



## Product Oversight & Governance

PRODUCT INFORMATION PACK

COVERHOLDER: Source Insurance Ltd  
SCHEME NAME & REF: Sentinel | 04180L  
PRODUCT: Buildings & Contents | Household  
SCHEME START DATE: 1<sup>st</sup> January 2022

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## Introduction

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## Introduction to our Product Information Pack

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**Product Oversight and Governance (“POG”) refers to the systems and controls firms have in place to design, approve, market and manage products throughout the product lifecycle to deliver fair value to the customer and ensure they meet legal and regulatory requirements. As a manufacturer of an insurance product, we are required to ensure you are provided with:**

- All appropriate information about the insurance product;
- All appropriate information about the product approval process;
- The identified target market of the insurance product.

This information should be shared with your employees who are involved in the distribution of this product, as well as with any further distribution partners with whom you engage.

### **The key aims of the information provided in this pack are:**

- To document how the key roles and responsibilities of product design and distribution are shared between our businesses. *This information is detailed in Section 1.*
- To ensure you understand our approach to POG in relation to the manufacture of our products. *This information is detailed in Section 2.*
- To illustrate the systems and controls we have in place to design, approve, market and manage products throughout the product lifecycle with the aim of ensuring value for the customer and, in delivering such value, meet regulatory and legal requirements. *This information is detailed in Section 2 and Section 3.*
- To provide scheme specific information relating to the product content and intended target market and to highlight any potential risk factors. *This information is detailed in Section 4.*
- To demonstrate how the product provides fair value to the customer throughout its lifecycle. *This information is detailed in Section 4.*

### **Ongoing responsibilities**

We would like to draw your attention to your ongoing responsibilities as a Distributor, as set out in PROD4, specifically sections 4.3 and 4.4, which outline the regulatory expectations for distribution. This includes the requirement for you to share sales information that will assist us in the completion of Product Reviews, to inform us of any changes to your distribution strategy or to raise any concerns should you become aware the product may not be in line with the requirements of the target market.

Should you have any questions, or would like to discuss this material further, please contact your Underwriter.

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## Section 1 | Roles and Responsibilities Matrix

Client Name:	Source Insurance Limited
Scheme:	Sentinel Home

When firms collaborate to manufacture an insurance product, they must outline their mutual responsibilities in a written agreement.

Role	Party Responsible for Completing Activity for production, completion and implementation of actions	Party to Sign-off actions and outputs
Product Design	UKG	UKG
Underwriting Acceptance Criteria	UKG	UKG
Product Testing	UKG	UKG
Net costs & charges for the product	UKG	UKG
Gross costs & charges for the product	Client	UKG
Price Setting Intermediary	Client	Client
Identification of Target Market & any risks to that market	UKG	UKG
Product Monitoring & Review	UKG	-
Maintaining the skill & competence of Product Development Staff	Client & UKG	-
Selection of Distribution Channels	Client	UKG
Information provided to Distributors	Client	UKG
Monitoring of Distribution	Client	-
Documentation - Policy Wording & IPID	UKG	UKG
Documentation - Schedule	UKG	UKG
Fair Value Assessment	UKG	UKG
Product Oversight Committee/Sign-off	UKG	UKG

Based on the information we currently hold and discussions between both parties, we assume the following definition of roles;

PROPOSED ROLE   CLIENT	DISTRIBUTOR
PROPOSED ROLE   UKG	LEAD MANUFACTURER

## Section 2 | Product Oversight & Governance Policy Overview

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### 1. Introduction

This policy applies to UK General Insurance Limited (UKGIL) and sets out our approach to product oversight & governance (“POG”) in relation to the manufacture of our own products.

POG refers to the systems and controls a firm has in place to design, approve, market and manage products throughout the product lifecycle with the aim of ensuring value for the customer and, in delivering such value, meeting regulatory and legal requirements.

