



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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CONDUCT RISK THEMATIC REPORT AND FEEDBACK

ISLE OF MAN NON-LIFE INSURANCE INTERMEDIARY SECTOR

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1. Glossary of Terms




<u>TERM</u>	<u>MEANING IN THIS REPORT</u>
Board	Board of Directors (of the Firm)
CGC	Insurance Intermediaries (Corporate Governance) (General Business) Code 2020
COB	Insurance Intermediaries (Conduct of Business) (General Business) Code 2020
Dual regulated	A firm that is registered as a full general insurance intermediary and also holds a licence under Class 2 of the Financial Services Act 2008
Firm/Firms	All insurance intermediaries invited to partake in the Conduct Risk Thematic
FSA08	Financial Services Act 2008
Fully registered	A firm that is registered as a full general insurance intermediary only
IA08	Insurance Act 2008
IIGBR	Insurance Intermediaries (General Business) Regulations 2020
IPID	Insurance Product Information Document
Partially exempt	<p>A firm that is:</p> <ul style="list-style-type: none"> licensed under section 7 of the Financial Services Act 2008 to carry on regulated activities falling within Class 2(3) and 2(7) of Schedule 1 to the Regulated Activities Order 2011; does not act as an insurance intermediary for general insurance business; and complies with the provisions applicable to that person under the Financial Services Act 2008 and Financial Services Rule Book 2016
SODAN	Statement of Demands and Needs
The Authority	The Isle of Man Financial Services Authority
TOBA	Terms of Business Agreement

2. Executive Summary

2.1 Introduction

Thematic reviews are an important tool in the Authority’s approach to the supervision of firms. They are designed to help the Authority understand and assess industry wide or sector risks, with a focus on those risks that, without mitigation, could cause the most harm to the regulatory objectives of the Authority.

The Authority’s regulatory objectives are:

-  **Securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity**
-  **The reduction of financial crime**
-  **The maintenance of confidence in the Island’s financial services, insurance and pensions industries through effective regulation, thereby supporting the Island’s economy and its development as an international financial centre**

2.2 Thematic review scope and process

Scope

In accordance with the supervisory methodology framework, low impact firms are primarily subject to thematic reviews, rather than firm specific (risk or event driven) inspections.

As part of its supervision work for 2024-2025, the Prudential Supervision Division (non-life insurance) undertook a conduct based thematic review in respect of those firms registered as an insurance intermediary.

The thematic review covered those insurance intermediaries who are fully registered or partially exempt,

excluding those that are registered in respect of packaged bank accounts only.

Thematic reviews are used to identify any issues or trends in industry, including with reference to areas that may pose higher risks. They can also improve the depth and breadth of the Authority’s knowledge on a topic by observation of practices and inspection of records. The insurance intermediary thematic review was focused on conduct risk, more specifically, the fair treatment of customers.

Core objectives of the thematic review

1. To identify any common themes in respect of the fair treatment of customers and ensure compliance with the requisite legislation; and
2. For the Authority to feedback observations to the insurance intermediary sector.

Process

Thematic questionnaires were requested and completed by all fully registered and partially exempt insurance intermediaries excluding those that are registered in respect of package bank accounts only. 27 firms provided a response.

From the responses to the question-

naire, a sample of firms were selected to provide additional information to enable the Authority to complete a desk-based review.

7 were selected using a risk-based approach, ensuring that the sample was spread across all types of insurance intermediaries (fully registered,

including dual regulated, and partially exempt).

The observations and conclusions contained in this report are based upon evidence available from the thematic questionnaire and further information provided by the sample of selected firms.

2.3 Key observations

Introduction

Some of the responses received in respect of the thematic questionnaire (phase 1 of the thematic review) were vague, lacked sufficient detail, and sometimes didn't answer the question. Phase 2 of the thematic review (the desk-based review) was much more encouraging as firms provided more comprehensive responses.

For future thematic exercises, firms should ensure that they provide a sufficient response to all questions to help ensure there is no ambiguity.

Customers

In respect of the questions pertaining to this part of the thematic review, most firms failed to provide sufficient information in respect of how their firm complies with Regulation 6 and Regulation 8 of the COB. Firms tended to provide a high-level summary instead of a detailed response. Firms should have documented how their policies and procedures ensured compliance with each individual section of Regulation 6 and Regulation 8 of the COB.

Responses for phase 2 were much more detailed and provided a description of how a firm's policies and procedures were in compliance with the above noted regulations.

Terms of Business

In phase 1 most firms confirmed that their TOBA was in compliance with Regulation 9 of the COB. However, on review of the limited number of TOBAs submitted as part of phase 2, it became apparent that none of these TOBAs fully complied. The Authority therefore extended its sample and requested copies of TOBAs from all firms who participated in phase 1. On review of all TOBAs, the Authority found that none fully complied with the requirements of Regulation 9 of the COB.

Most dual regulated/partially exempt firms only had one variation of TOBA. Given the differences between the requirements under the FSA08 and IA08, it would be best practice to issue at least a separate TOBA for the policies issued under the IA08 and those contracts issued under the FSA08.

Some TOBAs for dual regulated firms referenced limited advice, full advice or execution only sales. This is not a concept under the intermediary framework, as all sales of insurance contracts should be treated as being on a fully advised basis.



Thematic reviews are an important tool in the Authority's approach to the supervision of firms

3. Detailed observations

3.1 Customers

3.1.1 Fair treatment of customers

Regulatory Standard: Regulation 6(1) of the COB

An intermediary must –

- Establish and implement policies and procedures for the fair treatment of its clients as an integral part of its business and culture; and
- Ensure that its policies and procedures for the fair treatment of its clients are set out in writing and are provided to all relevant staff.

