31st July 2023

UK GI Product Oversight and Governance

Information for Distributors

This document has been produced by Aviva Insurance Limited in accordance with our regulatory responsibilities as a Product Manufacturer of UK General Insurance products. It is intended for use by our Distributors and not for customers or operational staff.

Protecting customer and business interests

Introduction

Aviva has well established Product Oversight and Governance controls in place to provide assurance that the activities undertaken throughout the lifecycle of a product are managed to an acceptable standard.

- **For customers** – we want the general insurance products we manufacture to provide fair value and good outcomes; where products can be accessed for a fair price and used as customers would reasonably expect.
- **For businesses** – we uphold the high reputational and conduct risk management expectations of today's insurance firms; adhering to legal and regulatory requirements and managing operational risks to industry standards.

We know and understand that, at any time, we must be able to demonstrate to the UK regulator, industry bodies and ourselves that we are acting in the customer's best interests.

Aviva's internal Product Development, Approval and Management (PDAM) framework, sets the expected business and customer outcomes for product oversight and governance across all Aviva's general insurance products. These processes and controls are designed to align with the Insurance Distribution Directive (IDD) and Financial Conduct Authority (FCA)'s regulatory requirements for Product Manufacturers such as PROD4 and Consumer Duty. They have been refined to an optimum level from many years of experience in developing and delivering products to market, via a continuous improvement cycle, incorporating internal and external audit feedback.

As a result, propositions meet **identified customer** needs, are **transparent**, deliver **fair value and benefits** that customers can reasonably expect, provide good outcomes and are compliant with local laws and regulations.

FCA's Product Intervention and Product Governance Sourcebook (PROD)

- The FCA have introduced four key pillars of regulations for supervision purposes and consumer protection objectives and over time these have been brought together in the FCA's PROD Sourcebook for applicable firms and products.
- Collectively these form the product oversight and governance (POG) arrangements for the systems and controls Product Manufacturers and Product Distributors are expected to have in place.

Product Design

Product Manufacturers – primarily responsible for activities under PROD 4.2 relating to products it manufactures only:

- Manufacture of insurance products (see Note 1)
- Product governance arrangements, set out in a written document
- Product approval process
- Fair value assessment
- Target market determination
- Product testing
- Distribution channel selection
- Information disclosure to distributors.

Product Distribution

Product Distributors – primarily responsible for activities under PROD 4.3:

- Distribution of insurance products (see Note 2)
- Product distribution arrangements, set out in a written document
- Obtain information provided by the Product Manufacturer
- Assess the impact of their distribution arrangements on customer value
- Where part of a package distributors must also ensure arrangements do not have a detrimental effect on the intended value of each Manufacturer's product.

Product Review

Monitoring and review of insurance products, annually (or more frequently where appropriate):

- Manufacturer review of the product value
- Distributor review of product distribution arrangements
- Where it is identified a product does not offer value inform one another of any concerns or potential breaches and required remedial actions.

Customer Outcomes

Additional expectations for manufacturers and distributors in relation to **value measures** (PROD 4.5):

- In accordance with the FCA's General insurance value measures reporting (SUP 16.27) rules relevant Manufacturers or Distributors must submit a value measures report for in-scope products.
- Ensure the product offers fair value to customers in the target market including assessing the FCA's value measures information published.

Notes:
(1) Firms who, upon overall analysis of activities, are deemed to be Co-Manufacturers must sign a written agreement which specifies their collaboration to comply with certain requirements for manufacturers. Aviva as an Underwriter is always a Manufacturer or Co-Manufacturer.
(2) Not applicable to firms who are a sole Product Manufacturer and also distribute their own products.
(3) Applicable to Product Manufacturers who distribute products they do not manufacture themselves (introducer or stand-alone basis).

Aviva's Product Development, Approval and Management Process (PDAM)

Product development and approval

- At Aviva we set ourselves apart from the market through the **quality** of our products and the strength of our end-to-end proposition development, catering for multi-product category and distribution channel **propositions**.
- We approach product development in an agile way, using market and distributor insight, and with the **customer's best interests** at the heart of decision-making throughout the product development journey.
- There are a set of formal **approval** steps prior to a product launch or change that must be achieved, ensuring that products are designed to meet customer/client's needs, align with target markets and deliver against a range of **value measures** including expected usage and claims pay-out for price paid.