The FCA implemented the PROD Sourcebook to improve firms’ product oversight and governance processes and to ensure the FCA rules and guidelines are aligned with the Insurance Distribution Directive. The purpose of which is to ensure that the interests of consumers are considered throughout the life cycle of an insurance product.

The key requirements of the PROD Sourcebook are:

- Formalisation of roles and responsibilities for firms across the distribution chain clearly defined and documented in a contract;
- That product manufacturers must maintain an end-to-end POG process tailored to the complexity of the product which includes identification of the target market, risks to that target market and ensures the products match the needs of the target market;
- The need for manufacturers to pass on certain product information to distributors;
- The need for manufacturers to obtain information from distributors on product performance and complaints;
- Establishing frequency of product reviews and also to identify factors that will trigger a product review on an ad-hoc basis;
- The need for consistency in distribution strategies between manufacturers and distributors to ensure POG arrangements are effective;
- The need to ensure manufacturers select distributors who have the right skills to effectively sell the products.

This policy sets out how UKGIL complies with these requirements.

## 2. Definitions

UKGIL has defined the key roles in the manufacture and distribution of insurance products as follows:

### Where UKGIL manufactures its own products for distribution

Role	Who	Activities
<b>Lead Manufacturer</b>	UKGIL	<ul style="list-style-type: none"> <li>Autonomous design and development of an insurance product for the market</li> <li>Autonomous determination of the essential features of an insurance product, including coverage, price, costs and risks</li> <li>Identification of the target market</li> <li>Production of the policy wording and IPID</li> <li>Provides product information to the distributor</li> <li>Autonomously determines changes to the product</li> </ul>
<b>Distributor<sup>1</sup></b>	Coverholder or further Sub-Delegate involved in the distribution chain up to and including the party selling directly to the customer	<ul style="list-style-type: none"> <li>May personalise or adapt the product for its distribution arrangements</li> <li>Agrees distribution arrangements with UKGIL</li> <li>Ensures onward sharing of product information provided by UKGIL where there are other parties in the distribution chain</li> </ul>

## 3. Product Governance Framework Principles

UKGIL has developed a set of 8 principles which form the basis of its approach to POG. These principles apply to its own manufacturing of insurance products. The principles are as follows:

Principle	Requirement
1. Roles & Responsibilities	Ensure roles & responsibilities are clearly defined and documented.
2. Product Governance Process	Maintain a product governance & oversight process which is tailored to the complexity of the product, demonstrates that a target market is clearly defined, that any risks associated with that target market are understood, and ensures the design of the product matches the needs of the identified target market.
3. Transparency of Charging	Demonstrate that the charging structure is compatible with, and appropriately transparent to, the target market (i.e. does not disguise charges or is too complex to understand).
4. Provision of Product Information to Distributors	Provide product information to distributors covering all appropriate information on the product, all appropriate information on the product approval process, the identified target market and any potential vulnerability considerations of the insurance product.
5. Provision of Fair Value Assessment	Ensure fair value is clearly defined and documented and provide a fair value assessment document to Co-Manufacturers and Distributors.

6. Product Reviews	Undertake regular product reviews on an annual basis and ad-hoc where necessary.
7. Selection of Distributors	Ensure the selection of distributors with the necessary knowledge, expertise and competence to understand the features of the product and the identified target market.
8. Monitoring Distribution Activity	Ensure the activities of the distributor(s) are consistent with the product distribution strategy.
9. Training & Competence	Maintain the skills of the people involved in the product manufacturing process.

