

Product Oversight and Governance & Conduct Risk Policy

Lloyd's Insurance Company S.A.

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Product Oversight and Governance & Conduct Risk Policy

Table of Contents

1	Purpose	5
1.1	Purpose	5
1.2	Definitions	5
	Conduct risk	5
	Customer	5
	Customer lifecycle	5
	Product	5
	Product lifecycle	6
	Product manufacturer	6
	Distributor	6
	Product oversight and governance	6
	Sales	6
	Post sales	6
	Claims	7
	Complaints handling	7
1.3	Relevant legislation	7
1.4	Responsibilities	8
1.4.1	LIC Underwriting function	8
1.4.2	Policyholder and Third Party Oversight	9
1.4.3	LIC Compliance function	9
1.4.4	Managing Agents	9
1.4.5	Coverholders	10
1.4.6	Product manufacturer	10
1.4.7	Product distributor	11
1.4.8	Seconded	11
2	Scope	11
2.1	Application	11
2.2	Activities in scope	12
3	Policy Statement	12
3.1	Corporate Culture and strategy	12
3.2	Product lifecycle	13
3.2.1	Product Manufacturing	13
3.2.2	Product Distribution	14
3.2.3	Product sales	15
3.2.4	Product servicing	16
3.2.5	Performance management & monitoring	16
3.3	Conflicts of interest	16
3.4	Regulatory compliance	16
4	Monitoring, Reporting and Escalation	17
4.1	Monitoring	17
4.2	Reporting	17
4.3	Escalation	17
5	Training	18
6	Related documents	18
7	Glossary	18

Product Oversight and Governance & Conduct Risk Policy

Document control

The Product Oversight and Governance & Conduct Risk Policy ("the Policy") is part of the suite of policies owned by the Underwriting Function of Lloyd's Insurance Company S.A. ("LIC" and/or "the Company"). Any requests or queries should be directed to the Underwriting Function.

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Product Oversight and Governance & Conduct Risk Policy

Governance Process

The Policy will be reviewed and updated in response to any material changes in the organisational structure, legal or regulatory expectations or new regulations. In the absence of any such changes the Policy must be reviewed at least annually to ensure that it remains up to date and relevant. All material changes to the Policy (i.e. changes in scope, or requirements, or required behaviours to comply with the Policy) and the annual Policy review and update must be reported to the Lloyd's Insurance Company Compliance department.

The review and update process for this Policy is the responsibility of the Underwriting Function.

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Product Oversight and Governance & Conduct Risk Policy

1 Purpose

1.1 Purpose

LIC's customers are at the heart of its business. The Company is committed to conducting its business fairly, honestly, professionally and in the best interests of its customers. LIC expects its staff and third parties to manage conduct risk appropriately and in a manner that is consistent with LIC's Integrity Policy and applicable legislation, regulations and regulatory expectations.

The purpose of this Policy is to ensure that LIC staff and third parties within the scope of the Policy deliver a fair product outcome for the Company's customers at all times. Conduct risk exists in many business areas and in all stages of the product life cycle. It does not only exist in direct interactions with customers. Therefore, it is important that the Company's culture, outsourcing arrangements and product oversight and governance arrangements are focussed on ensuring that harm to customers is avoided. In the event that it does arise, it is vital that it is addressed promptly and effectively. Failure to manage conduct risk appropriately may lead to customer detriment, regulatory sanctions and reputational damage for LIC.

Whenever LIC and/or the Company is mentioned in this Policy, it equally extends to its UK branch.

1.2 Definitions

Conduct risk

Conduct Risk is the risk of LIC conducting its business in a way that does not ensure fair treatment of customers, results in harm to customers or does not ensure market integrity .

A customer is a natural person or legal entity that has purchased, or can make a claim on, a contract of insurance (not reinsurance) insured in whole or in part by LIC, regardless of where the customer is located in the world. It also includes covered parties under a master policy. As the context requires, a customer may be a prospective customer.

Customer lifecycle

The customer relationship lifecycle comprises the following customer processes:

(Definitions of the processes below are captured in the Guidance)

- Product lifecycle
- Financial promotions
- Sales
- Post sales
- Claims handling (General Insurance) and redemptions (Wealth)
- Complaints handling

Product

A product is one or more insurance (not reinsurance) contracts that:

Product Oversight and Governance & Conduct Risk Policy

- Are intended to be, are, or have been underwritten by a particular Managing Agent and/or Coverholder* on behalf of LIC; and
- High Risk Products have similar coverage features; and,
 - (a) Are intended to be sold groups of customers sharing common characteristics; or,
 - (b) Are intended to be sold to individual customers (tailor made products).

Product lifecycle

The manufacture, distribution, sale and servicing of a product.

Product manufacturer

A product manufacturer is an insurer or an insurance intermediary for which an overall analysis of their activity shows that they have a decision-making role in designing and developing an insurance product for the market. A decision-making role shall be assumed, in particular, where insurance intermediaries autonomously determine the essential features and main elements of an insurance product, including its coverage, price, costs, risk, target market and compensation and guarantee rights. In the context of LIC, the manufacturer is either LIC with a Coverholder (if the coverholder has a decision-making role in the design and development of the product) or LIC alone. As a co-manufacturer, LIC remains fully responsible and accountable for all legal and regulatory obligations. Furthermore, in a situation of co-manufacturing both parties are responsible for the product oversight and governance process for their own part. This must be recorded in a written agreement between them. The actual implementation should be mutually agreed and should be documented.