Regulatory Standard: Regulation 6(2)(a-e) of the COB

The policies and procedures referred to above must be appropriate to the nature and scale of the business and must include a consideration of how an intermediary –

- (a) Develops and markets products in a way that pays due regard to the interests of its clients;
- (b) Ensures its clients are provided with clear information before, during

and after the point of sale;

(c) Deals with client complaints and disputes in a fair and transparent manner;

(d) Monitors the intermediary's performance with respect to the fair treatment of its clients';

(e) Ensures that its officer and staff are aware of their obligations in relation to the fair treatment of clients including through regular training.

Observations

Questionnaire responses (phase 1)

96% (26/27) of firms confirmed that they had implemented policies and procedures to ensure the fair treatment of clients in line with Regulation 6 of the COB.

One firm confirmed that its policies and procedures were in compliance with the requirements of the Financial Services Rule Book 2016 rather than the COB.

100% of firms confirmed that these policies and procedures complied

with the requirements of Regulation 6(2)(a-e) of the COB.

However, only 30% (8/27) of firms confirmed exactly how their policies and procedures complied with each individual requirement of Regulation 6(2)(a-e).

59% (16/27) of firms failed to include commentary around how they comply with Regulation 6(2)(d) and (e) specifically.

Responses confirmed what policies a firm has in place, i.e. a Treating



Customer Fairly policy, but did not articulate how this policy ensures ongoing compliance with Regulation 6(2).

Desk-based reviews (phase 2)

In respect of this topic, further information was sought from 4 firms. These firms were a mix of fully registered, dual regulated or partially exempt.

All firms provided a much more comprehensive answer and advised how the firm complied with each individual section of Regulation 6(2) of the COB.

Conclusions

A good response in Phase 1 addressed each individual aspect of Regulation 6(2) in a detailed manner, including examples.

During Phase 2, firms outlined how their policies and procedures were in compliance with Regulation 6(2), and answers showed a good understanding of the framework.

For future thematic exercises, firms should initially provide a more detailed response to aid the Authority's understanding.

3.1.2 General Sales Principles - Regulation 8

Regulatory Standard: Regulation 8 of the COB

An intermediary must –

(a) Give advice only on insurance matters about which the intermediary is knowledgeable;

(b) Ensure that the policy offered is suitable for the demands and needs of the client;

(c) Explain the main provisions of the cover afforded by the policy so as to ensure, as far as possible, that the client understands what the client is buying;

(d) Draw attention to the main restrictions and exclusions applying to the policy;

(e) Draw attention to any policy excesses and direct the client to documentation that outlines the detail of these;

(f) Unless the policy is subject to the Consumer Insurance (Disclosure and Representations) Act 2012 (an Act of

Parliament), explain to the client the duty to disclose all circumstances material to a policy and what needs to be disclosed, and explain the consequences of any failure to make such disclosure;

(g) In obtaining the completion of the proposal form, or any other material, avoid influencing the client and make it clear that all answers or statements are the client's responsibility;

(h) Explain that the client has an obligation to monitor the client's own cover to ensure it remains adequate;

(i) Not impose any charge in addition to the premium required by the insurer without disclosing the amount and purpose of such charge;

(j) Disclose the intermediary's commission on request; and

(k) Execute client's instructions in a timely fashion.

Observations

Questionnaire responses (phase 1)

96% (26/27) of firms confirmed that they had policies and procedures in place to ensure compliance with Regulation 8 of the COB.

However, responses were sometimes very high level and did not contain sufficient detail. The aim of one question was to try to ascertain how a firm undertook a demands and needs assessment to ensure the policy was suitable for both new business and renewals. 70% (19/27) of firms' answers did not reference each individual section of Regulation 8 of the COB or how the firm complies with each individual section.

Only 30% (8/27) of firms referenced how the demands and needs of a customer is assessed during the renewal process. Only one of these firms was a partially exempt intermediary. It was noted that 37% (10/27) of firms only issue pure protection policies (partially exempt intermediaries) which do not renew and the answer to this question would,

therefore, not be applicable.

Taking this into account, the revised statistics show that 41% (7/17) of general insurance intermediaries confirmed how the demands and needs of a customer is assessed during the renewal process.

In Phase 1, only 1 firm referenced the issuance of the IPID to highlight the main exclusions/cover provided by a policy.

15% (4/27) of firms confirmed that there are some circumstances in which they do not undertake a 'demands and needs' assessment. This is not in line with the requirements of Regulation 8(b) of the COB.

From the commentary within the questionnaire, one of the main

reasons presented for not undertaking a 'demands and needs' assessment was that some sales are provided on an execution only/limited advice basis. This was in respect of partially exempt intermediaries and dual regulated intermediaries.

In terms of documenting a customer's 'demands and needs' assessment, most firms who intermediate on general insurance contracts issued a SODAN at inception and then again at renewal. The SODAN would also form part of the renewal documentation. For those firms issuing pure protection contracts, 53% (8/15) confirmed that a face-to-face meeting was held to establish a customer's 'demands and needs' and to ensure that policies offered are suitable.

In phase 1, only 1 firm referenced the issuance of the IPID to highlight the main exclusions/cover provided by a policy

Desk-based reviews (phase 2)

Further information was sought from 5 firms. These firms were a mix of fully registered, dual regulated or partially exempt.

