

Product Governance

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Introduction

A key focus of the insurance regulatory authorities across the globe has been the protection of policyholder interest, resulting in greater emphasis on product governance and product life-cycle management. The insurance directive (Insurance Distribution Directive¹) launched under the EU insurance law has issued guidelines for the insurers to embed product oversight and governance into their risk management frameworks.

Product governance covers arrangements to ensure that products offered to customers are relevant to their needs, characteristics and objectives. A robust product governance process can help reduce mis-selling and complaints, and increase policyholder confidence in the market. It also ensures internal and regulatory compliance for the products offered by the insurer.

Core components

A robust product governance policy encompassing a detailed review of all the stages of the product life cycle will allow the insurer to have a more focused approach to creating a valued product, thereby ensuring high customer satisfaction.

The key components of a robust product governance process are:

- **Product governance policy:** A well-implemented product governance framework involving the key stakeholders to review the product's life-cycle management will help ensure compliance, high standards of conduct and fair customer outcomes.
- **Product development:** Processes and procedures in place to identify the target market and its needs to develop a product that meets those needs, along with a product approval process taking into account the considerations and conflicts of all the stakeholders involved, with key focus on policyholder interest.
- **Pricing and value:** Processes and procedures in place to ensure the adequacy and competitiveness of premiums and that the proposition is of value to the customer.

- **Distribution and sales:** Distribution arrangements to provide appropriate distribution channels, adequate sales training, relevant sales and marketing material and regular sales monitoring to ensure that a product is sold to the identified target market only.
- **Legal, compliance and risk management:** Processes that should be in place include legal sign-off of products and involvement of compliance departments to ensure product development processes have been followed.
- **Ongoing assessment of the product:** Regular product review will help the insurer identify events that have a material impact on the features and risk coverage of the product. Any changes that reduce cover could be detrimental to consumers and need to be understood by the insurer, the consumer and the regulator. One such example can be seen in the recent change in Insurance Regulatory and Development Authority (IRDA) regulations to cover genetic disorders as a part of the health insurance policy. Previously, they had been a part of the policy exclusions.

Conclusion

Insurers with well-established product governance frameworks embedded within their operational and risk management structures will not only safeguard the policyholder interest, ensure internal and external compliance and help identify key risks and appropriate mitigation procedures, but will also help achieve expected business volumes and profitability. Milliman has subject matter experts who have helped insurers across the globe to develop product governance strategies in accordance with their internal policies and regulations, giving due consideration to the consumer interest.

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¹ Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors.