

November 2023

Consultation document on
draft letter to the market on the
insurance product oversight
and governance (POG)

Introduction

In 6 October, IVASS published Consultation Document No. 8/2023 ("**Document**") relating to a Draft Letter to the Market on the insurance product oversight and governance (so-called POG). The Document sets out certain supervisory expectations in relation to the fulfilment of existing POG obligations by insurance undertakings.

The recommendations are addressed to insurance undertakings with their head office in Italy and Italian branches of non-EU undertakings.

Any comments and remarks on the Document may be sent to IVASS at letteraalmercatoPOG@ivass.it by 6 November 2023.

01. Supervisory expectations

In the context of the corporate governance system, IVASS expects the following:

1. integration of the POG process into insurance undertakings' corporate governance, risk management and control system, which should also be adequately considered in their organisational structure;
2. inclusion in the POG policy of clear guidelines for the identification, with sufficient granularity, of target markets and the performance of testing activities, translating the product's value-for-money targets into operational limits and measurable quantitative thresholds;
3. inclusion in the product approval process of checks by key functions over product testing activities conducted by internal business units, through a comprehensive and independent review. In such context, it is also required that a special committee be established for the approval of new insurance products;
4. that the administrative body also takes the conduct risk associated with POG obligations into account when defining the Risk Assessment Framework and the risk management system. In particular, as a non-compliance risk, the Authority expects insurance undertakings to take appropriate measures to mitigate the risk.

As to the identification of the target market and the value for money of the product, IVASS further expects that:

5. the target market is adequately granular, having specifically regard to the variables provided for by the applicable regulations. This principle applies especially to IBIPs, including products that allow different investment options (Multi Option Products - MOPs), due to their higher level of complexity;
6. insurance undertakings identify different degrees of complexity in which IBIPs can be classified, taking into account, among other elements, the structure and functioning of the product, as well as its comprehensibility to the customer;
7. the segmentation of the target market for MOPs is consistent with the number of investment options offered by the insurance undertakings. In relation to such products, it is also required that each "*standard*" combination of the most significant investment options meet the needs, characteristics and objectives of a specific target market;
8. customer-side product testing activities, relating to the value for money, are carried out separately, but consistently with assessments made by the insurer on product profitability and sustainability;

9. the product testing activity is (i) defined in accordance with the granularity of the target market and based on realistic data; (ii) defined with metrics and thresholds that, if not met, lead to the application of corrective actions; (iii) executed in a traceable manner;
10. the profit test plays a key role in the product testing activity and jointly considers returns and costs borne by the client, as well as the impact of inflation, where relevant. The profit test of MOPs, in particular, should be conducted with respect to the individual combinations of investment options considered most significant;
11. the customer-side profit test leads to a reasonable value of the product to the customer, otherwise companies are required to take corrective action, including not selling the product;
12. the qualitative component does not play a key role in the product test and includes only those elements (ESG factors or voluntary switching options), which meet the needs of the target market and have not already been valued in the quantitative analysis;
13. the testing activity concludes with a final judgement summarising the various evaluations, expressing the value of the product for the customer and certifying its effective compliance with the characteristics and objectives of the target market;
14. the methodology for monitoring and reviewing the product is consistent with that adopted during testing, taking into account the experience gained from pre-market evaluations;
15. with regard to IBIPs, a periodic review of the products in the portfolio is carried out in accordance with the principle of proportionality and irrespective of the occurrence of a "significant change" or of the date on which the distribution of such products started.

02. Considerations

The purpose of the Document is to provide some practices that represent for the Regulator an adequate implementation of existing provisions regarding POG, having considered the persistent shortcomings found following its supervisory activity on these aspects. Although being an explanatory non-binding document, insurance undertakings will in fact be required to comply with the recommendations contained therein, given that, in exercising its supervisory activity, IVASS will assess the level of compliance of insurance undertakings' practices with these indications.

Considering the degree of detail provided, complying with supervisory expectations will certainly be a challenge for insurance undertakings.

The main impacts of the Letter to the Market are likely to concern the strengthening of the governance system of the POG process, especially in relation to the corporate bodies and key functions involved, and the consequent integration of this process into the internal control system, as well as the formalisation, in the terms described above, of product testing activities, in line with the most recent EIOPA guidelines on the matter.

Lastly, although the Document does not apply to EU insurance undertakings that operate in Italy under right of establishment or freedom to provide services regime, IVASS has specified that it intends to take into account and represent such expectations to the supervisory authorities of the home Member State, within the framework of the relationship of cooperation between authorities, in order to promote equal protection for Italian policyholders. The clarification seems to suggest IVASS' wish to harmonise the application of the POG rules to the distribution of insurance products in Italy, making such Document also of interest to EU insurance undertakings operating in Italy.

Insurance Law Department

The Insurance Law Department of Legance is at your disposal for any clarification and in-depth analysis, also in relation to specific cases.

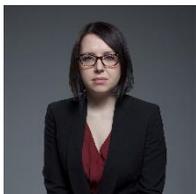
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