a KID to be issued.

In relation to top ups on products closed to new business, there is no exemption from paragraph 21 of the Code (cancellation rights) and so any top ups paid will require disclosure of the right to cancel.

Those sections of the Code that are relevant to in force business, e.g. paragraph 26 in relation to post sale disclosure and paragraph 27 in relation to claims handling, will remain a requirement for products closed to new business. However, it is the Authority’s expectation that paragraphs 6, 19 and 20 will also not apply to products closed to new business because regulated entities will not continue to market such products.



## Appendix 7 - Guidance on the provision of illustrations for long term insurance products

This guidance is issued in consideration of the requirements of the Insurance (Conduct of Business) (Long Term Business) Code 2017 (“the Code”) and sets out the Isle of Man Financial Services Authority’s (“the Authority”) expectations where a regulated entity chooses to provide illustrations to prospective policyholders.

**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.**

There is no requirement to issue an illustration to a prospective policyholder within the Code. The Authority has observed poor practice in relation to the use of illustrated returns in product literature and the Authority’s conclusion is that prospective policyholders may have difficulty in assessing the relative importance of any stated potential investment returns against the investment risk and the uncertainty of such returns. Additionally, the Authority considers the use of a range of prescribed growth rates as potentially introducing unnecessary complexity, whilst not fully being reflective of the wide investment options that may be made available under certain unit linked products.

As a result, the Authority decided that projected illustrations should not be used to demonstrate the impact of charges within the Key Information Document (“KID”), on the grounds of simplicity for policyholders and to avoid the use of misrepresentative growth rates. However, some insurers may still wish to provide personalised illustrations to prospective policyholders or are required to provide such illustrations where local regulation requires it. Prospective policyholders are obviously very interested in the potential returns of a product when deciding whether to invest and so the Authority would not object to personalised illustrations being provided, subject to these being provided separately to the KID.

To ensure consistency of approach where illustrative documents are provided, the Authority expects that any illustrations issued by authorised insurers should:

- show realistic projections of the potential growth of an investment that are not overly optimistic;
- unless expressly prohibited or restricted by other local regulatory requirements, accurately project the effect of charges associated with the product as disclosed within the KID under the requirement of paragraph 8(3)(g) or paragraph 11(4), as relevant of the Code;



- where a regulated entity's product offers policyholders a range of options for investment, clearly disclose the degree to which charges linked to those investments are taken account of in the illustration projections and the basis on which they are included. For example, where an estimated or average charge is used to produce illustrated returns this should be made clear to policyholders;
- appraise policyholders of a zero growth scenario, alongside other growth scenarios;
- reflect both policy value and surrender value for products where these values differ;
- include an appropriately worded statement that draws attention to the impact of inflation on the projected returns; and
- be kept under review to ensure that new illustrations remain relevant and not misleading.

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## Appendix 8 - Guidance on the meaning of remuneration within the Insurance (Conduct of Business) (Long Term Business) Code 2017

This guidance is issued in consideration of the requirements of the Insurance (Conduct of Business) (Long Term Business) Code 2017 (“the Code”) and sets out the Isle of Man Financial Services Authority’s (“the Authority”) expectations in respect of the treatment of different types of remuneration paid to intermediaries under the Code.

**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 Authority’s intention in issuing the Code was to establish principles (in paragraphs 8 and 11 of the Code) surrounding disclosure of remuneration as a way of mitigating the risk of conflicts of interest arising in the sales process and distorting the advice that customers receive.

The Authority is aware that there will be wide variation in models of remuneration and charging structures, although the most common method by which brokers are remunerated is by the payment of a commission. The introduction of the requirement to disclose commission to policyholders has the potential to drive changes in these models of remuneration.

It is the Authority’s view that any remuneration used to incentivise intermediaries (whether monetary or not) potentially creates a conflict of interest for the intermediary between its duties to provide appropriate advice to potential policyholders and its relationship with the insurer that is providing the remuneration. Therefore, insurers need to consider how the payment of any remuneration is consistent with the obligation to treat policyholders fairly (in accordance with the Corporate Governance Code of Practice for Regulated Insurance Entities (“CGC”) and paragraphs 5 and 6 of the Code), and how any resultant conflicts of interest should be managed accordingly. An insurer should document, and be able to explain to the Authority, how their product charging and remuneration structures have been developed to pay due regard to the interests of policyholders and to treat them fairly.

### Disclosure of commission

In relation to the scope of the disclosure requirements under the Code, the Authority’s expectation is that remuneration paid that is attributable to the advice and sale of the specific policy (and therefore is likely to be reflected in policy charges) must be disclosed to the policyholder to enable them to make an informed decision. Generally, this would capture initial and ongoing commission paid by the insurer to the intermediary.



When considering whether or not the remuneration should be captured within the disclosure to policyholders, the regulated entity should take into account the degree to which the costs of the remuneration are met by charges reflected in the charging structure of the product and so impact directly on the cost of the product to policyholders.

### **Managing the payment of other inducements**

The Authority is cognisant of the risk that the payment of commission may be substituted by other financial inducements, or benefits, that are intended to achieve the same outcome, i.e. to secure distribution of a regulated entity's products. These other financial inducements (such as marketing allowances, sales competitions and volume related payments) may not generally directly affect the charges on a product and therefore would not need to be disclosed to a policyholder under the Code, but these other inducements must still be considered by a regulated entity in terms of how the payment meets the entity's obligations under its fair treatment of customers and product development policies and procedures and in particular the requirement to identify and manage any conflicts of interest in the product design and distribution.

Criteria that may be taken into account when considering whether a conflict of interest may arise from the provision of benefits other than commission, include a consideration of whether the benefits:

- are reasonable and proportionate, commensurate with the benefit obtained by the insurer or its customers;
- enhance the quality of service to customers;
- are not relied on by the intermediary firm in the future in order to continue to service its customers (so that should the benefit cease to be provided, the impact on the advisory firm or its customers would not be significant); and
- could reasonably not be expected to result in the channelling of business from the intermediary to the provider.

### **"Soft commission" from fund / asset managers**

For unit linked business there are instances of observed market practice where an intermediary receives remuneration directly from the fund manager for placing business under a unit linked contract with an insurer (e.g. soft commissions), in addition to receiving a commission from the insurer. Such arrangements present a high risk of customer detriment.

Although the insurer would not ordinarily be directly party to these payments, the Authority is of the view that insurers are well placed to identify and mitigate the risk of conflicts of interest arising from such practice. Insurers offering products that link the value of benefits payable under the policy to assets provided by parties external to the insurer, should include in product development and asset vetting procedures, specific consideration and mitigation of the risk of customer detriment arising from the payment of soft commission that may lead to unreasonable levels of remuneration to brokers.



For example, at asset vetting stage insurers should consider including, as part of the review of asset / fund literature, a review of the level of charges associated with the asset; often the availability of intermediary commission is directly disclosed in fund literature or reflected in higher front end charges or exit fees.

Alternatively, insurers may seek direct disclosure from the fund / asset manager of its approach to commission payments.

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