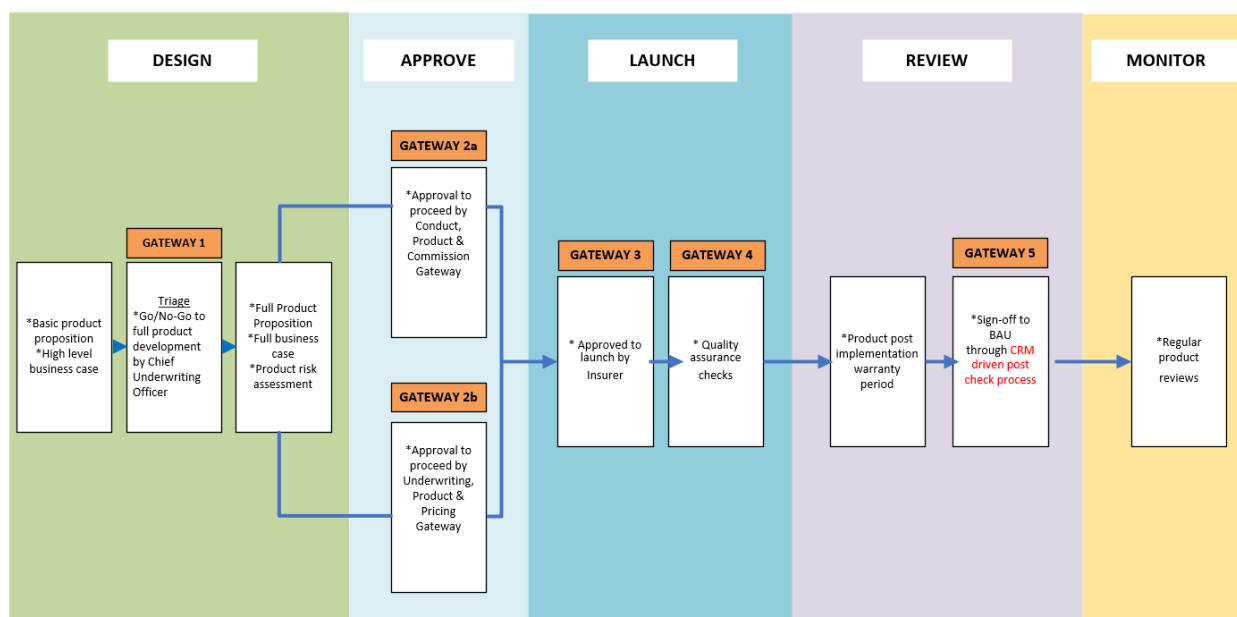
To support these principles, UKGIL has defined a core product governance process, which can vary as to the nature of the distribution. The process is owned by the Head of Products, who ensures ongoing maintenance, and is stored centrally. The process is summarised below:



## 4. Product Manufacturing Approval & Oversight Committees

The diagram below illustrates the approval requirements for new product opportunities.

### Example Product Governance Approval Process



The Conduct & Compliance Committee is responsible for reviewing conduct management information at product and portfolio level which may indicate issues with product performance, the outputs of product reviews, and agreeing the requirement for any ad-hoc product reviews.

## 5. Product Reviews

UKGIL maintains a product review schedule based on scale and overall risk of a product. This schedule is owned by the Head of Products, who is also responsible for ensuring the reviews take place. Reviews will take place in accordance with the schedule plan, dependant on the product, and the frequency is aligned to the latest regulatory advice and guidance.

UKGIL may also undertake an ad-hoc product review if there is reason to do so, for example, a change in product performance, evolving market conditions or a change or amendment to regulatory requirements. The outcome of product reviews will be reported into the Conduct & Compliance Committee.

## 6. Training & Competence

UKGIL ensures that the staff involved in the design of insurance products have the necessary skills, knowledge and expertise to understand the products sold and that they understand the needs, objectives and characteristics of the customers belonging to the target market.

## Section 3 | Product Review Content

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UKGIL maintains a product review schedule based on scale and overall risk of a product. This schedule is owned by the Head of Products, who is also responsible for ensuring the reviews take place. Reviews will take place in accordance with the schedule plan, dependant on the product, and the frequency is aligned to the latest regulatory advice and guidance.