Distributor

A distributor is an insurance intermediary, including an insurance company, that distributes a product. Insurance distribution includes activities of advising on, proposing, or carrying out other work preparatory to the conclusion of contracts of insurance, of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim. In the context of LIC this is an insurance intermediary in the distribution chain that is authorised and regulated in the EU/EEA. For IDD business, LIC may also be considered an insurance intermediary but it does not include a Managing Agent.

Product oversight and governance

Product oversight and governance is the maintenance and operation of a process, by a product manufacturer and product distributor, to develop new products and make significant adaptations to existing products, bringing products to the market and distributing them to customers. It includes measures and procedures to manufacture, distribute, monitor and review products, including corrective action regarding products that are detrimental to customers.

Sales

All activities in relation to the sale of products or services including customer segmentation, customer needs and risk tolerance analysis, sales quality assurance, and sales animation, sales incentives setting and monitoring, training and education of distributors.

Post sales

*When reference is made to a Managing Agent and/or Coverholder reference is made to the secondment model for activities in scope of IDD. For activities outside the scope of IDD, reference is made to the outsourcing model.

Product Oversight and Governance & Conduct Risk Policy

All activities related to managing the relationship with customers including on-going customer servicing (like giving guidance, policy administration, communication, claims handling and complaints handling) and reporting, value for money testing, communication to monitor ongoing customer needs and/or changes in product features, products or asset allocation assessment, and barriers for customers to change products.

Claims

All activities related to handling customer claims from the notification of a claim through to the settlement or rejection of the claim.

Complaints handling

All activities related to complaints handling including notification to customers of their right to complain, the firm's complaints handling process and the financial service ombudsman, the identification, acknowledgement and administration of complaints, complaints review and assessment, the complaints decision and redress and compensation calculations and payments. and managing the customer relationship throughout the complaint process and after the complaint has been closed.

1.3 Relevant legislation

EU legislation

- [EU Directive 2016/97 on insurance distribution](#) published on 20 January 2016 (hereinafter referred to as IDD).
- [Commission Implementing Regulation 2017/1469 laying down a standardized presentation format for the Insurance Product Information Document \(IPID\)](#) dated 11 August 2017.
- [Commission Delegated Regulation 2017/2358 with regard to product oversight and governance requirements](#) for insurance undertakings and insurance distributors dated 21 September 2017. Article 4(2) requires product manufacturers to have a product oversight and governance policy.
- Commission Delegated Regulation 2021/1257 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products.
- Commission Delegated Regulation 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings.

Belgian legislation

- Law of 1 April 2014 on Insurance.
- Royal Decree of 21 February 2014 on the rules for the application of Articles 27-28bis of the Law of 2 August 2002 on the Supervision of the Financial Sector and Financial Services.
- Royal Decree of 21 February 2014 on rules of conduct and management of conflicts of interest.
- Royal Decree of 25 April 2014 concerning certain information requirements for the offering of financial products to retail customers.
- Royal Decree of 21 June 2019 approving the code of conduct on inducements for life insurance and non-life insurance.
- Handbook FSMA 2022 06 on the IDD rules of conduct providing information on the rules of conduct in the insurance sector (available in French and Dutch).

The Belgian legislation above applies to all the activities of LIC towards Belgian policyholders, including those outsourced to third parties based in Belgium or targeting Belgian customers from abroad, when performing insurance distribution activities on behalf of LIC.

When conducting insurance distribution activities in other member states, be it directly by LIC or through intermediaries acting on its behalf, the relevant local rules and rules of the home-state regulator of those respective member states will apply.

Product Oversight and Governance & Conduct Risk Policy

1.4 Responsibilities

LIC staff must act in accordance with this Policy, and any subsidiary instructions to it, when dealing with situations and decisions that have the potential to result, directly or indirectly, in customer detriment.

Third parties must act in accordance with this Policy, and any subsidiary instructions to it, when manufacturing a product on behalf of LIC, distributing a product to its customers or providing a service to its customers, e.g., claims handling, complaints handling, assistance services.

The Corporation of Lloyd's, the parent organisation ("the Corporation"), provides oversight support to LIC in accordance with the terms of the Intra-Group Services Agreement.

Day-to-day responsibility for implementing, maintaining and monitoring compliance with this Policy rests with the Underwriting Function. Risk and Compliance functions are to ensure oversight and over-arching reporting on the risks and controls in relation to Conduct Risk. Ultimate responsibility for ensuring LIC has an effective policy and procedures for managing conduct risk lies with the Board of Directors.

Compliance with this Policy is mandatory. Non-compliance by LIC staff will result in the disciplinary process being invoked. For more information, please refer to the Lloyd's Disciplinary Policy and Procedure.

A breach of this Policy by a Managing Agent and/or Coverholder will also constitute a breach of the outsourcing agreement between LIC and that Managing Agent.

