



Out of
house,
but

not
out of
mind

FCA guidance on outsourcing

Following their review in June 2015, the Financial Conduct Authority (FCA) continues to look at how firms oversee delegated authority arrangements and the impact that any shortcomings could have on the delivery of products and services to customers.

What are delegated authority arrangements?

Viewed by the FCA as outsourcing, these arrangements can include allocating underwriting and claims handling to third parties, as well as other functions such as product design.

What did the review look at?

The FCA's main concern was the increased risk of poor customer outcomes due to the division of knowledge and responsibility that happens when underwriting, claims handling and other functions are outsourced to third parties.

TR15/7 – Delegated authority: Outsourcing in the general insurance market focused on insurance products and services provided to UK retail and SME customers. It looked at how firms oversee outsourcing, how any weaknesses impact on customers, and specifically, whether firms:

- had appropriate culture and robust systems and controls in place when deciding to outsource functions
- exercised appropriate oversight over the outsourced functions
- understood and fulfilled their responsibilities to customers, whether they were the firm outsourcing or the third party, including any related functions they performed under their own regulatory permissions.

General findings

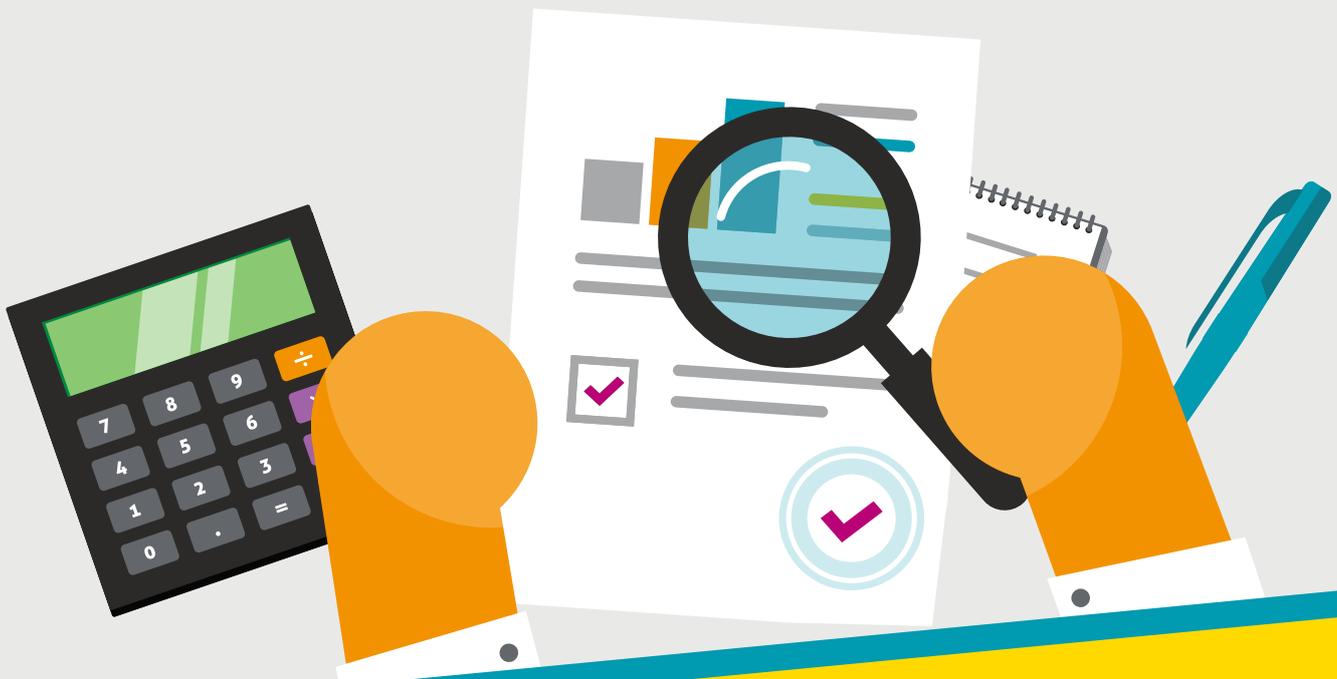
- Outsourcing resulted in increased complexity because of the division of responsibilities and knowledge.
- This complexity increased the risk of shortcomings in the delivery of products and services.
- Some insurers and intermediaries in the review hadn't adequately considered or recognised their regulatory obligations in relation to outsourcing and the functions and roles they performed in the outsourced arrangements.
- All parties had not sufficiently considered the interest and fair treatment of customers and how this might be impacted by the outsourced arrangements.