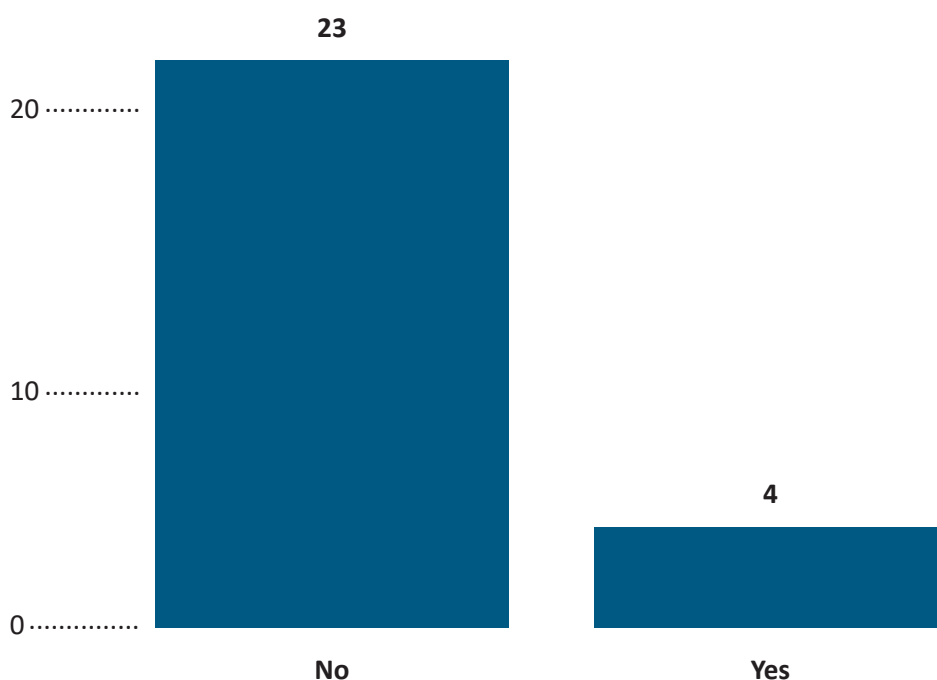
The Authority's queries were specifically around how a 'demands and needs' assessment is undertaken in respect of new business and more particularly, renewal, given the initial responses during phase 1 of the thematic review.

All firms partaking in phase 2 provided a more thorough response, which included details as to how a 'demands and needs' assessment is undertaken (via a client profile form/client questionnaire).

In the responses received, there was evidence that some firms placed the obligation onto their customers to ensure that the policy was suitable for their needs at renewal.

Statement of 'Demands and Needs'

Are there any circumstances in which the intermediary does not undertake a demands and needs assessment?



Firms should ensure that they assess the 'demands and needs' of a customer throughout the life span of the policy

Conclusions

Execution only and limited advice sales is not a concept defined within the COB. It is only a concept under the Financial Services Rulebook 2016 applicable to investment business. Regulation 8(b) of the COB, states that an intermediary must ensure that the policy offered is suitable for the demands and needs of the client. By not undertaking a (full) assessment of a client's demands and needs, a firm cannot be certain that the policy offered is the most suitable.

Firms should ensure that they assess the 'demands and needs' of a customer throughout the life span of the policy and not rely on the customer to notify the firm to confirm whether the insurance product is/remains suitable.

The Authority has previously issued guidance about

the suitability of an insurance contract and every firm should refer to [this guidance document that is available to view online](#).

The issuance of the IPID (where applicable) is good practice as this document provides a summary of what is insured, what is not covered, restrictions in cover and any obligations under the policy, and the IPID is in line with Regulation 8 of the COB.

Another example of good practice highlighted via the answers received during phase 1 and phase 2 of the thematic review is to include a SODAN (where applicable) within the renewal pack of information.

The SODAN outlines exactly what is covered under the policy, and confirms what the insurance policy is based on, ensuring that the policy remains suitable for the 'demands and needs' of the client.

3.1.3 General Sales Principles - Regulation 10

Regulatory Standard: Regulation 10 of the COB

10(1) An intermediary must ensure that a client is given written confirmation of the details of the insurance that is going to be put in place on the client's behalf prior to inception of the policy.

10(2) The details referred to in sub-paragraph (1) must, at a minimum, include –

(a) The name of the insurer or lead insurer providing the policy;

(b) Information about the type of insurance policy;

(c) A summary of the insurance policy, including the main risks insured, the insured sum and a summary of the excluded risks;

(d) The means of payment of premium and the duration of

payments;

(e) Any additional fees and charges associated with the policy;

(f) Main exclusions where claims cannot be made;

(g) Obligations at the start of the policy;

(h) Obligations during the term of the policy;

(i) Obligations in the event that a claim is made;

(j) The term of the policy including start and end dates of the policy;

(k) The means of terminating the policy; and

(l) For consumer policies, the existence and duration of the right of cancellation.

Observations

Questionnaire responses (phase 1)

100% of firms confirmed that they complied with Regulation 10(2)(a), (b), (c), (f), (g), (h), (i) and (j).

The following pre-inception information was not provided by all firms:

- Regulation 10(2)(l) - For consumer policies, the existence and duration of the right of cancellation – 11% of firms failed to provide this information.
- Regulation 10(2)(e) - Any addi-

tional fees and charges associated with the policy – 4% of firms failed to provide this information.

- Regulation 10(2)(d) - The means of payment of premium and the duration of payments – 4% of firms failed to provide this information.
- Regulation 10(2)(k) - The means of terminating the policy – 7% of firms failed to provide this information.

Desk-based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

Conclusions

Firms should ensure that all pre-inception information is provided to all customers as required under Regulation 10 of the COB. Failure to provide this information would constitute a breach of the COB.



