

Product Assurance Insurance



The Evolving and Expanding Regulatory Environment

- With the publication of EIOPA's guidance in October 2020 on its Approach to the Supervision of Product Oversight and Governance ("POG"), firms **must act now** to put a robust and comprehensive POG programme in place. Regulatory bodies have stressed the essential role that POG plays in consumer protection, stating the importance of **early and proper implementation** of POG from the outset.¹
- POG arrangements, as detailed in the Insurance Distribution Directive ("IDD"), are additionally **intertwined** with the established System of Governance Guidelines already in place under Solvency II. It is anticipated that a well-managed POG programme will **complement** the key facets of overall risk-based, prudent management of firms.
- In line with other EIOPA guidance², a firm's approach to Conduct Risk in dealing with its consumers should focus on transparency, accessibility and fairness. POG regulations take this into account and expand on the detail of a dedicated programme required to support management of firm-wide Conduct Risk. Of primary importance is ensuring that the POG programme is **risk-based, proportional and tailored** to the unique features of the business in terms of **scale, complexity and manufacturing / distribution strategies**.

Consumer Protection on the Rise

- Regulators expect firms to be effective, efficient and proactive to ensure consumer detriment issues are identified and addressed in a timely manner. Products are expected to be **consumer-centric** – aligning to the needs of their consumers to produce good outcomes. Regulatory, government and media scrutiny on pricing practices in retail insurance have increased the focus on consumer protection, particularly surrounding pricing and transparency (e.g. CBI Differential Pricing Review, CP116).
- Reputational damage is being caused by **ongoing negative publicity** and it appears consumers are **not receiving good outcomes** from their interactions with insurance firms. Additionally, **vulnerable consumer segments** are being exposed due to the coronavirus (COVID-19) pandemic. Limitations and risk deviations are often required to get new products and features to the market quickly resulting in future issues.

The Business Case: Manual Assurance and Enforcement / Remedial Action

- Existing business models are too focussed on manual, resource-heavy assurance processes. A multitude of **legacy systems** are in operation within a complex IT environment without comprehensive documentation and a full understanding of system processes.
- Assurance models tend to **lack end-to-end oversight and transparency** over products, processes and interdependencies. There is an ongoing theme of **corporate knowledge gaps**, further complicated by firms' distribution models and reliance on third parties to deliver product offerings.
- Expansive use of data across the insurance value chain and increasing sophistication of modelling techniques has brought the role of big data and analytics to the forefront. Data collected across the product lifecycle and its role in product development was a key highlight of EIOPA's Thematic Review of Big Data and Analytics in April 2019.
- Harnessing a **data-driven approach is a natural fit for POG arrangements** to assess and monitor product risk. Furthermore, an in-depth understanding of products enables the expedited roll-out of any changes and associated assurance (e.g. change in product offering, proposition, or emergency situations).
- Prescriptive guidelines such as those outlined in the EIOPA approach build a **clear pathway** for Regulators to supervise, inspect and where necessary, enforce non-compliance with regulations. Recent thematic reviews, heightened consumer expectations and media scrutiny all converge on a firm's product offering. A **proactive and preventative approach** will demonstrate adherence to the spirit and letter of the guidelines, while **reducing the possibility of enforcement or remedial action in the future**.

KPMG's Bespoke Methodology

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

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

¹ As highlighted in the Preparatory Guidelines on Product Oversight and Governance Arrangements by Insurance Undertakings and Insurance Distributors released in January 2019.

² Namely, Conduct of Business Supervision Strategy and the Framework for Assessing Conduct Risk Through the Product Lifecycle.

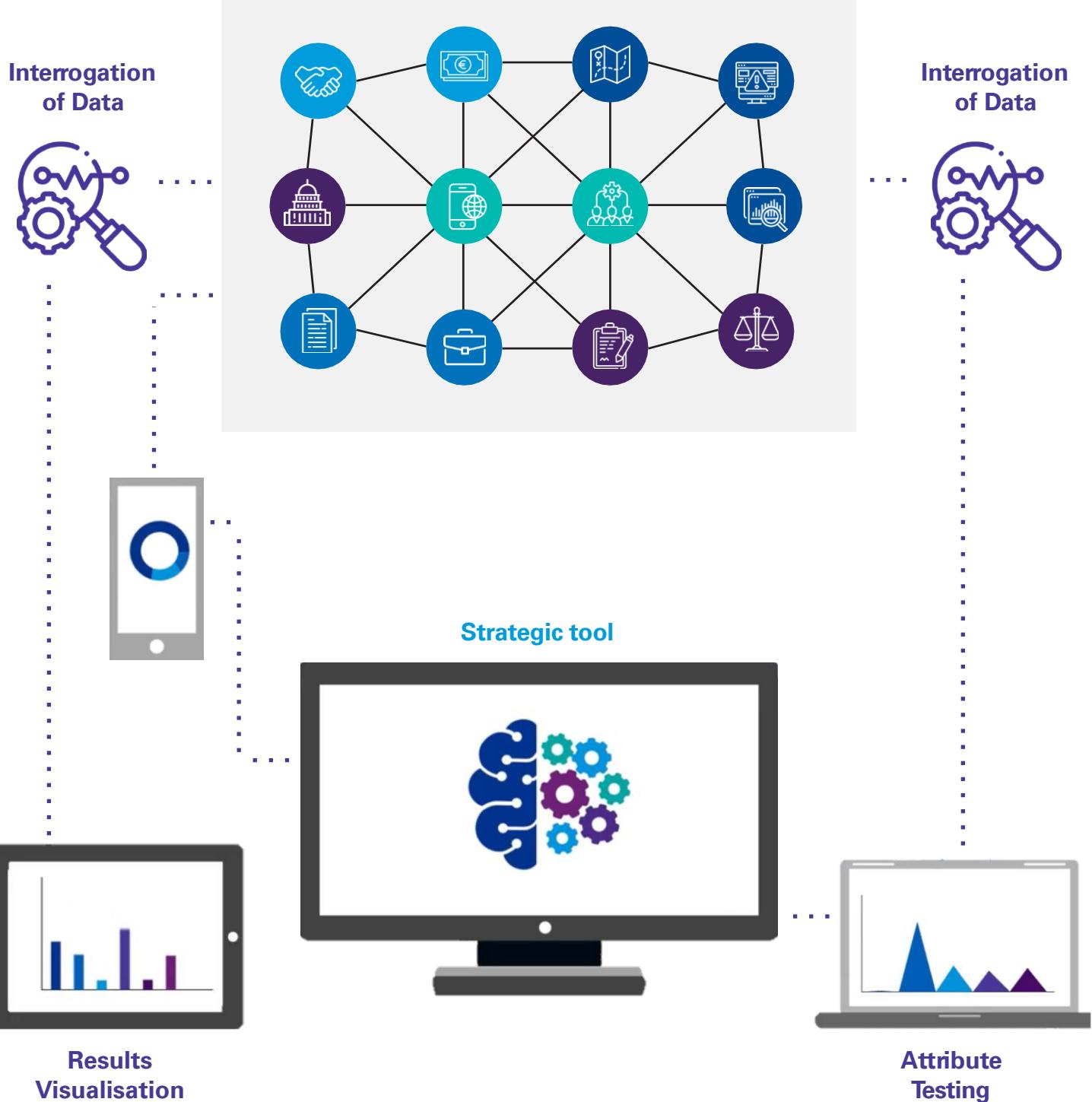
Product Assurance Approach

Assurance Approach



Strategic Product Assurance

Interaction of Events & use of Natural Language Processing



Why KPMG?

1

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

2

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

3

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

4

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

5

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

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