In its findings, the FCA refers heavily to the guide The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD). This guidance was produced in 2007 to develop Principle 6 (Treating Customers Fairly). The following key statement from the guide underpins many of the conclusions of this review:

"A customer's experience should not be affected by whether a product or service was provided and distributed by a single institution or by two or more institutions."

Findings for insurers and intermediaries

- Where activities could be performed by either party there was sometimes no clear allocation of responsibilities between them.
- Some intermediaries involved in designing insurance products didn't recognise the extent of the product provider responsibilities they'd acquired and didn't consider customer needs sufficiently when designing products.
- Many product providers (both insurers and intermediaries) lacked appropriate oversight and monitoring of the delivery and performance of the product, particularly in meeting customer needs.
- Lack of oversight also extended to shortcomings in complaint processes, handling and outcomes. It wasn't clear that complaints data was complete and accurate, or that it was collated, analysed, reviewed and acted on.
- Some insurers hadn't considered whether the products they underwrite treat customers fairly, in terms of the value the products offered and the service delivered to customers. There was insufficient control over outsourced claims functions in relation to the design and operation.
- The quality of insurer oversight of outsourced functions varied, as did the extent and quality of MI they received to facilitate effective oversight.



What should I be doing now?

If you're working under delegated authority, you may have already noticed the difference in insurer audits and increased controls. However, if you're a broker who's still reviewing your controls and oversight arrangements, here are a few things to consider:



The end-to-end process – Identify any gaps where the responsibility is unclear. For example, who is responsible for identifying any shortcomings in product design or wordings? Who gathers the MI? What happens to the information and who ensures that issues are addressed?



Reviewing agreements – Have clear and documented knowledge about who is distributing products below you in the chain and whether your delegated authority agreements permit this. Review agreements with underwriters and intermediaries to clarify the activities that they are required to undertake. Identify any possible risks, include these on your risk register and have mitigation arrangements in place.



Due diligence – Look at the due diligence undertaken on those below you in the chain.



The complaints process – Look at MI that's collected and documented, who reviews it, who it's shared with, who is responsible for acting on any issues and what monitoring is needed to address any shortcomings successfully.



Where you act in a wholesale capacity – Look at whether the agreement with the retail broker meets the requirements of your binder or insurer agreement, particularly in terms of client/insurer money and complaints.



Conflicts – Identify possible conflicts where there are targets or profit share on the account. How are potential conflicts managed to ensure customers are treated fairly?



You can find out more from Thistle Initiatives, our partner consultant, at enquiries@thistleinitiatives.co.uk, or contact your Aviva Sales Manager.

| Retirement | Investments | Insurance | Health |

For insurance intermediaries only. The information contained here has been provided in conjunction with Thistle Initiatives. We take all reasonable steps to ensure that information is accurate and up-to-date; however, independent advice is always recommended. Aviva, to the fullest extent permissible by law, does not warrant or guarantee the accuracy or validity of the content and you agree that it shall not be liable to you for any losses you may suffer whatsoever (whether directly or indirectly) as a result of your use or reliance on such information.

Aviva Insurance Limited, Registered in Scotland Number 2116. Registered Office: Pitheavlis, Perth PH2 0NH. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

