A summary of the Isle of Man Insurance (Conduct of Business) (Long Term Business) Code 2018

This Code was introduced by the Isle of Man Financial Services Authority to address the problem of the perceived unfair treatment of policyholders by Isle of Man registered Life Offices.

The Code was made on 1st November 2018 and comes into effect on 1st January 2019, although certain elements do not apply until 1st July 2019.

The Code introduces a general overriding principle for Isle of Man Life Offices to treat policyholders fairly and is another step towards establishing a wide framework of regulation that is spreading around the globe as part of a roll out and extension of the Retail Distribution Review, the aim of which is to provide better client outcomes.

Broadly, the Code requires that treating policyholders fairly is reflected in every aspect of Life Offices' activity, including a requirement for them to ensure it is not just part of their business, but integral to their culture.

Very specifically the Code requires that the fair treatment of policyholders is considered in product design, marketing and distribution.

It also requires the fair treatment of policyholders with regards to the provision of information before, during and after the point of sale, as well as requiring Life Offices to align their remuneration strategy with the objective of avoiding unfair policyholder outcomes.

Importantly, it places a duty upon the Life Offices to ensure that the parties through whom it distributes its products and services; have appropriate skills, knowledge and experience; that they can provide appropriate information to policyholders; and, that they hold the necessary regulatory permissions to distribute (and, if appropriate, advise upon) the products.

All of the above are requirements that become operative from 1st January 2019.

Effective from 1st July 2019 is a further requirement to produce a Key Information Document ("KID") as a standalone document, separate from marketing materials. Key points about KIDs are:-

- They must be accurate, fair and clear and be written as concisely as possible;
- They must provide at least a generic description of the underlying investment options and a description of the potential risk of loss applicable;
- They must contain information about the nature, risks and costs of the product, with the section on costs very specifically having its own section that discloses all fees and charges in a clear manner, including disclosure of any commission paid to an intermediary that has been generated as a result of the product sale.
- The KIDs must also be acknowledged in writing by the policyholder.

There are 10 exemptions that apply to these KID requirements as follows:-

1. Hong Kong - where a product is distributed in accordance with the Guideline on Underwriting Class C Business.
2. UK – where the product is distributed through a UK FCA authorised entity.
3. European Union – where the product already has a KID produced under PRIIPs regulation.
4. Singapore – where the Life Office has written approval from the Monetary Authority of Singapore for distribution of the product.
5. Argentina – where written authorisation exists from the Superintendicia de Seguros de la Nacion for distribution of the product.
6. South Africa – where a product is distributed in compliance with the Policyholder Protection Rules (Long Term Insurance) 2017 issued by the Financial Services Board.
7. Qatar - where a product is distributed in compliance with the Conduct of Business Rules 2007 issued by the Qatar Financial Centre Regulatory Authority.
8. UAE – where the product is distributed via a broker formally, licensed, registered or permitted by a recognised regulator to intermediate insurance business in UAE, subject to the issuing of a disclaimer pointing out that the Life Company is not obliged to comply with the Code under UAE regulation.
9. Any territory outside the Isle of Man - where the Life Office has been formally admitted, permitted or licensed by a recognised regulator and has established a fixed place of business in that territory, subject to the issuing of a disclaimer pointing out the general provisions of the Code but that the Life Company is not obliged to comply with the Code in that territory.
10. Employer Sponsored Schemes, which provide earmarked benefits for employees of the employer (provided the employer is a corporate entity), and the underlying employees have no contractual rights with the Life Office.

There is a similar requirement to the KID for long-term pure protection policies known as a Summary Information Document or SID.

The Code sets out various requirements for Life Offices to grant Terms of Business to brokers, advisers and intermediaries, including the need for them to be properly vetted, taking into account the broker's regulatory status, affiliations to professional or trade bodies, corporate status and the jurisdiction in which the broker is operating.

The Terms of Business themselves are required to make the broker attest to various matters such as; the proposed business being conducted is not illegal; that the broker is an agent for the policyholder and not the Life Office; that the broker will maintain all regulatory permissions and comply with all relevant laws of the jurisdictions in which they conduct business; and, that the broker will comply with anti-money laundering and countering the financing of terrorism laws in the Isle of Man and the jurisdiction in which they operate.

The Code also has various administrative elements including the establishment of mandatory cancellation periods (otherwise known as cooling off periods) together with post-sale disclosure requirements and claims handling.

To read more details of the Code, the entire Code can be found here.

MitonOptimal very much supports the principle of treating customers fairly and welcomes this Code as a step in the right direction for policyholders. It is, in our opinion, an indictment of the industry that a Code to treat customers fairly is required in the first place.

We are however cognisant that this has the potential to disrupt the business model of a number of our intermediary partners and as such can offer practical guidance and help, based on our own experiences, of how to manage this disruption and the impact of the Retail Distribution Review generally.

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