



Guidance on suitability of an insurance contract under the Insurance Intermediary (General Business)(Conduct of Business) Code 2020

This guidance is issued in consideration of the requirements of the Insurance Intermediary (General Business)(Conduct of Business) Code 2020 (“the Code”) and sets out the Isle of Man Financial Services Authority’s (“the Authority”) expectations in respect of the requirement to ensure that all contracts proposed must be suitable for a client's demands and needs.

The Authority issues guidance for various purposes, including to illustrate best practice, to assist regulated entities to comply with legislation and to provide examples or illustrations. This guidance is, by its nature, not law, however it is persuasive. Where a person follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.

The Authority is aware that there is a wide variation in sales practices within the sector. This guidance is set out to help insurance intermediaries interpret the requirements of the Code in a proportionate manner for differing types of insurance products; although in considering proportionality, it is important to note that there is no distinction between advised and non-advised sales within the Code.

In order to fulfil the requirement that the policy offered is suitable for the demands and needs of the client, the Authority expects that insurance intermediaries will take an active role in understanding the client’s demands and needs. This can be done by using readily available information as well as by obtaining information from the client, for example, by asking questions in person, on the telephone or by way of a questionnaire prior to any contract of insurance being proposed.

Once the client's demands and needs have been identified these should be matched to available products, taking into account factors such as the product’s level of cover and cost, and relevant exclusions, excesses, limitations and conditions.

It is for the insurance intermediary to determine the process necessary to ensure that the contract proposed is suitable. The Authority is aware that it will differ between providers and between lines of business; for example, it might be that a more detailed advice process is required for a small business owner that doesn’t understand its insurance needs when compared to a personal lines client or a corporate client that has a clearer understand of its insurance needs.

This process of identifying, and then matching products to, the client’s demands and needs, is not explicitly required to be documented or provided to the client under the Code. However, the Authority suggests that insurance intermediaries should consider how they would be in a position to demonstrate compliance with this requirement, or handle any



complaint arising from a sale, if it is suggested that the policy offered was not suitable for the demands and needs of the client.

In considering suitability, an intermediary should take all reasonable steps to ensure that a customer only buys a policy under which they are eligible to claim benefits. Lack of ability to claim will always be unsuitable.

If an insurance intermediary cannot fully match a client's demands and needs to a suitable product, or where a client may only be able to partially claim against benefits under the contract, the client should be informed of any demands and needs that are not being met by any product offered and the client should be informed that they may be able to get a product that would fully fulfil all of their demands and needs elsewhere.

The process of completing a statement of demands and needs and the extent of information gathered will vary according to the client's level of sophistication, the client's understanding of its insurance needs, the complexity of the client's needs and the complexity of the contract of insurance to be offered. The Authority has outlined example processes below for commercial lines and personal lines business.

Commercial lines

For commercial lines business it would ordinarily be appropriate for the intermediary to carry out a detailed statement of demands and needs, based on meetings held with the client, to ensure that the intermediary has a good understanding of the client's business and the risks faced by that business before offering bespoke advice about the risks that could and should be mitigated by way of a suitable insurance policy, which may be covering a suite of insurance products. This would be appropriate for small businesses as well as corporate clients, but the intermediary should be mindful of the level of sophistication of the client (and its understanding of its insurance needs) and tailor the process according to the nature, scale and complexity of the client and its needs.

If the intermediary is asked to quote for a specific type of insurance only, the statement of demands and needs could take account of the client's specific demands in this circumstance. However, it would be best practice for the intermediary to ask about other insurance needs, to ensure that the client is aware of these. The insurance policy offered would need to be suitable for the demands and needs identified by the client.

Personal lines business

It is acknowledged that there are some classes of insurance, primarily personal lines, which are transactional in nature and offerings across different insurers may be standardised with typical covers, where a full advice process resulting in a recommendation is not necessarily appropriate in every case.

In many cases, personal lines customers are likely to ask an intermediary to quote for a specific type of insurance and so advice around the type of cover is not necessary. However, personal lines customers are likely to be less sophisticated in their understanding of insurance



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and may not fully understand how their specific needs may or may not be covered by an insurance policy. For example, a customer may not appreciate that buying household buildings and contents cover from separate insurers may not be the best choice in that potentially a claim could involve more than one loss adjuster (representing each insurer's interest) and separate policy excesses applying for the same loss.

In these circumstances the statement of demands and needs for personal lines business should focus on the customer's needs in relation to the type of insurance required. The Authority would expect the intermediary to ask the customer questions in order to establish their needs, to offer products that meet those specified needs and to focus on ensuring that the customer understands how the insurance product sold is suitable for their needs.

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