3.1.4 General Sales Principles - Regulation 11

Regulatory Standard: Regulation 11(1) of the COB

An intermediary must –

(a) If possible, provide a copy of the full policy documentation to the client pre-inception together with the written confirmation required by paragraph 10; or

(b) If it is not possible to provide a copy of the full policy documentation to the client pre-inception, provide it as soon as reasonably possible post-inception,

and in any event, a copy of the full policy documentation must be provided to the client within sufficient time to enable the client to exercise any option to cancel or withdraw from the policy.

Conclusions

Firms should ensure full policy documentation is provided to all customers prior to the expiry of the cooling off period to ensure compliance with Regulation 11 of the COB.

Observations

Questionnaire responses (phase 1)

96% (26/27) of firms confirmed that all customers received full policy documentation prior to the expiry of the cooling off period, therefore complying with Regulation 11 of the COB.

1 firm confirmed that full policy documentation is required to be issued within 30 days of the policy start date although policy documents do tend to be issued within the 14-day cooling off period.

Desk based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

3.1.5 Vulnerable Customer Policy

Observations

Questionnaire responses (phase 1)

100% of firms that dealt with individual consumers confirmed that they had in place a vulnerable customer policy.

Desk-based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

Conclusions

The implementation of a vulnerable customer policy is good practice to ensure the fair treatment of all customers.

3.1.6 Impact of the Financial Conduct Authority's ("FCA") Consumer Duty requirements

Observations

Questionnaire responses (phase 1)

33% (9/27) of firms confirmed that they had been impacted by the introduction of the FCA's Consumer Duty Requirements. 7 of these firms are fully registered and 2 of these are partially exempt.

Impacted firms stated that they have been held to the same stand-

ards required by the FCA as for UK authorised firms. Firms have been required to undertake further training, complete fair value questionnaires and submit separate reports to their board.

For the firms that confirmed that they had not been impacted by the implementation of the Consumer Duty, the most common reasons were:

- Process is already covered under treating customers fairly.
- Requirements were guided by the product providers and as the Consumer Duty is not law on the Isle of Man, no amendments to current processes were required.
- Products issued were not in scope of the Consumer Duty.

Desk-based reviews (phase 2)

Additional information was requested from 5 firms. All these firms had confirmed that the implementation of the FCA's Consumer Duty had not had an impact on their day-to-day business.

For this question, firms' responses included:

- Firm is already acting in accord-

ance with the Consumer Duty requirements. Firm had reviewed reports and guidance issued by the FCA to ensure ongoing compliance.

- One firm found that there had been no impact on the general insurance book of business. This firm already follows Treating Customers Fairly policies which are acceptable to UK providers.

Conclusions

Firms should continue to review any agency agreements with any UK FCA regulated entities to ensure that they remain in compliance with these.

- Two firms stated that the Consumer Duty is only a requirement of UK regulated entities.

3.2 Terms of Business Agreement

3.2.1 TOBA

Regulatory Standard: Regulation 9(1) of the COB

An intermediary must provide a client with written terms of business.

Regulatory Standard: Regulation 9(2) of the COB

The terms of business must –

(a) Set out the basis on which the intermediary is to provide its services, including whether –

i. Products are offered from the whole of market, from a limited range of insurers or from a single insurer in relation to each type of insurance offered; and

ii. The intermediary acts as an agent, working on behalf of an insurer, or as a broker, acting on behalf of the client;

(b) Provide information on the nature of the remuneration received by the intermediary, including whether it works on the basis of a fee paid directly by the client, on the basis of a fee paid directly by the client, on the basis of commis-

sion or both;

(c) State that the client may request details of the amount of remuneration being received by the intermediary as a result of its relationship with, or transactions for, the client;

(d) State that the intermediary is registered as an insurance intermediary with the Authority;

(e) Provide information on the intermediary's complaints process, including a contact for complaints and that complaints may subsequently be referred to the Isle of Man Financial Services Ombudsman Scheme;

(f) Provide information on the intermediary's arrangements in relation to client money, including how interest received is to be dealt with and the arrangements for crediting interest to the client bank account; and

(g) If the intermediary will deal with claims, the contact details for notifying a claim or, if the intermediary does not deal with claims, advise the client of that fact and direct the client to the document that sets out the contact detail for notifying a claim.

Observations

Questionnaire responses (phase 1)

In respect of Regulation 9(1) of the COB, 96% (26/27) of firms confirmed that they provide all customers with a TOBA and 93% (25/27) of firms confirmed that TOBAs were provided pre-completion of the insurance contract.

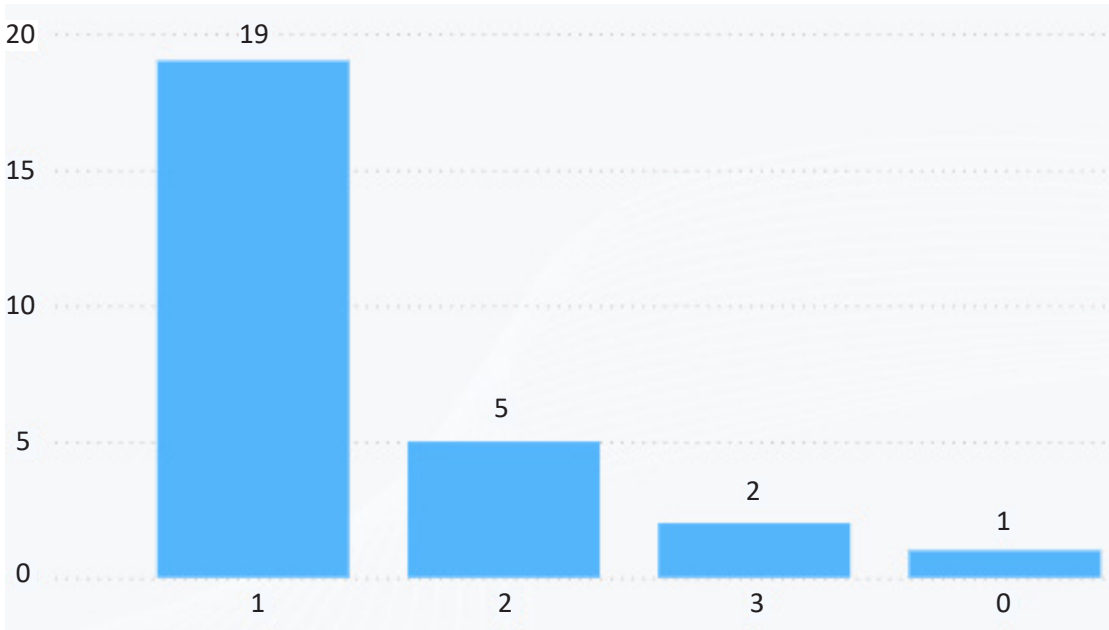
59% (16/27) of firms confirmed that TOBAs are provided to all customers at each renewal.