Department	Roles & responsibilities
LIC Underwriting Function	<p>LIC underwriting function must:</p> <ul style="list-style-type: none">• Have adequate mechanisms to monitor and control outsourced activities (design and pricing of products, and conclusion of contracts)• Have arrangements for the reporting of data from Managing Agents and Coverholders to LIC• Manage any conduct risks arising from the fact that insurance activities are outsourced or performed under the secondment model• Manage and monitor risk appetite metrics for LIC's conduct risk exposures• Evaluate Managing Agents and Coverholders based on their performance regarding the conduct risk indicators• Propose and agree upon the thresholds to maintain for conduct risk indicators with the relevant stakeholders like managing agents and LIC's Underwriting Function and LIC's Compliance-, Risk, and Regulatory functions.• Regularly review the adequacy of the control indicators• Define actions for Managing Agents and Coverholders that perform badly on the conduct risk indicators, discuss those actions with the selected Managing Agents and Coverholders and agree upon timelines for resolving the actions• Report regularly to the LIC Underwriting Committee on a quarterly basis and the LIC Executive Committee• Instruct the Policyholder and Third Party Oversight ("PTPO") department (within the Corporation of Lloyd's) regarding the follow-up of conduct risk indicators and the discussion and monitoring of selected managing agents and coverholders. This is in accordance with the provisions of the Intragroup Service Agreement.• Educate and train PTPO about the use of the conduct risk indicators used by the Underwriting Function to monitor the Managing Agents and Coverholders• Install and maintain a product register for High Product Risks• Ensure a complete list of existing, new and reviewed products for oversight.

Product Oversight and Governance & Conduct Risk Policy

Department	Roles & responsibilities
Policyholder and Third Party Oversight	<p>The PTPO department that sits within the Corporation must:</p> <ul style="list-style-type: none"> • Assist LIC to manage admission and compliance of Coverholder and Delegated Claim Administrator admissions, and support the oversight and monitoring of Coverholders and Managing Agents • Provide oversight, monitoring and support on the claims handling activity performed by Managing Agent as well as by any third parties appointed by the Managing Agent(s) • Ensure that Managing agents have proper risk and control governance and framework in place to identify, assess, mitigate, monitor and report conduct risks and incidents to PTPO • Perform regular oversight activity on products distributed by Managing Agents, i.e. Product Lifecycle Reviews, Fair Value Referrals, etc. as per the format, scope and frequency agreed with LIC Underwriting function • Conduct follow-up of the actions defined by LIC Underwriting function in order to improve or manage the conduct risk exposure of the managing agents and coverholders • Support LIC Underwriting function with thematic reviews as part of the frequent conduct risk assessments
LIC Compliance Function	<p>The LIC Compliance function, represented by the Chief Compliance Officer, must:</p> <ul style="list-style-type: none"> • Regularly evaluate the design and the operational effectiveness of the conduct risk indicators, and suggest actions for improvement where needed • Regularly monitor the follow-up of mitigating actions from managing agents and coverholders as conducted by LIC Underwriting function and PTPO. • Monitor compliance with this Policy and the effectiveness of the processes implemented to manage conduct risk. Monitoring will be carried out on business functions in LIC, and those in the Corporation that are performed on behalf of LIC, which undertake customer-facing activities (e.g., general enquiries from customers, complaints handling) or that have an indirect impact on customers (e.g., Underwriting, Delegated Authorities, Claims). The Compliance Department will also monitor the product oversight governance arrangements as conducted by LIC Underwriting function and PTPO. • Provide independent view to identify high risk areas, challenge the decisions taken in high-risk areas and review acceptability of mitigation plans • Report and escalate key risks to the appropriate governance bodies
LIC Risk Management Function	<ul style="list-style-type: none"> • Oversee on an ongoing basis LIC's conduct risk exposures against risk appetite metrics and levels defined by the Underwriting function • Report and escalate key risks and incidents to the appropriate governance bodies • Supports LIC staff where risks and incidents relating to conduct or arising from the product lifecycle are identified and notified to the function • Ensures any new products or changes to existing products do not have a material impact on LIC's risk profile
Managing Agents	<p>Managing Agents must:</p> <ul style="list-style-type: none"> • have a culture which acts in the best interests of customers and treats them fairly at all times

Product Oversight and Governance & Conduct Risk Policy

Department	Roles & responsibilities
	<ul style="list-style-type: none"> • have governance arrangements in place that facilitate adherence to this policy. • provide Pre- and Post-Bind supporting team for the Secondedees to assess conduct risk and comply with underwriting requirements as per roles and responsibilities defined by the LIC Underwriting playbook. • design, implement and maintain processes, procedures and controls for product governance and oversight in order to comply with this policy. • have appropriate resource capability, knowledge and skills in place to implement effective product oversight and governance arrangements and in order to facilitate a customer-centric culture • have a structured and documented Product Approval and Review Process ("PARP") in place. Where Managing Agents are writing High Risk Products, they are generally expected to have a Product Oversight Group ("POG") in place. The role of a POG is to provide a forum in which the design of a product and the arrangements for its distribution, sales and servicing can be reviewed and challenged. • identify and assess Conduct risks and incidents, when arising and escalate those to LIC Underwriting, Risk and Compliance functions • provide data to LIC and PTPO to allow them to evaluate conduct risk indicators • undertake regular audits on Coverholders as per LIC guidance to provide assurance of the proper conduct risk oversight.
Coverholders	<p>A Coverholder must:</p> <ul style="list-style-type: none"> • have a culture which acts in the best interests of customers and treats them fairly at all times • have governance arrangements in place that facilitate adherence to this policy • keep a record of all manufactured and distributed products (product register) in a format agreed with LIC Underwriting Function • when (co-)manufacturing and/or distributing a product, adhere to the respective responsibilities as set in the Policy and as defined in written agreement (i.e. its Coverholder Appointment Agreement) with LIC on product manufacturing and/or distribution.
Product Manufacturer	<p>A product manufacturer must:</p> <ul style="list-style-type: none"> • maintain, operate and review a Product Approval and Review Process in place for new products and significant amendments to existing insurance products, before they are marketed or distributed to customers. • qualify products by types, depending on products' nature and potential risk of customer detriment • regularly review their insurance products, via the Product Approval and Review Process and check that they remain in line with the needs, characteristics and objectives of the target market and that the distribution strategy remains appropriate; To integrate sustainability-related objectives when defining the target market take appropriate action when the product is not or is no longer aligned with the target market. • draft and produce the Insurance Product Information Document ("IPID") when applicable. This is a pre-contractual information document that contains relevant information, including sustainability-related information, about the insurance product in order to enable the customer to make an informed decision about purchasing a policy. IPIDs must be compliant with local regulatory requirements and presented in the standardised

Product Oversight and Governance & Conduct Risk Policy

Department	Roles & responsibilities
	<p>format defined by the Commission Implementing Regulation (EU) 2017/1469 of 11 August 2017.</p> <ul style="list-style-type: none">• make all appropriate product information available to distributors, including the Product Approval and Review Process, the identified target market and distribution strategy.• keep a record of all manufactured products (product register) in a format agreed with LIC underwriting function
Product Distributor	<p>A product distributor must:</p> <ul style="list-style-type: none">• have adequate arrangements in place to obtain all appropriate product information from the manufacturer in an efficient manner, including the Product Approval and Review Process and the defined target market, for each insurance product that it distributes.• understand the characteristics of the insurance product and its target market for each insurance product that it distributes.• document its product distribution arrangements in writing and make it available to relevant employees.• provide the manufacturer with the data it needs for its reviews of the insurance product.• inform the manufacturer when the product is not, or is no longer, aligned with the target market and, where appropriate, to amend their distribution strategy for the insurance product.• give the IPID to the customer before the conclusion of the contract. This only applies if it is the insurance intermediary that has direct contact with the customer.• Ensure compliance with the product oversight and governance requirements for distributors as set forth below in this document.
Secondee	<p>A secondee must take underwriting decisions under the direct control and oversight of LIC for in-scope business, which involves ownership of:</p> <ul style="list-style-type: none">• The proposed quote• The scope of the negotiation with the broker in relation to the price and terms and conditions• Accepting (or declining) and binding the risks• Acceptance of the final contract documents

2 Scope

2.1 Application

This Policy applies to:

- Employees of LIC, including the members of its Executive Committee (ExCo).
- Employees of the Corporation, or of any branch or subsidiary company of the Corporation solely when they are undertaking activities on behalf of LIC.
- Employees of the Corporation, or of any branch or subsidiary company of the Corporation, who perform functions of LIC on the basis of a secondment, fixed term or temporary employment contract, agency agreement or similar contractual arrangement.
- Members of the Board of LIC.
- General representatives of LIC.

Product Oversight and Governance & Conduct Risk Policy

- Consultants, casual workers, fixed term contract employees, agency workers and temporary workers, whether employed by LIC directly or indirectly.

For the purposes of this Policy, all the above are referred to as “LIC staff”.

- Third party service providers contracted to provide services to Lloyd’s Insurance Company. This includes Lloyd’s Managing Agents performing activities for Lloyd’s Insurance Company under an outsourcing agreement, Coverholders, Service Companies, Delegated Claims Administrators, third party complaint handlers, brokers and assistance providers.
- Seconded of LIC UK branch, employees of Managing Agents that are seconded to LIC.

For the purposes of this Policy, all the above are referred to as “third party(ies)”.

2.2 Activities in scope

This Policy applies to all insurance activities of LIC, including those outsourced to the Corporation, and third parties contracted to provide services to LIC. This Policy does not refer to territory-specific requirements that apply to product oversight and governance or the management of conduct risk, however, please refer to Section 3.4.

3 Policy Statement

This section sets out the general principles that should be complied with in order to ensure proper conduct and behaviour towards the customers of LIC. The general principles are in line with the Company’s risk appetite.

3.1 Corporate Culture and strategy

The LIC business model entails the outsourcing of all underwriting, claims and product manufacturer activities and all other services that may be provided to its customers outside of the IDD scope[†]. However, the Company remains fully responsible for all its legal obligations and the use of its third parties does not exempt it from its regulatory responsibilities. All activities in scope of IDD are performed according to the secondment model.

For this reason, not only will LIC have a culture that is focussed on ensuring that its customers receive fair, professional and honest treatment at all times, but it will also ensure that this culture is reflected in the activities of its third parties through monitoring of compliance with this Policy and any subsidiary instructions to it.

Third parties acting on behalf of LIC in servicing customers, must adopt the principles set forth by this policy and will evidence to LIC its full adherence with those rules. Therefore, third parties shall be in line with the principles defined herein:

- Install a corporate culture which ensures a fair treatment of customers at all times while focusing on the best interest of those customers
- Define, implement and apply a strategy for managing conduct risk. For this the board must ensure to have a framework with risk indicators and well-defined risk appetite limits that defines how to identify, measure and monitor conduct risk (see also section 4 Conduct Risk Framework).
- The strategy and supporting framework towards conduct risk shall be documented.
- Ensure proper reporting lines on conduct risk towards the Board and towards LIC.

