

**ARC LEI - COMMERCIAL LEGAL EXPENSES INSURANCE (EMBEDDED)  
 PRODUCT OVERSIGHT AND GOVERNANCE (POG) REVIEW AND FAIR VALUE ASSESSMENT**



Insurance Product	LEI - Commercial Legal Expenses Insurance (Embedded)
Review Date	26 July 2022
Next Review Due	26 July 2023
New or Existing Product ?	Existing product to Arc and market – no change

**1. Product Risk - Proportionality & Appropriateness**

The complexity of the insurance product	Simple - Limited options for sums insured only. Simple wordings, few benefits / exclusions.
Product Type	Add-On (insurance sold alongside a primary insurance product)
Sales Method	Mandatory - {unbreakable bundle, included with other insurance or non-insurance sale}
Policy Period	Annual renewable - By invitation
Level of Underwriting Authority	No Discretion - {No discretion on Rates}
Claims	No Delegation
Complaints	No Delegation

**2. Target Market**

End Customer Types	Mixed - Commercial & SME
Insured Residence / Domiciled Territories	UK, Channel Islands and Isle of Man

**Identified Target Market**

What is this product?  
 This is a Commercial Lines add-on product which is included alongside a Commercial package or policy and is suitable for commercial customers.

What customer need is met by this product?  
 This is a packaged product designed for businesses who are seeking insurance protection against unexpected legal and professional costs, expenses and in certain cases damages awarded to employees.

Who is this product designed for?  
 This product is designed for businesses to help them pursue or defend a variety of legal proceedings including property protection, employment, tax and contract disputes.

Who is this product not designed to support, or are there any features that you should be aware of when offering this product to your customers?  
 Customers who are not involved in running a commercial business.

Can this product be sold without advice?  
 This product can be sold with or without advice depending on your preference and in line with FCA regulations.

How can this product be sold?  
 We would suggest that this product can be sold face to face, online or via telephone.

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**3. Fair Value Assessment**

What assessments have been carried out relating to the performance and risk/reward profile of the product to ensure it meets the identified needs, objectives and characteristics of the target market?

The following metric based assessment has been carried out to determine whether or not the product continues to meet the identified needs, objectives and characteristics of the defined target market.

Based on the following results, it is evident that the product continues to provide fair value to customers and can therefore continue to be sold in accordance with the target market statement and distribution strategy set out in this product review.

**Claim Frequency**

% of policies which result in a claim being reported

0.32%

**Average Cost Per Claim**

The average cost per claim based on claims accepted

£3,018.00

**Net Loss Ratio**

The combined Underwriter and Arc loss ratio across Years 2016-2020

57.43%

**Agent Commission Tolerance**

A tolerance for total agent's commission based on typical costs associated with distributors' roles and responsibilities in the distribution chain.

75%

**Claim Acceptance Rate**

Accepted claims as a % of accepted and declined claims. Reasons for declination are policy exclusions apply, policy conditions not met, claim within waiting period or claim within policy excess.

73.45%

**Claim Complaints Ratio**

% of claims which resulted in a complaint to Arc or FOS

2.82%

**Justified Claims Complaints Ratio**

% of claims which were justified/upheld by Arc or FOS

0.56%

**Retail Complaints Ratio**

% of retail sales which resulted in a complaint to the distributor about the sale of the product (2021 Conduct Risk Data)

7.46%

**Cancellation Ratio**

% of retail sales which resulted in policy being cancelled either during the cooling off period or thereafter (2021 Conduct Risk Data)

0.02%

Does the insurance product remain consistent with the needs of the identified target market ?

Yes - see Fair Value Assessment

**4. Pricing**

Financial Promotions

No

Broker Remuneration

Within Arc's Authority

Are the costs and charges of the product compatible with the needs, objectives and characteristics of the target market ?

The cost of the product is relatively low when compared to the cost of the core product to which it attaches to. This is reflective of the typical low frequency but relative (to premium) high severity of claims. A typical customer with a turnover of less than £500k is prepared to pay an affordable additional premium of between £75 and £150 to cater for the possibility of a legal dispute with the product offering a typical per claim limit of £100,000.

Is the charging structure of the product appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand ?

The product will be embedded into the core product booklet to form part of the wider core product benefits. In this scenario, no individual breakdown of charges will be provided to the customer.

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Do the charges undermine the return expectations of the insurance product?

A customer will typically be charged between £75 and £150 for the product. With an average cost of per claim of £5,000 and a typical per claim limit of £100,000. the premium charged is easily justifiable and proportionate.

**5. Distribution**

Distribution Chain

**Short / simple - {Coverholder / Broker > Customer}**

Distribution Method

**Website - Broker / Retail Broker**

What are the distribution channels for this product and how does Arc ensure that they are appropriate for the target market?

We have selected the following distribution channels based on their closeness to the target market and as a result their understanding of the customer;

- Insurance Intermediaries
- Managing General Agents
- Insurance Companies

Does the intended distribution strategy remain appropriate and consistent with the target market ?

Our products are intended to be distributed alongside a core commercial policy. In this scenario, a customer is assessing the risks associated with being a business including the potential of legal disputes and considering whether to transfer that risk by purchasing Commercial Legal Expenses Insurance.

Our distribution channels remain the most appropriate strategy in terms of reaching the target market and being of adequate standards to identify the customers who are compatible with the target market's needs, characteristics and objectives.

What reasonable steps will Arc take to ensure the product is distributed to the target market ?

We carry out analysis of internal complaints and cancellation data supplied by our distributors to identify trends which may imply that the product is not being distributed to the target market. Where trends are identified, corrective actions are provided to the distributor to rectify the situation. If necessary we will impose sanctions including cancellation of agencies.

We encourage distributors to partake in product training to assist them in identifying customers in the target market.

**6. Check List**

Has Arc made available all appropriate information about the product including features, exclusions, risks, costs and conflicts of interest to all distributors ?

**Yes**

Has Arc made available all appropriate information about the product approval process to all distributors ?

**Yes**

Has Arc made available information regarding the identified target market of the product and target market assessment to all distributors ?

**Yes**

Conflicts of Interest

**Not applicable**