### Review Purpose:

- Products are competitive with market offerings
- Review of internal and external broker/customer feedback
- Products meet customer needs and provide value for money
- Products comply with all relevant regulations and legislation
- Policy documentation is clear and concise

### Review Content:

- Size of the market and market share
- Benchmarking of product features and cost against wider market
- Review of Risk Assessment
- Review of Fair Value Assessment Document
- Distribution chain construct
- Remuneration in the distribution chain
- Value metrics
- Claims performance
- Claims and Complaints KPI review
- Complaints MI
- Review of relevant FOS cases/outcomes
- Policy documentation clarity and quality review
- Closed book assessment



# Section 4 | Product Information Record & Fair Value Assessment

## Product Oversight & Governance | Product Information & Fair Value Record

**Client Name:** Source Insurance Ltd  
**Scheme Name:** Sentinel  
**Product Name:** Buildings and Contents - Household  
**Coverholder Product Responsibility:** Distributor  
**Scheme Ref:** 04180L  
**Valid for Scheme Incepting:** 01/01/2022

### Introduction

UK General Insurance is committed to having the appropriate product oversight and governance systems and controls in place to offer products that meet the needs of their intended market and are assessed to ensure they provide fair value to those customers.

This document outlines the information as required to fulfil our fair value regulation responsibilities. It includes detail of the intended target market for this product, considerations around vulnerability and demonstrates how the product offers value to the customer. The proposed rules define value as the relationship between the overall price to the customer and the quality of the product(s) and/or services provided. As directed in PROD4, the relevant information from this document should be shared with all parties within the distribution chain.

### Product & Target Market Assessment

#### Section 1: Product Benefits Summary

<b>Product Description:</b>	Specified cover for homeowners against loss or damage to their main residence property or contents, and legal liability incurred for accidents or losses occurring in their property during the period of insurance.		
<b>Product Benefits:</b>	To cover an insured's main home and their contents, including protection against legal liabilities.		
<b>Customer Type:</b>	Personal		
<b>Product Structure</b>	Individual Policyholder	<b>Annual, True Monthly or Short Term / Event Policies</b>	Annual
<b>Class of Business:</b>	Household	<b>Claims Settlement Basis:</b>	<ul style="list-style-type: none"> <li>• Claims Occurred</li> <li>• Rebuilding, repairing or replacement (Section 1 Buildings)</li> <li>• Repairing or replacement (Sections 2 Contents, 4 Personal Possessions)</li> <li>• Defence costs, compensation for personal injury or death, damage to third party property (Section 3)</li> </ul>
<b>Cover Sections:</b>	<ol style="list-style-type: none"> <li>1. Buildings</li> <li>2. Contents</li> <li>3. Liabilities</li> <li>4. Personal Possessions</li> </ol> Family Legal Care	<b>Main Restrictions:</b>	<ul style="list-style-type: none"> <li>• You must be a permanent resident of the United Kingdom</li> <li>• The property must be in the UK.</li> <li>• Personal possessions and Pedal Cycles up to £2,500 unless specified on the schedule are covered in the UK and up to 60 days worldwide in any one period of insurance</li> <li>• No cover for damage to plumbing as a result of freezing if your home is unoccupied for more than 14 days in a row during the months of October through to April, unless your home is adequately heated during these months</li> <li>• You must notify us immediately if your home is about to be unoccupied for over 60 days in any single period</li> <li>• Your home cannot be used as in connection with any trade, business or profession</li> <li>• No cover for loss or damage caused by domestic pets, insects or vermin</li> <li>• No cover for damage to fences, gates and hedges</li> <li>• No cover for replacing undamaged items that form part of a pair, set or suite</li> <li>• No cover for certain losses or damage e.g. theft or malicious damage caused by you, paying guests or tenants</li> <li>• Any incidents that occur or are directly caused by activities of</li> </ul>
<b>Optional Cover:</b>	<ul style="list-style-type: none"> <li>• Accidental damage to the Building</li> <li>• Accidental damage to the Contents</li> <li>• Personal Belongings worldwide</li> </ul>		

			home hosting • No cover for loss or damage caused to any motor vehicles (other than a private garden vehicle), caravans, trailers or watercraft and/or their accessories
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### Section 2: Target Market & Risks to Target Market