[†] A risk is considered within the IDD scope where both the policy holder domicile and the regulatory risk location is in the EEA

Product Oversight and Governance & Conduct Risk Policy

3.2 Product lifecycle

Conduct risk exists at all stages of the **product life cycle**, from the product design stage and sales, to the handling of a claim or complaint. Therefore, LIC, a coverholder or another third party performing the responsibilities of a manufacturer on behalf of LIC will assess the type and degree of inherent conduct risk in each stage of the product life cycle, i.e.

- (i) product **manufacturing**,
- (ii) product **distribution**,
- (iii) product **sales** and
- (iv) product **post-sales / servicing**.

Furthermore, it will then implement **appropriate controls to manage and monitor that risk**. It will also continuously monitor and regularly review the product to ensure that it continues to be appropriate for the target market and does not cause any customer detriment. Any remedial action that is necessary as a result of the monitoring or review of a product will be implemented swiftly and effectively in order to minimise potential or actual harm to customers.

3.2.1 Product Manufacturing

All LIC products will be designed in such a way that they (i) take into account the objectives, interests and characteristics of customers, (ii) do not adversely affect customers, and (iii) prevent or mitigate customer detriment. Therefore, a product manufacturer is required to have:

- (i) the **necessary skills, knowledge and expertise** to properly understand the insurance products that are manufactured and the interests, characteristics and objectives including any sustainability related objectives of customers in the target market;
- (ii) a **customer-focussed product design** process in line with LIC's corporate strategy, as defined by LIC's overall risk appetite and underwriting guidelines applicable to Managing Agents, Coverholders and Secondedees;
- (iii) High Risk Products shall be identified using a proper classification which considers product complexity and customer segmentation. LIC shall set criteria for itself as insurance carrier and product (co-)manufacturer in order to categorise products commercialized on its behalf as either low, medium or high product risk. LICs classification will leverage own information or information provided by its co-manufacturer. Therefore, every product shall have a clearly documented scope, target market, objectives, interests, coverage, and criteria for classification into a low-, medium-, or high risk product category. A list of products that are always to be categorised as having a high product risk is in the Glossary. Managing Agents must have a process to identify the level of product risk and must be able to demonstrate the assessment used in that process.
- (iv) A clearly defined pricing strategy per product with fair premiums accurately reflecting the nature of the risk and the level of cover provided, while taking into account reasonable expenses, commissions, cost of capital and the actual costs of distributing and servicing the product, including average expected claims expenses. Servicing the product includes claims management and should reflect the level of the reserves set aside for different product categories and will be in line with the Product Approval Policy.
- (v) LIC's products will provide value for money to its customers. Products that apply pricing discrimination against existing customers or that have low levels of cover for the premium paid (e.g. through high deductibles, adjustment of the limits or through more exclusions than would reasonably be expected for the type of risk) are deemed to present a high conduct risk are not permitted. Products will be designed so that they provide customers with valuable protection and service. The price charged to the customer will be determined by the product manufacturer, or an entity performing product manufacturer responsibilities on behalf of LIC.
- (vi) A clear identification of the target customers of the product, taking into account the product complexity as well as its sustainability factors, and the expected knowledge and understanding of the customer. Products will be designed so that they meet the needs, characteristics and objectives, including any sustainability-related objectives of the target market. Manufacturers shall use Customer Types, geographical location, size etc. to define the sophistication of the customer and the target market. The manufacturer will also provide the group of clients for whom the insurance product is not compatible with their needs, characteristics and objectives (negative target market).
- (vii) A clearly defined **product testing** strategy, with the testing assessing whether the product, over its lifetime, meets the needs, characteristics and objectives, including any sustainability-related

Product Oversight and Governance & Conduct Risk Policy

objectives of the customers in the target market. Testing should include scenario analysis where relevant. Testing must be performed at the development phase and in case the product is changed significantly or when the target market has changed significantly, or when the market conditions experience material and durable change.

- (viii) A **product register** with all products. The Managing Agents and Coverholders will share their product register in the format and frequency as defined by LIC. The manufacturer must establish and update all precontractual, contractual and operational documents related to products. The distributor will be responsible to integrate/update these documents in the sales flows.

In order to facilitate compliance with the above requirements, third parties that are performing manufacturer responsibilities on behalf of LIC are required to maintain, operate and review a process for the approval of each insurance product that covers non-large risks (as defined by Annex I of the Solvency II regulation), and significant changes to an existing insurance product prior to it being distributed to customers (**product approval process**). Such review process should be regular and should be able to identify circumstances that could affect a feature, the risk coverage or guarantees of the products. It should also be checked, during these reviews, if the product is still aligned with the previously defined target market 's needs, characteristics and objectives, including any sustainability-related objectives and if the products are distributed according to it. The information is to be clear (including the necessary interpretation of used terminology), complete and up to date.

LIC will define the requirements of the Product Approval and Review Process (PARP) in the LIC Product Approval Policy, with which Managing Agents and Coverholders need to comply when developing products for LIC customers.

The Product Approval and Review Process must be proportionate and appropriate to the nature of the insurance product and the following factors should be taken into account:

- (i) the complexity of the insurance product;
- (ii) the degree to which publicly available information can be obtained;
- (iii) the nature of the insurance product and the risk of consumer detriment related to it;
- (iv) the characteristics of the target market, assessment of the relevant risks and appropriateness of the distribution strategy to the defined target market;
- (v) the scale and complexity of the relevant business of the manufacturer or distributor;
- (vi) undertaking of reasonable steps to ensure that product is distributed to the defined target market.