Out of the 11 firms who did not provide a TOBA at renewal, 64% (7/11) (26% of all firms) intermediate on pure protection products only which do not renew annually.

Each pure protection contract is issued as "new business" once the contract term has ended, and a new TOBA is provided.

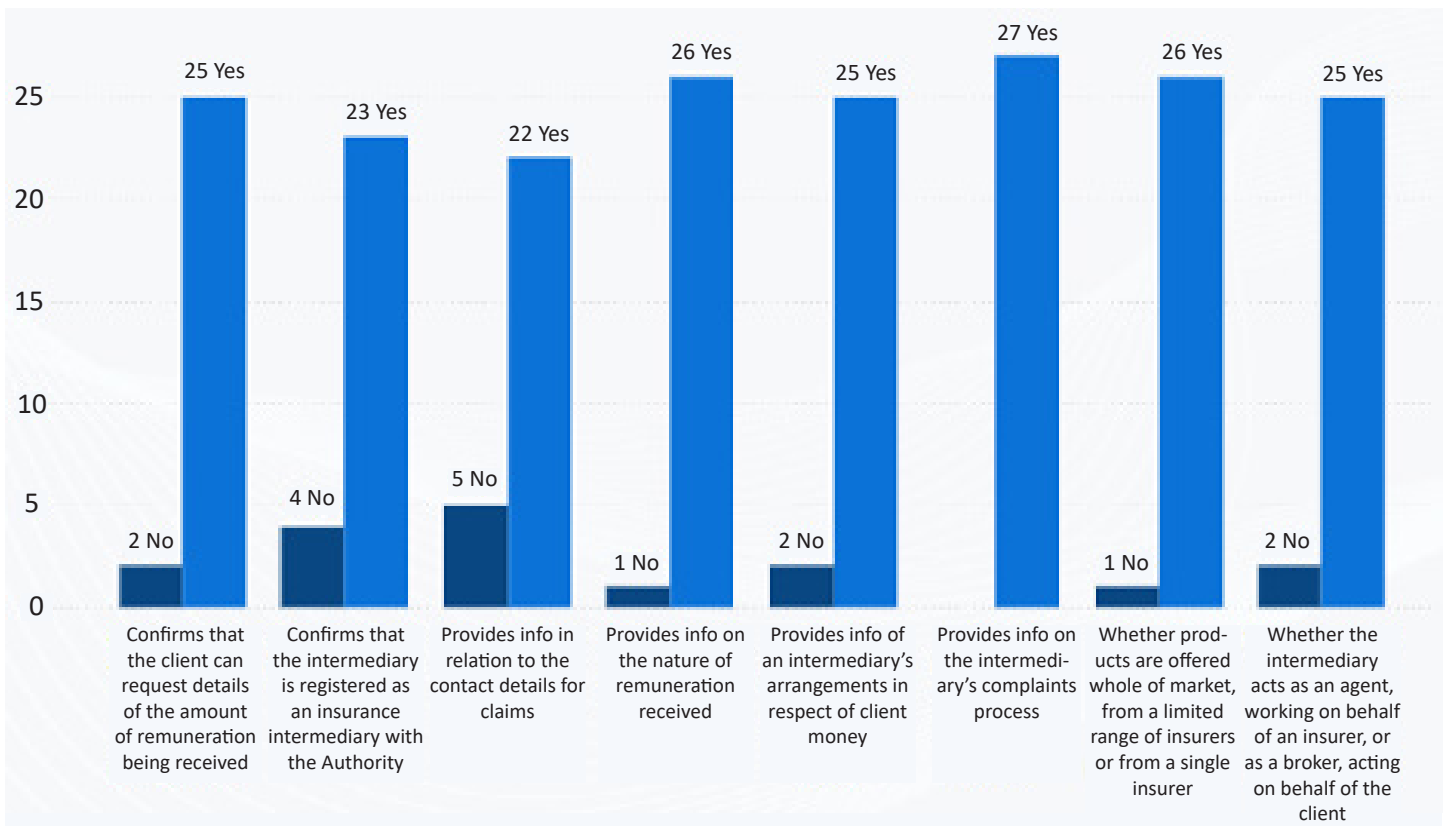
52% (14/27) of firms confirmed that they require a customer to confirm that they have received, read and accepted the TOBA.

How many variations of your TOBA are circulated?