<b>Who are the intended product's end customers?</b>	<ul style="list-style-type: none"> <li>• Individuals who are living permanently in the UK</li> <li>• Individuals looking to insure a domestic property in the UK that is their main place of residence</li> </ul>
<b>Who is this product <u>not</u> intended for?</b>	<ul style="list-style-type: none"> <li>• Those not resident in the UK</li> <li>• Those looking to insure property outside the UK</li> <li>• Owners of properties used for commercial activities</li> <li>• Owners of Let Property, second homes or holiday home</li> <li>• Those who intend to use their property infrequently and cannot meet the unoccupancy criteria</li> <li>• Occupations categorised as self-employed and administrator should also be checked against the UKG's Occupation and Industry acceptance criteria</li> </ul>
<b>Risks to the target market</b>	<p>We will be catering to a broad range of customer profiles and need to ensure all general best practises are adhered to. This includes, but is not limited to, the provision of suitably informative pre-sale documentation and customer sales journey, clear and concise policy documentation, availability of documentation in a variety of formats and clear signposting and guidance to assist customers in their communications with us throughout the life of the policy.</p>

### Section 3: Vulnerability Assessment

<b>How complex is the product?</b>	<ul style="list-style-type: none"> <li>• Medium Complexity</li> </ul>
<b>Is the product specifically aimed at a target market that includes any of the following demographic factors;</b> <ul style="list-style-type: none"> <li>• Young people or the elderly</li> <li>• A restricted social, economic and/or employment status</li> <li>• CCJS, adverse credit or convictions</li> <li>• A restricted literacy capability</li> <li>• A restrictive physical disability, illness or visual or hearing impairment</li> </ul>	<ul style="list-style-type: none"> <li>• No</li> </ul>
<b>Scale of Harm:</b> The potential risk, and possible levels, of harm to customers if the product design is flawed, in particular, if the product is intended for a wide target market;	<ul style="list-style-type: none"> <li>• Medium</li> </ul>
<b>Impact of a Claim   Product Type:</b> e.g. a customer moving from their home due to flood damage on home policy could be considered traumatic, whereas a stolen bike on a cycle policy may not be as impactful to everyday life.	<ul style="list-style-type: none"> <li>• High impact</li> </ul>
<b>Any potential vulnerability risks associated with the target market?</b>	<p><b>General Points for Consideration (Source: FCA Financial Lives Survey 2020):</b></p> <ul style="list-style-type: none"> <li>• All consumers are at risk of becoming vulnerable, particularly if they display characteristics of vulnerability to do with poor health (and hence at greater risk of harm), a life event, low resilience or low capability. In the seven months between March and October 2020, the total number of UK adults with characteristics of vulnerability increased by 3.7 million to 27.7 million. This is a 15% increase on the February 2020 figure.</li> <li>• The coronavirus (Covid-19) pandemic has had a profound impact across society, but it has not affected all groups equally. The largest proportional increases in consumers displaying characteristics of vulnerability have been among those aged 18-34, those in employment in February (but particularly the self-employed), those with a mortgage (and to a lesser extent those who rent) and BAME adults.</li> <li>• We have identified four key drivers which may increase the risk of consumer vulnerability: poor health, experiencing a negative life event (such as a bereavement, job loss or relationship breakdown), low resilience (including low financial resilience) and low capability. Over half (53%) of UK adults have characteristics of vulnerability at October 2020</li> <li>• 76% of adults with characteristics of vulnerability do not see themselves as vulnerable.</li> <li>• Adults with poor health are more likely to see themselves as vulnerable than adults who are vulnerable for other reasons.</li> </ul>