The product approval process is documented and typically contains the below checks and information. The information is to be clear (including the necessary interpretation of used terminology), complete and up to date:

- (i) The strategic rationale for the new product or product change
- (ii) The estimation of required Solvency II capital
- (iii) Sales forecast (estimated Gross Written Premiums)
- (iv) Estimated profitability versus target profitability
- (v) Customer proposition
- (vi) Key assumptions
- (vii) (sensitivities to) Key risks
- (viii) Investment plan for premiums relating to the product
- (ix) Compliance checks
- (x) Risk Management validation, to ensure new product or product change does not materially impact LIC's risk profile

The consideration of internal and external factors influencing the aforementioned checks and information should include sustainability risks.

3.2.2 Product Distribution

All firms in the distribution chain will have a clear understanding of their role and responsibilities as a product distributor or a third party performing product manufacturer responsibilities on behalf of LIC, or a combination of both.

Product Oversight and Governance & Conduct Risk Policy

Third parties performing product distribution responsibilities on behalf of LIC must:

- (i) aim to prevent and mitigate customer detriment;
- (ii) support a proper management of conflicts of interest;
- (iii) ensure that the objectives, interests and characteristics of customers are duly taken into account;
- (iv) ensure that a distribution strategy is implemented which corresponds to the target market identified by the manufacturer and, when appropriate, that the strategy is amended in view of the outcome of the review of the product distribution arrangements;
- (v) establish, implement and review the product distribution arrangements and continuously verify internal compliance with those arrangements to ensure they are up to date;
- (vi) determine appropriate intervals for the regular review of the product distribution arrangements, taking into account the size, scale and complexity of the products.

Third parties performing product manufacturer responsibilities on behalf of LIC must:

- (i) **Carefully select distributors** that have the experience, expertise and resources necessary to deal with the type of product, the nature of the target market including sustainability-related features, the distribution method and the product servicing required. Distribution chains will not be unnecessarily long and each firm in the chain will have a means of adding value to the customer that can be evidenced.
- (ii) **Inform distributors of their respective roles** in order to avoid duplicate activities and inappropriate servicing of customers. For coverholders specifically, the role should be clearly described in the Coverholder Appointment Agreement.
- (iii) Provide distributors with all **appropriate product information** like the identified target market and the distribution strategy.
- (iv) Ensure that **marketing materials** for the product are clear, fair and not misleading.
- (v) Ensure that contract documentation is sent to the customer within 7 working days for consumers and 30 working days for other customers.
- (vi) In addition, the product distribution arrangements should be regularly reviewed, kept valid and up to date. If the manufacturer becomes aware that an insurance product is not in line with the interests, characteristics and objectives, including any sustainability-related objectives of its identified target market or becomes aware of other product-related circumstances that may adversely affect the customer, it is responsible to take action to mitigate the situation and promptly inform the distributor. If the decision is leading to a communication to customers both parties should align in order to define the scope (i.e. the customers to be addressed and the timing and content of the communication). All parties will promptly inform the other party of the following issues (as soon as noticed):
 - inconsistencies in the target market;
 - a product is no longer in line with interests, objectives and characteristics of its identified target market;
 - other product-related circumstances that may adversely affect the customer.
- (vii) Ensure distributors integrate sustainability-related considerations into their conflict of interest policy, and any other relevant policy, this obligations will also have to be included in the **annual review** of the conflict of interest policy.

3.2.3 Product sales

All third parties that perform product manufacturer responsibilities on behalf of LIC and the Company's distributors shall ensure that the **sales risk** will be reduced to the minimum. Therefore, product manufacturers will ensure:

- (i) Fair **remuneration**, i.e. Intermediaries will not be remunerated in such a way that the intermediary has an incentive to recommend or sell that product instead of a product that is suited to the customer's best interests and needs. Remuneration must be reasonable with regard to the provision of the service for which the intermediary is paid. It is essential that the best interests of the customer are maintained at all times and that any form of remuneration that has a detrimental impact on the quality of service provided to the customer is avoided. Non-monetary remuneration and incentives must comply with the Belgian Royal Decree of 21 June 2019.

Product Oversight and Governance & Conduct Risk Policy

- (ii) communication of the information on costs and charges by the product distributor when an insurance contract is presented, offered or advised to a client, as well as at the contract anniversary date (applicable for non-large risks);
- (iii) **not to permit add-on products** to be sold on an opt-out basis or in the form of product tying.
- (iv) A recurring **sales risk assessment** that is accessible to LIC and the Corporation. When assessing the risk, a manufacturer must consider:
 - a. Number of distributors planned to be appointed
 - b. How product controls are implemented and monitored by distributors
 - c. How sales incentives are structured.

3.2.4 Product servicing

Customers need free access to information. Therefore, product manufacturers must ensure:

- (i) that there are **no unreasonable barriers** to customers making a claim or complaint.
- (ii) that **claims** from customers are **handled fairly and promptly**.
- (iii) that **complaints are handled fairly** having regard to the complainant's needs and reasonable expectations. Product manufacturers should have regard to the relevant definition of complaint in the territory in which the product is sold;
- (iv) that firms that provide services on behalf of LIC (**service providers**) will be **selected carefully**. They will be continually assessed and monitored to ensure that they have the appropriate resources and expertise to provide the relevant service, and that their activities do not harm customers.

3.2.5 Performance management & monitoring

Product manufacturers must undertake an initial risk assessment of each new product in order to decide whether to market and distribute the product. The risk assessment must take into account the following factors which contribute to the overall product risk:

- Customer risk.
- Distribution risk.
- Sales risk.
- Service risk.

The risk assessment of each new product must be based on the inherent product risk before the application of any controls to mitigate any of the above risk areas. It should be reviewed and updated when necessary.

3.3 Conflicts of interest

Conflicts of interest may arise at any stage of the product life cycle. These may particularly result from organisational relationships between the various parties involved in manufacturing, distributing, selling, servicing or purchasing the product, i.e., Managing Agents performing product manufacturing responsibilities on behalf of LIC, intermediaries, distributors, service providers and customers. Such conflicts must be identified and prevented wherever possible. Where they cannot be prevented, the product distributor shall clearly inform the customer, in good time before the conclusion of any insurance contract, of the general nature or sources of such conflicts of interest. Third parties performing product manufacturer responsibilities on behalf of LIC and coverholders are expected to comply with territory-specific requirements on the disclosure of conflicts of interest in the territory in which a product is being sold.

3.4 Regulatory compliance

All LIC products will be manufactured so that they comply with applicable regulatory requirements in the territory where the risk will be located for regulatory purposes. For example, requirements relating to a particular class of business such as minimum limits of indemnity, tacit renewal provisions, continuation

Product Oversight and Governance & Conduct Risk Policy

insurance, policy triggers, prohibitions on pricing discrimination towards existing customers, identification of segmentation criteria, unfair contract terms.

Pre-contractual information, policy documentation and all communication with customers will be clear and comprehensible to the customer, will comply with applicable local regulatory requirements and will be issued in a timely manner and within the maximum legal timeframe permitted. It will be issued in a language that is permitted under local regulations.

4 Monitoring, Reporting and Escalation

4.1 Monitoring

Based on the results of the risk assessment, the Managing Agents and Coverholders shall define actions. They must ensure that dedicated monitoring teams with adequate skills are in place to monitor conduct risk based on metrics and indicators.

The **LIC Underwriting Function** shall regularly monitor the overall actions from the (secondees of) Managing Agents and Coverholders to mitigate conduct risk, and it shall define appropriate actions towards the Managing Agents and Coverholders. LIC is therefore responsible for overseeing/monitoring activities of Managing Agents and Coverholders that lead to conduct risk. This includes monitoring LIC's conduct risk exposures via conduct risk appetite metrics.

The Compliance function shall look at the monitoring plan for Conduct Risk, which should form part of the annual compliance monitoring plan. The Compliance function should also assess whether the teams dedicated to Conduct Risk control monitoring in the management functions are adequately staffed. The Risk Management function performs oversight of LIC's conduct risk exposures via the Underwriting function's defined conduct risk appetite metrics. It also oversees all risks and incidents reported by LIC staff that relate to conduct risk across all stages of the product lifecycle.

4.2 Reporting

The LIC Underwriting function will report on conduct risk to LIC Underwriting Committee on a quarterly basis. Escalation of emerging issues and results of thematic reviews should be reported to the Underwriting Committee when appropriate. This report should include a trending analysis for top conduct risks and be on an exception basis i.e. when thresholds have been breached. Risk and Compliance functions shall act as sounding board for the business to define and perform management actions that are needed to address breaches. The business (1st line of defence) and related LIC third parties, where applicable, is accountable for the definition and execution of those management actions.

In situations where conduct risk is identified, or where conduct risk materialises into an incident whereby LIC's customers are impacted (and consequently LIC itself), the LIC Underwriting function is responsible for reporting these risks and incidents to the Risk Management function, in accordance with the Global Risk Incident Reporting (RIR) process. Risk Management will support the Underwriting Function in the subsequent assessment and response of the risk or incident. Where relevant, LIC's conduct risks and incident notified by LIC staff are analysed and reported by Risk Management to the Executive Committee and Audit & Risk Committee via the function's risk reports.

4.3 Escalation

Where LIC believes that a particular product is causing customer detriment, or may do so in the future, due to any reason, the Company may instruct the relevant Managing Agent to modify the product or cease writing it, regardless of which firm is the product manufacturer. Managing Agents are required to take such remedial action within the timescale specified by LIC.

5 Capabilities

5.1 Training

Product Oversight and Governance & Conduct Risk Policy

The Underwriting Function is responsible for providing training to LIC staff and third parties on the management of conduct risk as set out in this Policy and any other instructions that are subsidiary to it. The provision of training will be appropriate to the individual or third party's role.