Requirements of Regulation 9(2) of the COB

Whether each TOBA meets the requirements of Regulation 9(2)(a-g) of the Insurance Intermediary (Conduct of Business) (General Business) Code 2020 in respect of each of the following:



A TOBA is a commonly adopted method by which an intermediary can provide important information to a customer

Desk based reviews (in respect of Regulation 9(2) of the COB) (phase 2)

7 firms were required to provide a copy of their TOBA (each variation where applicable). It was found that all TOBAs submitted were in breach of at least one of the requirements of Regulation 9 of the COB. Therefore, the sample was expanded to include all firms.

All firms were found to be in breach of at least one section of Regulation 9(2) of the COB. The main requirement which most firms failed to comply with was Regulation 9(2)(a)(i). Only 11% (3/27) of firms fully complied with this regulation.

70% (19/27) of firms only had one variation of TOBA. It is inherently more difficult for a firm to provide the information required under Regulation 9(2)(a)(i), in respect of **each type of insurance offered**, within one TOBA document. Some firms used generic statements such as:

- “The types of products offered are xxx, xxx and xxxx, and are selected from the whole of market or a limited range of insurers or from a single insurer for each type of insurance offered” or;
- “In certain circumstances we may only deal with a limited panel or a single insurer”.

These generic statements are not acceptable and not in compliance with Regulation 9(2)(a)(i).

Conclusions

A TOBA is a commonly adopted method by which an intermediary can provide important information to a customer and satisfy regulatory disclosure requirements.

Under Regulation 9(2)(a)(i) a firm is required to state what products are offered and whether these are from the whole of market, from a limited range of insurers or from a single insurer, for each type of insurance offered. Generic statements covering all aspects of business conducted are not sufficient to meet this requirement.

Firms who are dual regulated or relying on a partial exemption should not assume that their obligations under the FSA08 are the same as those under the IA08. Good practice would be for this type of firm to distinguish between the two different regulatory frameworks that apply by issuing a separate TOBA for those products regulated under the IA08 and FSA08.

For firms who do not issue a new TOBA at each renewal (and provide general insurance contracts which renew annually), the Authority would expect these firms to have a process in place to periodically review its TOBA. If any changes are required, the TOBAs should be reissued to all customers in a timely manner.

Firms should review the requirements of Regulation 9(2) and ensure that their TOBA complies with all the requirements.

3.2.2 Fees and Commission

Observations

Questionnaire responses (phase 1)

37% (10/27) of firms confirmed that they charge fees in addition to any commission payable.

Out of the 10 firms that do charge additional fees, the main reasons for doing so were:

- Administration fees for new, mid-term, or renewal adjustments.

- Administration charge at set up if it would be unprofitable to write a certain line of business.

All fees charged are declared to the customer, usually via the TOBA.

Desk-based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

37%

Firms that charge fees in addition to any commission

Any additional fees and charges associated with the policy should be provided within the pre-inception information

Conclusions

It was positive to note that any fees charged were declared to the customer. As per Regulation 10(e), any additional fees and charges associated with the policy should be provided within the pre-inception information.

3.3 Delegated Authority Schemes

Observations

Questionnaire responses (phase 1)

15% (4/27) of firms confirmed that they have in place at least one delegated authority scheme.

All 4 firms confirmed that they are audited by an external party in rela-

tion to their delegated authority scheme at set intervals.

Desk-based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

Conclusions

It was positive to note that those firms with a delegated authority scheme undergo an external audit in respect of each of the delegated authority schemes.

3.4 Online Sales

Observations

Questionnaire responses (phase 1)

15% (4/27) of firms confirmed that they offer online sales. The type of insurance sold via online sales include:

- Travel Insurance;
- Motor; and
- Household Insurance.

In respect of online sales, customers were provided with all documentation once the quotation had been accepted. 'Demands and needs' assessments were undertaken via a set of pre-agreed online questions. If insurance needs fell outside of the pre-agreed criteria, then the online

sale could not progress, and the customer was required to contact the firm directly.

In respect of ensuring that a policy was suitable for the 'demands and needs' of a customer, firms tended to follow the same process identified in section 3.1.2 above.

In respect of TOBAs for online sales, some firms provided the customer with the TOBA for the insurer instead of the firm's TOBA. In this instance, the firm should ensure that the customer understands who they are contracting with, and who they should contact if assistance is required. Any fees due to the firm (if applicable) that would normally be

included in the firm's TOBA should be outlined to the customer if the firm's TOBA is not provided.

Desk-based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

Conclusions

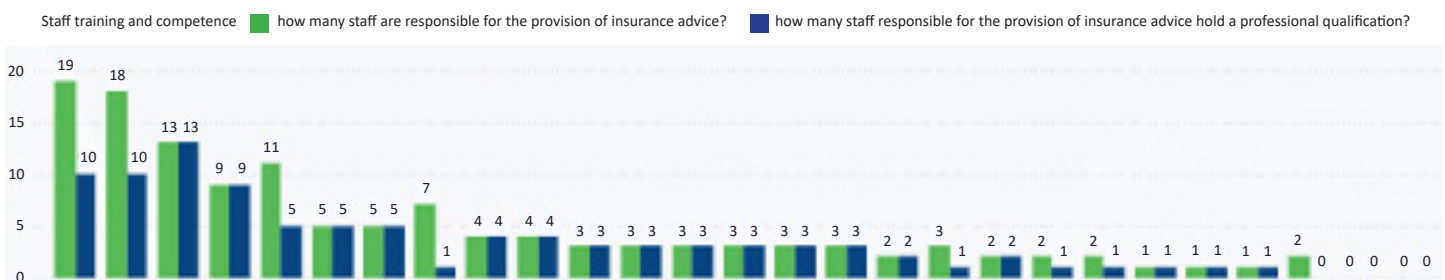
It was positive to note that the demands and needs assessment in respect of online sales followed the same process as all other types of sales, and that these sales were in line with Regulation 8 of the COB.