Product management and review

- As part of our in-life product governance we have post-launch monitoring and review processes to identify **opportunities** to meet customer needs and watch out for any indication of poor value emerging.
- We have a formal **product review framework**, where products are reviewed annually, assessing performance based on **usage** and **outcomes** such as claims and complaints, and ensuring terms and conditions remain clear, fair and not misleading.
- This is complimented by our proposition working groups and oversight forums, which bring together the end to end functions of the business on a regular basis to identify and take action to **improve customer outcomes** and overall **product value**.

You can be confident we are committed to ensuring the products we manufacture are both compliant and fair value.

Aviva’s Operational Risk and Control Management (ORCM)

How do we manage risk at Aviva?

- Operational risk and control management (ORCM) is the **framework** we use to manage risk.
- We use the '**3 Lines of Defence** model’ at Aviva which is consistent with expectations for corporate governance, systems and controls, widely adopted by financial services companies and recognised by the UK **Regulator**.
- Aviva’s business leaders are **accountable** for the identification and management of operational risks that could impact customer outcomes and financial performance in their business areas.
- We use an IT system called **iCARE** to manage our operational risks and controls at Aviva. Additionally we also use QlikSense for analysing and reporting purposes to support our business leaders and Boards understand our operational risk profile and monitor management **actions**.

Why is ORCM important?

- Aviva has been assessing and managing risk for over 325 years, it's in our **DNA**.
- Of course, sometimes things do go wrong – but how businesses **respond** can have a positive effect on the overall impact on customer and business **outcomes**, so we undertake deep root cause analysis of issues to prevent them from happening in the future.
- ORCM also helps us **demonstrate** how we meet the FCA’s conduct rules, in line with Aviva’s values and purpose:
  - Act with integrity.
  - Act with due skill, care and diligence.
  - Be open and cooperative with the FCA, the PRA and other regulators.
  - Pay due regard to the interests of customers and treat them fairly.
  - Observe proper standards of market conduct.

We fix the problem and identify the root cause so it doesn’t happen again.

FCA Value Measures Reporting

Aviva's reporting responsibilities*

- The FCA require Value Measures Reporting to be submitted for supervision purposes on an annual basis which is designed to protect consumers by reducing potential for harm from poor value products.
- Aviva as a Product Manufacturer is responsible for submitting the FCA Value Measures Report for the products in scope that we underwrite. Reporting is at an aggregate product class level with our top five distribution arrangements identified by name only.
- To date we have participated in all four Value Measures pilots and following final rules are adopting the FCA's value measures and definitions as the industry standard for use in our internal and contractual reporting.
- Where Aviva's product design include covers provided by third parties we have arrangements in place to receive the required MI to include in our submission too.

In accordance with the FCA's Supervision manual - SUP 16.27 **General insurance value measures reporting** rules effective from 1st July 2021. Note; Packaged Bank Accounts, no claims bonus protection and commercial products are exempt from these rules.

The Reporting Process:

Pre-submission

- Monthly monitoring of value measures as part of Aviva's internal conduct outcomes reporting.

Preparations for submission – we will:

- Collate the data for the reporting period ending 31 December
- Apply the reporting thresholds (3,000 policies, £400,000 written premiums)
- Notify our top five Distribution arrangements identified
- Prepare commentary to accompany submission of data for internal approval prior to submission.

Submit Report on or before 28 February.

FCA publishes four measures (expected Q2):

- Claims frequency
- Claims acceptance rate
- Average Claims pay-outs
- Claims complaints as a percentage of claims

Post publication – we will:

- Benchmark Aviva to peers, issue a media statement where appropriate
- Where relevant use benchmarking of published data in annual product reviews.

FCA Value Measures Data

Interpreting the Value Measures data published

- Aviva has a wide range of products offered through multiple channels and our Distributors benefit from this broad experience and economies of scale.
- Our mix of business means the data published will not be comparable to the individual Distributor propositions we provide. This is because the data is aggregated and includes products at different stages of their lifecycle and for a variety of customer needs, ranging from essential cover to enhanced high net worth policies.
- We cannot share Aviva's detailed full data submission for the required 15 Value Measures submitted to the FCA however agreed contractual management reports will continue as usual.
- Data for the four measures that will ultimately be published by the FCA will enable the Regulator, Distributors and others to benchmark Aviva's overall performance. Additionally we will use this information to benchmark ourselves against our peers.
- Where we identify themes and actions these are included in the value assessment of our annual product review process.

Relevant Value Measures Reporting Category that Aviva will submit data for
Excess protection (for motor insurance) Stand-alone
Gadget (including mobile phone) Stand-alone
Healthcare cash plan
Home – buildings only
Home – contents only
Home (buildings and contents combined)
Home emergency Stand-alone
Legal expenses – home
Legal expenses – motor
Motor
Motorcycle
Payment protection (credit card, store cards and personal loans)
Payment protection (mortgage)
Personal accident Stand-alone
Pet – covered for life
Travel – Annual European
Travel – Annual Worldwide
Travel – single trip Stand-alone
Notes: The above list excludes products that Aviva provides which are reported by other firms or below the threshold. Also where Aviva provides covers included within the main policy or sold as an optional extra or a cover extension of the policy and is not a separate contract then that cover is reported as part of the reporting for the main policy. Except for legal expenses which must be reported separately.

FCA PROD4 Rules – Information we share with you*

- Aviva, as Product Manufacturer, expects to share the following information with you either as a separate document or communicated via our joint management meetings.

Product Information

Provided separately:
- Insurance Product Information Document (IPID)
- Policy Wording.

Product Approval Process

Provided in this document:
- Applicable for propositions developed by Aviva as Product Manufacturer.

Target Market Statement

Provided separately, containing:
- Information about who the product is designed for and suggested distribution strategy.
- Who the product is not designed to support (negative target market).

Product Review
Value Assessment Outcome

Completed annually by Aviva as Product Manufacturer:
- Value assessment outcomes shared in joint management meetings.
- Relevant concerns, breaches or remedial actions.

- Where appropriate following our assessment of the value the product provides we may also advise you of the effect you may have on the intended value that has not been fully taken into account by us and that you should take into account e.g. your fees/charges or products Aviva do not manufacture.
- For Co-Manufacturing arrangements the information shared shall be in accordance with our written agreement.

* In accordance with the FCA's Product Intervention and Product Governance Sourcebook (PROD) 4.2.29 R, 4.2.29A G, 4.2.30 UK,4.2.31 UK, 4.2.32 R, 4.2.37 UK.

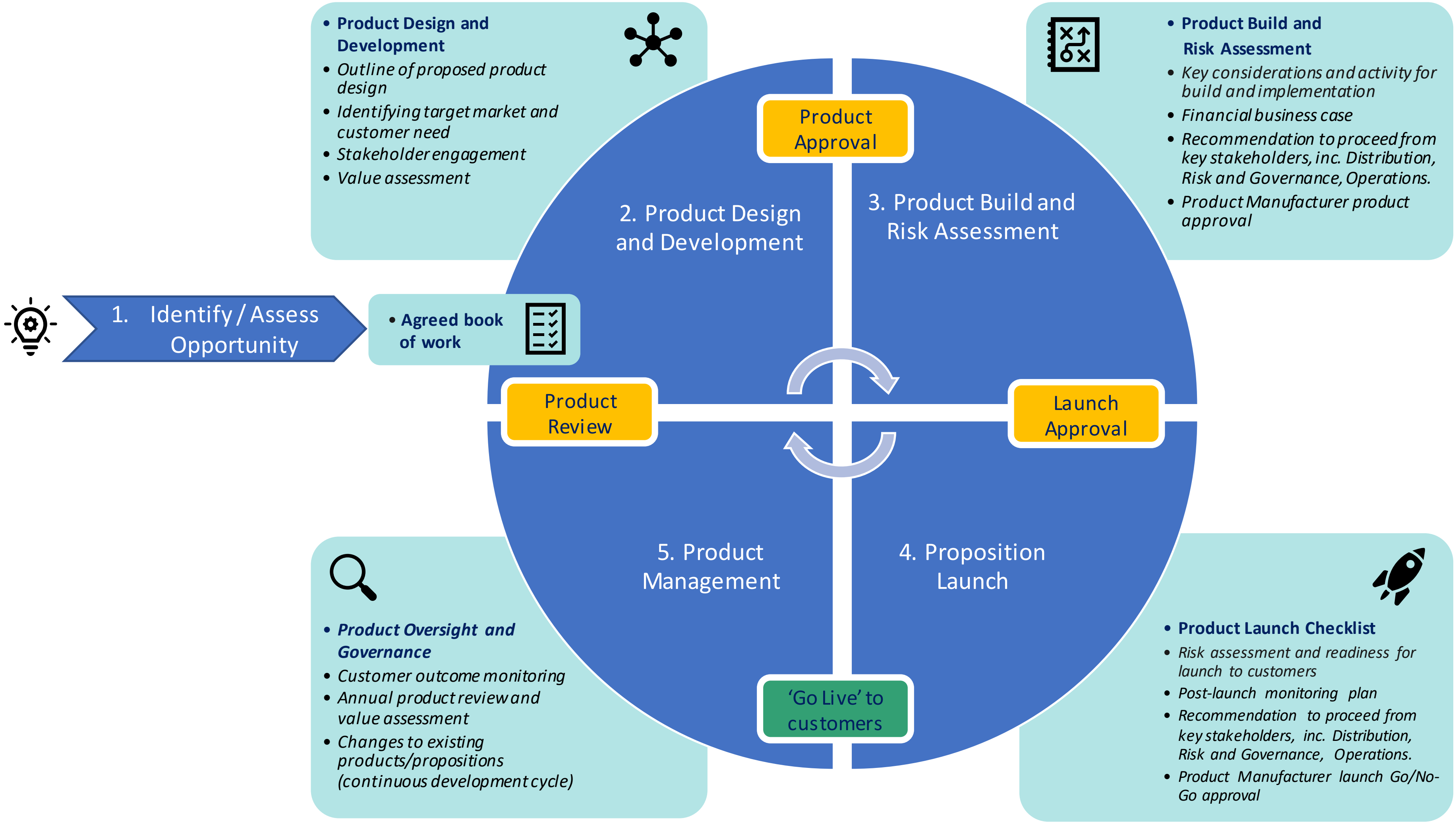
FCA PROD4 Rules – Information we require from you*

- As a Product Distributor we expect you to provide the following information to enable us to assess the value of the insurance product we underwrite.
- Information required will relate to the impact on the Aviva underwritten product, additional product or component being distributed only. This can be provided to us by sharing the outcome of your product distribution review or discussed in our joint management meetings.

Product and target market	Informing us if the Aviva underwritten product is either: • not suitable for the intended target market in relation to your distribution arrangements and could adversely affect the customer; and/or • where you identify you have distributed our product to customers outside of the target market we have identified.
Product value in the distribution chain	Information to enable us to identify: • the type and amount of remuneration of each party in the distribution chain; and/or • the quality of services provided by these parties. Note: This may be required at the outset of any arrangement and at the time of product changes or review.
Ancillary products that may affect the value of our product	Informing us about products or packages that may affect the value of the Aviva underwritten product: • any potential detrimental effect on the intended value of the Aviva underwritten product where it is part of a package (product or service) you distribute for example the possibility of dual insurance. • where poor value is identified for any ancillary products sold as a separate contract offered in connection with or alongside when the Aviva underwritten product is being distributed by you – this includes insurance and non-insurance products, services and retail premium finance.
Management Information	Where necessary to support our PROD obligations and supervision by the FCA we may require additional information which we donot ordinarily hold. This is most likely to be in relation to the above and can be discussed in our joint management meetings. • To support our product review and value assessments this may include requesting the outcome of your product distribution review. For delegated authority underwriting arrangements this may also include cancellations, claims and complaints root causes. • For formal data submissions required in relation to the FCA Value Measures Report and FCA Pricing Practices Pricing Report these will be dealt with via separate communications with the relevant parties directly.
Customer's best interests rule	Informing us if you have any concerns, breaches or remedial actions in relation to the Aviva underwritten product being distributed.

* In accordance with the FCA's Product Intervention and Product Governance Sourcebook (PROD) 4.2.14 P R , 4.3.10 UK, 4.3.10B R, 4.3.11 UK, 4.3.11A R.

Aviva's Product Approval Process



Aviva’s Product Approval Process

Aviva’s Product Approval Process is the mechanism to assess and document the considerations and requirements for all new product developments and any significant adaptations or material changes to existing products. The product development and build approach is agile with approval required for Product Approval and Launch Approval stages before it will be released to customers. Following this, performance and customer value is assessed though post implementation monitoring and an annual Product Review cycle. A formal approval process is followed for each stage.

Product Approval

Product Design and Development

Provides an overview of the development in relation to customer needs and business strategy.

- Identifies the target market and customer need that the development meets
- Articulates how the product/proposition aligns to the business strategy
- Considers how the development will be managed and financed
- Identifies the stakeholders who will be involved
- Evaluates the value the product provides to customers.

Product Build and Risk Assessment

Defines the blueprint for delivery including infrastructure, risk management and customer engagement.

- Details the key activities across all areas to ensure the product/proposition is fit for purpose
- Assessment of the risks associated with the development, along with the measures and indicators in place to monitor these
- Details scenario analysis and product testing undertaken.

Launch Approval

Product Launch Checklist

Ensures that risks and dependencies have been managed and operational areas are ready to support the development.

- Details any changes to the development or risks since product approval
- Seeks input from all relevant stakeholders that the development is ready for launch
- Confirms risk acceptance of launch criteria
- Documents post launch monitoring plan to report on customer usage, value and operational performance.

Product Review

Product Oversight & Governance

Ongoing monitoring that the product provides value to customers.

- Assesses a range of customer outcome indicators to determine that the product continues to provide value to customers
- Identifies and tracks corrective actions required
- Shares outcomes with Distributors.

Appendix: Examples of a potential breach

- The FCA sets out their expectations of fair value within the PROD4 Sourcebook and provides the following examples that could be considered a breach.

Fair value of insurance product or package manufactured	**Fair value of distribution arrangements**
Where the difference between the risk price and the total price paid by the customer bears no reasonable relationship to: - the costs incurred - the quality of any benefits; or - the quality of any services provided.	Where a firm receives a level of remuneration which does not bear a reasonable relationship to the firm's actual costs, or their contribution, level of involvement or the benefit added by them.
Where a firm increases the price of an insurance product based on: - policies subject to auto-renewal compared to those that are not; - a customer's vulnerability or any protected characteristics (unless permitted under the Equalities Act 2010); or - where customers purchase the policy using retail premium finance, unless this can be justified.	Where a firm provides little or no benefit beyond that which the customer would receive if they obtained the insurance product through another distribution channel.
Where a firm uses an estimated final price to the customer to assess value that does not represent the expected total price to the customer including any additional products the firm expects to be purchased by the customer. For example, where the firm is responsible for providing or making available retail premium finance (the costs of which will be part of the total price paid by the customer).	Where a firm has remuneration arrangements which give an incentive to propose or recommend an insurance product which either does not meet the customer's needs (or not as well as another product would) or is not in accordance with the customer's best interests rule.
	Where an insurance product is distributed as part of a package, the overall price of the package not bearing a reasonable relationship to the overall benefits provided by the package.
	Where the level of any remuneration for which the firm is responsible for setting is not reasonably reflective of the costs actually incurred.

Appendix: Examples of potential remedial actions required

- Where a breach is identified the FCA expects remedial action to be taken, which may include:

Manufacturers	Distributors
Making changes to the product (such as amending policy terms or applying them more favourably to customers in the event of a claim).	Amending its remuneration structures.
Offering existing customers the option to cancel the contract without additional cost (for example by waiving cancellation fees or charges.	Amending the distribution arrangements.
Providing customers with a refund of the difference between the premium paid and the premium for a fair value version of that product.	Improving the quality of, or ceasing, any service or benefits.
Proposing alternative insurance products, whether offered by the firm or another provider, to existing customers or distributors which provide fair value and which would be compliant with other FCA requirements.	Where the failure to provide fair value is due to the costs or quality of additional products, renegotiating the terms of the current arrangements relating to the additional products, or selecting alternative providers or distributors of them, in order to provide for a fair outcome.
Withdrawing the insurance product from continued marketing or distribution.	Ceasing to distribute certain insurance products (or where relevant, packages), or ceasing to use certain distribution channels.
	Contacting existing customers to inform them of the issues and of the measures being taken to rectify them.
	Providing redress to customers.

It takes Aviva

For more information please speak to your usual Aviva representative.

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