6 Related documents

- Lloyd's Insurance Company Conflict of Interest Policy
- Lloyd's Insurance Company Integrity Policy
- Lloyd's Insurance Company Product Approval Policy

Third parties requiring these documents should contact LloydsEurope.Info@lloyds.com

7 Glossary

Conduct Risk	The risk of Lloyd's Insurance Company failing to pay due regard to the best interests of customers or failing to treat them fairly at all times.
Coverholder	An entity that has been authorised by Lloyd's Insurance Company to enter into contracts of insurance on its behalf, in accordance with the terms of a Coverholder Appointment Agreement (CAA). Reference to a coverholder in this document includes a Service Company.
Coverholder Appointment Agreement	A contract made between Lloyd's Insurance Company and a Coverholder in which Lloyd's Insurance Company has delegated authority to the Coverholder to bind insurances on its behalf.
Customer	A person or entity that has purchased, or can make a claim on, a contract of insurance (not reinsurance) insured in whole or in part by Lloyd's Insurance Company, regardless of where the customer is located in the world. It includes covered parties under a master policy. As the context requires, a customer may be a prospective customer. See below for "vulnerable customer".
Customer Lifecycle	The customer relationship lifecycle comprises the following customer processes: (i) Product lifecycle, (ii) Financial promotions, (iii) Sales, (iv) Post sales, (v) Claims handling (General Insurance) and redemptions (Wealth) (vi) Complaints handling
Distribution	The activities of advising on, proposing, or carrying out other work preparatory to the conclusion of contracts of insurance, of concluding such contracts, or of assisting in the administration and performance of such contracts. It includes providing information on contracts through a price comparison website and facilities that allow a customer to conclude a contract on a website or other media. It does not include the provision of information about insurance contracts on an incidental basis when this is part of another professional activity.
Distributor	An insurance intermediary that distributes a product. In the context of Lloyd's Insurance Company this is an insurance intermediary in the

Product Oversight and Governance & Conduct Risk Policy

	distribution chain that is authorised and regulated in the EU/EEA. It does not include a Managing Agent. For a further explanation of this term, please refer to the Lloyd's Insurance Company Product Oversight and Governance & Conduct Risk Guidance.
Existing Product	A product that previously has been underwritten by a particular Managing Agent on behalf of Lloyd's Insurance Company.
Financial Promotions	All activities in relation to the development, management and publication of a financial promotion.
High Risk Product	<p>Products with a high product risk are products of an inherently complex nature where the target market predominantly consists of consumers. However, other types of products may be categorised as high risk depending on their particular features.</p> <p>All of the following insurance products are considered by LIC to have high product risk[‡]:</p> <ul style="list-style-type: none"> • Motor third party liability or motor material damage. • Household. • Accident and/or health. • Legal expenses. • Payment protection insurance. • Extended warranty. • Mobile phone or gadget insurance. • Travel insurance. • Pet insurance. • Add-on products. • Home emergency cover. • Guaranteed asset protection and other ancillary motor insurance products.
Managing Agent	A Lloyd's Managing Agent that has entered into an outsourcing contract with Lloyd's Insurance Company and provides underwriting and claims services on its behalf. All references to Managing Agent in this document refer to the lead Managing Agent.
New Product	A product that previously has not been underwritten by a particular Managing Agent on behalf of Lloyd's Insurance Company.
Product	<p>One or more insurance (not reinsurance) contracts that:</p> <ul style="list-style-type: none"> • Have similar coverage features; and,

[‡] Inherent risk is assessed before any controls are applied. Residual risk is assessed after any controls are applied.

Product Oversight and Governance & Conduct Risk Policy

	<ul style="list-style-type: none"> • Are intended to be sold to a group of customers sharing common characteristics; and, • Are intended to be, are, or have been underwritten by a particular managing agent on behalf of Lloyd's Insurance Company.
Product Life Cycle	The manufacture, distribution, sale and servicing of a product.
Product Manufacturer	An insurer or an insurance intermediary that manufactures a product. In the context of Lloyd's Insurance Company this is Lloyd's Insurance Company and/or a coverholder. For a further explanation of this term, please refer to the Lloyd's Insurance Company Product Oversight and Governance & Conduct Risk Guidance.
Product Oversight and Governance	The maintenance and operation of a process, by a product manufacturer, to develop new products and make significant adaptations to existing products. It includes measures and procedures to manufacture, distribute, monitor and review products, including corrective action regarding products that are detrimental to customers.
Product Register	<p>The product register held by a Managing Agent must contain a list of products that have been identified as having a high product risk. The register must document per product the following data fields:</p> <ul style="list-style-type: none"> • The identity of the product manufacturer. • The identity of each product distributor in the distribution chain. • The commercial name of the product. • The target market and the characteristics of that market. • The characteristics of the customers, e.g., size, type, territory in which they are located. • Regulatory risk location(s) of the product. • Lloyd's risk code(s). • Description of the risks covered and excluded, and the clauses used. • The underwriting and pricing process, method or tool used. • The managing agent's case reserving philosophy used for the product. • The claims handling and complaints handling arrangements for the product, i.e., the parties that are responsible for handling claims and complaints.
Product Tying	Commercial practice of conditioning the sale of one product on the purchase of another product.
Sales Risk	Sales risk means the risks of selling a product to a LIC customer to whom it was not intended to be sold or where it is unlikely to meet the customer's needs and reasonable expectations
Seconded	An insurance underwriter who is seconded to LIC to underwrite business that falls under the IDD regulation. The seconded's activities only include business affected by IDD regulation, i.e. business for which the regulatory

Product Oversight and Governance & Conduct Risk Policy

	risk is located in the EU/EEA and/or business for which the policyholder is located in the EU/EEA.
Vulnerable customer	A vulnerable customer is someone who, due to their personal circumstances and/or characteristics, is especially susceptible to harm or detriment, or significantly less able than a typical customer to protect or represent their own interests, particularly when a firm is not acting with appropriate levels of care.