3.5 Staff training and competence

Observations

Questionnaire responses (phase 1)

Confirm how many staff are responsible for the provision of insurance advice vs how many staff responsible for the provision of insurance advice hold a professional qualification



78% (21/27) of firms require staff to hold a minimum professional qualification if they are providing insurance advice. For those firms that do not have a minimum professional qualification requirement, the reasons provided were either that staff are qualified by experience or that staff are encouraged to undertake the Certificate level Chartered Insurance Institute exams, however this is not a formal requirement.

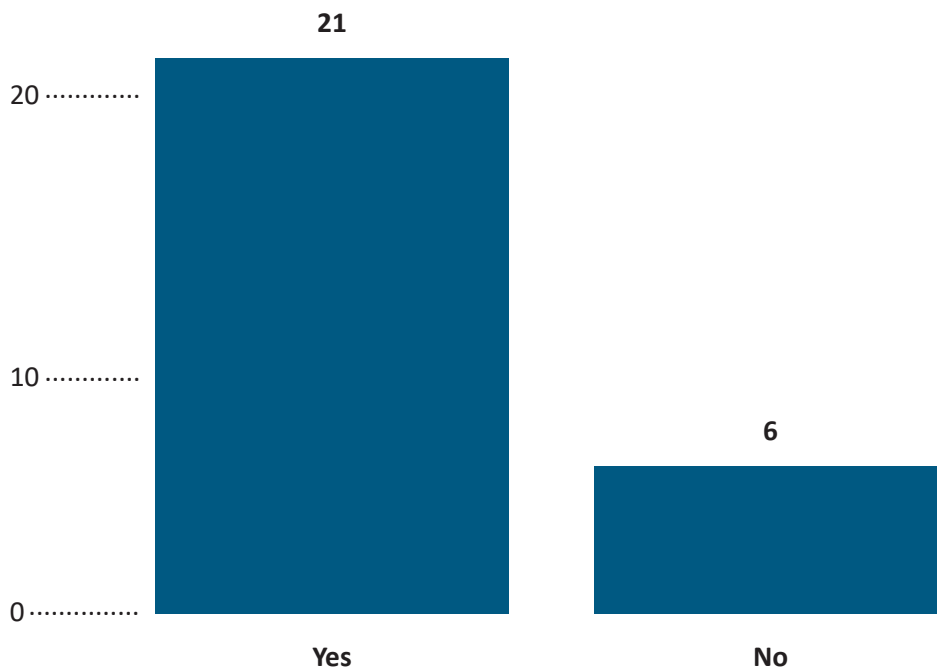
89% (25/27) of firms require staff providing insurance advice to record minimum CPD hours whether qualified or not. The majority of firms require at least 35 hours of CPD which is in line with the Chartered Insurance Institute requirements.

78% (21/27) of firms provide staff with ongoing training in respect of the provision of insurance advice.

Desk-based reviews (phase 2)

The Authority enquired with 2 firms as to why they reported (in the questionnaire) that their staff were not provided with ongoing training in respect of the provision of insurance advice. In this instance, both firms misunderstood the question, and confirmed that all staff are required to maintain a CPD log and complete a set number of CPD training hours per year.

Confirm whether staff are required to hold a minimum professional insurance related qualification and if they are providing insurance advice to customers



Conclusions

It was encouraging to note that those firms which are dual regulated/partially exempt, ensured that all staff responsible for the provision of advice were qualified to an appropriate level. On the other hand, fully registered intermediaries did not appear to have any formal qualification requirements.

All firms should ensure that any staff employed continue to meet the competency requirements for a specific role as defined under the Authority’s Training and Competence framework.



3.6 Remuneration and Incentives

3.6.1 Remuneration Policy

Regulatory Standard: Article 28 of the CGC

(1) An intermediary must establish, implement and maintain an effective remuneration policy which must be in writing.

(2) The policy must –

(a) Address the risk of inappropriate

remuneration undermining the interests of clients;

(b) Avoid conflicts of interest caused by the misalignment of incentives;

