

FCA work on general insurance pricing practices:

As you will be aware, the Financial Conduct Authority (FCA), in its Policy Statement (PS21/5) introduced new rules resulting from the conclusion of its work on general insurance pricing practices. The work relates to our UK business and UK intermediaries and policyholders only.

The FCA's new product governance and pricing rules came into effect on 1 October 2021 and 1 January 2022. These were designed to set a number of new requirements in respect of product governance and pricing practices in order to ensure fair value to policyholders. As an FCA-authorized firm, you will be familiar with these requirements (in particular those affecting your sales processes and if you act as a price-setting intermediary), but we are writing to you to explain how Pen Underwriting Ltd (Pen) intends to fulfil some of the requirements in respect of product value which fall on product manufacturers.

Pen strongly supports any initiative designed to improve outcomes for policyholders. We have in place an established framework of periodic product assessments, which (amongst other elements) use a series of factual indicators to assess risk and value for new and existing products, and the results of these are reported to formal committees internally.

Fair value assessments

In line with the new requirements, Pen is carrying out Fair Value Assessments of all Pen product groups. We do this by considering factors such as policy cover and exclusions (including any duplicate cover), claims performance, complaints trends, and remuneration, including any costs and charges added as part of the distribution (and which Pen would not be aware of – see also below). For more information about how we carried out value assessments, please find the high level outcomes of our value assessments [here](#).

Distribution costs

Pen is incorporating additional measures to assess where the value of one of our products might be affected by those additional costs added by the firm/s distributing it. This is especially important where we would not be aware of earnings where these are added in addition to remuneration such as commission which is agreed with Pen. For example, where distributing brokers might add administration fees.

We would be grateful if you could complete and return (within 3 weeks of the date of this letter) the attached appendix, which requests information about administration fees and any other elements which might dilute the value of a Pen product.

Pen recognizes that administration fees are common practice in the insurance sector and we acknowledge that these are often charged in respect of costs which are separate to the remuneration paid to brokers for the arrangement and advice of insurance policies. We are carrying out work to review the nature and range of administration fees charged by brokers and the likely impact of a reasonable administration fee on the value of our products where this is charged by them or others in the chain.

Target market

We have also devised a set of Target Market Statements (TMS) to ensure those brokers and sub-coverholders we work with, have adequate information about those policyholders for whom our products are suitable, or to highlight examples where a product may not be suitable for a particular group. The TMS for the products that we manufacture can be found [here](#), but if you ever have questions about the cover provided by a particular product, please speak to your usual Pen contact.