	<p><b>Product Specific Points for Consideration:</b></p> <ul style="list-style-type: none"> <li>Given continuing uncertainty around Covid-19, there are some risks to the housing market looking ahead. The consequential squeeze on personal finances may see some customers fall behind with premium payments, or look to reduce or cancel their cover as they assess their outgoings. We may see increased claims circumstances for not covered by the policy as customers look to use perceived benefits as a way of saving money.</li> <li>The full unemployment picture following the end of the furlough scheme is yet to become clear, and rising inflation, soaring energy costs and their significant impact on the cost of living, will squeeze real household incomes.</li> <li>The Bank of England recently announced its intention to consult on amending elements of its mortgage affordability test requirements. Changes made could help more people onto the housing ladder, or enable people to access a property of a value that would have previously been out of reach.</li> <li>Mortgage arrears have increased significantly while home repossessions reached an historic low due to the moratorium introduced in March 2020, alongside the support provided by lenders to customers impacted by Covid-19. However, home repossessions may surge in 2022 as measures come to an end, with some organisations warning that while 2,900 properties were repossessed by lenders in 2020, this could rise to 22,300 in 2022.</li> </ul> <p><b>Mitigation:</b></p> <p>UKG asked for evidence of Source’s vulnerable customers policy at the point of onboarding and through audit, the last of which was conducted in June 2022. Source provide the necessary training and support to their retail staff to help them identify vulnerable customer indicators which will help to identify those customers who may be facing some of the difficulties we have highlighted, and to highlight signposting for vulnerable customers within the policy documentation and policy sales journey.</p> <p>The recent audit raised an action for Source to update their sales call QA process document with details of how they monitor call handling to determine whether any instances of customer vulnerability were identified and managed appropriately. This action is rated “moderate” and is not seen as an indicator of low product value. A sample of sales calls were reviewed during the audit and the customer was provided with a clear and friendly customer journey.</p>
Section 4: Product Approval Process	
<b>Has this scheme has gone through the formal UKG approval and sign off process?</b>	Yes
Section 5: Conflicts of Interest	
<ul style="list-style-type: none"> <li><b>Are there any conflicts of interest known to any parties in the chain, which may be considered detrimental to good customer outcomes? This information is detailed in the Confirmation Statement.</b></li> </ul>	UKG   None known.

## Assessing Fair Value

Section 6: Costs & Charging Statement	
<p><b>What are the costs and charges associated with this scheme over the lifetime of the policy?</b> This information is detailed in the Confirmation Statement.</p>	<p>Commission is set at a maximum of 40%, although in practice Source retain 10%. The commission split between Source and the broker depends on the arrangement in place but usually the broker commission varies between 20% and 25%.</p> <p>In addition, Source charge a fee of £28 for both new business and renewals. There are no fees for making an MTA or for cancelling a policy.</p> <p><b>The activities completed by UKG in respect of their earnings include;</b></p> <ul style="list-style-type: none"> <li>Using actuarial modelling techniques and software to analyse claims experience and calculate an appropriate and fair level of net premium to insure the risk. Analysis is made against other comparable products, customer target demographics and distribution models to help ensure the rating will perform as closely as anticipated. UKG do not price differently for new business and renewals to ensure fairness for the customer.</li> <li>Creation, production, and management of policy wording, IPID and other customer facing documentation.</li> </ul>

	<ul style="list-style-type: none"> <li>Through our Delegated Authority Team, UKG perform a full due diligence and onboarding of all new business and annual audits and annual confirmation statements of all ongoing coverholders to ensure they have the appropriate control framework in place to effectively and appropriately undertake insurance retail activity.</li> <li>Through the product function within UKG, activity is undertaken to ensure adherence to Product Oversight requirements include conduct metrics and product performance.</li> </ul> <p><b>The activities completed by Source in respect of their earnings include:</b> Maintaining the policy quote administration system, product manufacturing and development with capacity providers, document control and maintenance, staff training, broker relations, software house distribution &amp; maintenance, payments and credit control.</p> <p><b>The activities completed by Retail Brokers in respect of their earnings include:</b> Presenting and explaining the product offering to the customer, establishing customer demands and needs, banking arrangements.</p>
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### Section 7: Value Measure Metrics