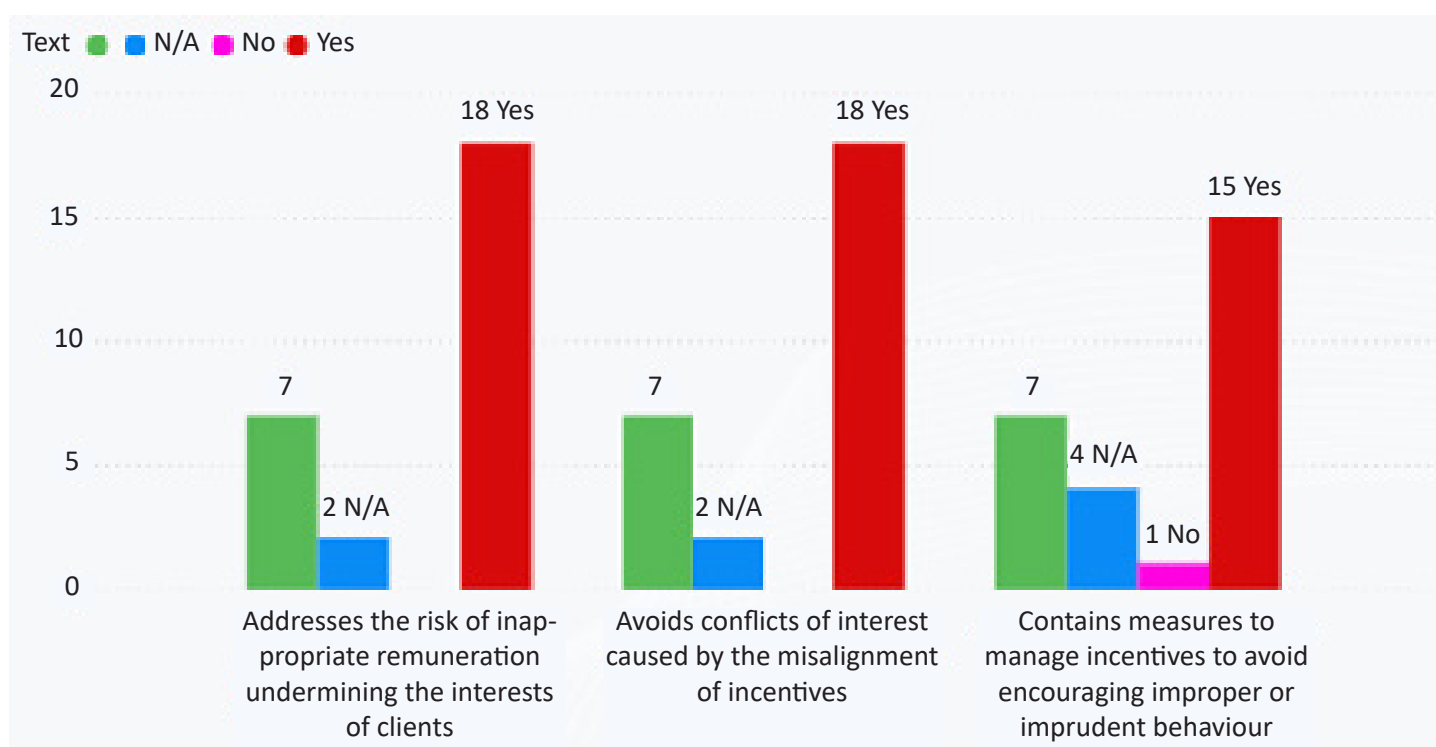
(c) Contain measures for the proper management of incentive schemes so as to avoid the encouragement of improper or imprudent behaviour.

(3) An intermediary must –

(a) Ensure that the policy is complied with; and

(b) Maintain adequate, appropriate and effective procedures and controls for the purpose of monitoring its compliance with the policy.

Confirm if the remuneration policy meets all of the following requirements of Article 28(2)(a-c) of the Insurance Intermediaries (Corporate Governance) (General Business) Code 2020



Observations

Questionnaire responses (phase 1)

74% (20/27) of firms confirmed that they have implemented a remuneration policy in line with the requirements noted within Article 28 of the CGC.

67% (18/27) of firms confirmed that their remuneration policy addresses the risk of inappropriate remuneration undermining the interests of clients.

67% (18/27) of firms confirmed that their remuneration policy avoids conflicts of interest caused by the misalignment of incentives.

56% (15/27) of firms confirmed that their remuneration policy contains measures for the proper management of incentive schemes to avoid the encouragement of improper or imprudent behaviour.

To ensure ongoing compliance with

their remuneration policy, some firms implemented the following:

- Audit of sales undertaken to ensure these are not driven by higher commission/fee levels – implemented by 19% (5/27) of firms.
- Bonuses based on non-sales factors such as culture/ethics – implemented by 33% (9/27) of firms.

Desk-based reviews (phase 2)

During phase 2 the Authority enquired with 5 firms as to why they didn't have in place a remuneration policy in line with Article 28 of the CGC.

Out of the 5 firms, 4 confirmed that they did in fact have a remuneration policy in force. One firm advised that there is no remuneration policy as staff do not receive bonuses or sales incentive payments above basic salary.

Conclusions

For those firms required to implement a remuneration policy, each firm should ensure full compliance with Article 28(2)(a-c) of the CGC.

3.6.2 Method of staff incentivisation

Observations

Questionnaire responses (phase 1)

44% (12/27) of firms confirmed that they do not incentivise staff and 41% (11/27) of firms confirmed that they incentivise staff via a bonus. 4% (1/27) of firms confirmed that they incentivise staff via rewards linked to sales.

11% (3/27) of firms confirmed that staff were incentivised via other means. For example, via discretionary bonus payments which are paid annually. Bonuses/pay is based on a variety of factors such as behaviours, Chartered Insurance Institute ethics, good quality client outcomes



and culture. One firm confirmed that staff earn a percentage of the fee for each sale.

Desk-based reviews (phase 2)

This area was not included within phase 2 of the thematic review.

Conclusions

Any remuneration should be considered in line with Article 28 of the CGC and a firm's own remuneration policy.

Firms should ensure that staff remuneration does not provide unfair client outcomes.

It was noted that 2 firms incentivise staff via a percentage of the fee for each sale or via rewards linked to sales.

These firms should ensure that any remuneration via these methods does not prejudice client outcomes and drive behaviours that would incentivise staff to recommend unsuitable policies.

Firms should ensure that staff remuneration does not provide unfair client outcomes

4. About this report

The thematic review was not intended to be a comprehensive review or examination of the firms' systems, controls or activities. This report does not in any way limit, and therefore should be read in conjunction with, any applicable legal and regulatory requirements.

Accordingly, any references to Acts, Regulations, Codes or Guidance

within this report are for ease of reference only. The observations and conclusions contained in this report are based upon evidence available at the time of the thematic review and based upon information provided by the firms. The firms cannot simply rely on the content of this report and should continue to assess their own level of compliance with the COB and CGC. This report is written on an

exception only basis.

A lack of comment in this report should not be taken to represent tacit approval.

It remains the ultimate responsibility of a firm's Board and Senior Management to ensure the financial wellbeing and effective management of the firm, including compliance with regulatory requirements.



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