Measure	Actual	Tolerance	RAG
Claims Frequency (BY20)	3.14% (420 claims, 13,361 pol sales)	>5%	
Claims Acceptance Rate	49.29%		
Average Claims Payout (BY20)	£2,494.47		
Average Retail Premium (BY20)	£233.91		
Withdrawn Claims Rate (BY20)	20.48%	<25%	
Declined Claim Rate (BY20)	20%	<10%	
Claims Complaints as % of Claims (BY20)	5.5% (23 complaints)	<5%	
FOS Complaints as % of Claims Complaints (prev 12 months)	Unknown		
% of FOS Complaints Upheld by FOS (prev 12 months)	Unknown		

### Section 8: Product Review

UKG maintains a product review schedule based on scale and overall risk of a product. Product reviews take place on an annual basis and include the following information; market activity, benchmarking of product features and rating against wider market, distribution chain construct and remuneration, value metrics, claims and complaints performance KPI review, policy documentation clarity and quality review.

Upon completion of a product review the relevant findings will be shared with our Distributors.

<p><b>Details of any changes made to the product structure at this renewal and the anticipated impact of those changes.</b> N.B: "Significant change" as defined in POG 4.2.4A, may include, but is not restricted to, a proposed change to the insurance coverage, costs, exclusions, excesses, limits or conditions and any other significant change to the terms and conditions.</p>	None
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### Section 9: Distribution Method

<p><b>How is this product sold to the customer?</b> <b>Does it meet the needs of the intended market?</b> This information is detailed in the Confirmation Statement.</p>	<p>The scheme is distributed through a network of 2,000 retail brokers and mortgage intermediaries using "The Source" quote system. Approximately 90% of sales are made by brokers, with the remaining 10% via Source's call handling team. No B2C online sales are made.</p> <p>The product is relevant and timely through these distribution methods.</p>
<p><b>How do we mitigate the risk of the policy being sold outside of the target market?</b></p>	<p>The policy is sold on a closed system that can only be accessed by the Intermediary who has been registered and approved by Source, and who provide physical access to the sales system.</p> <p>Through the UKG Delegated Authority and Audit process, checks are made to ensure the distribution model specified at the start of the scheme remains unaltered.</p>
<p><b>How is the product presented to the customer?</b></p>	Stand Alone
<p><b>If the product is an "add on" or "part of a wider product", it should demonstrate synergy with the product it is sold alongside. Analysis is undertaken to confirm this and the key evidence is as follows;</b></p>	n/a

**If the product is an “add on” or “part of a wider product”,**  
it should demonstrate customer value, ensuring no cross over of cover. Analysis is undertaken to confirm this and the key evidence is as follows;

n/a

#### Section 10: Fair Value Summary Statement

**Having made our assessment, we are confident that this product offers fair value to the customer.**

- The product type is well established in the market, and is a scheme within a highly competitive sector. The product has been developed to compete on levels and type of cover with others in the market. Competition within the market keeps the average premium at a reasonable level
- The product is not targeted at vulnerable customers, instead it is a buildings and contents scheme for homeowners.
- A recent audit of Source (June 2022) did not highlight any “critical” or “significant” rated findings. The actions arising will be closely monitored through to completion.
- With regard to the low claims frequency indicator, although it is below the 5% tolerance a significant number (420 claims) were submitted during the year.
- The average claims payout figure is relatively high (£2,494.47) which indicates that the customer gains value from the product should they have a valid claims. We do not feel that this year’s outcome is representative of poor value.
- The complaints % ratio to claims is nearly within tolerance, although is low when compared to the number of policy sales (23 complaints, 13,361 policy sales)
- Commission and fees are not deemed to be excessive, and can be justified.