

Product Review and Fair Value Assessment Holiday Home Legal Protection August 2025

Holiday Home Product Review and Fair Value Assessment

Product Name	Holiday Home Legal Protection
Product Status	Existing
Class of Business	Legal Expenses Insurance (Class 17)
Distribution Method	Add-on – Optional
Review Period	01 January 2024 – 31 December 2024
Date of Review	01 August 2025
Expected Date of Next Review	01 August 2026

Introduction

As part of our product review and approval process, we identify the target market for which the insurance product is intended. In practice, this means we will characterise the needs of the targeted group of customers so that the product can be developed to match these needs.

To understand the target market, our product approval process looks at the objectives, interests and characteristics of the target market and demonstrates how the product offers fair value. Our product approval process will:

- ◆ clearly specify the intended target market and their specific characteristics;
- ◆ conduct a risk assessment to identify all relevant risks to the target market and detail how we intend to overcome or mitigate them;
- ◆ identify clearly whether any vulnerability may be present in the target market and incorporate appropriate safeguards into the product as part of the design process;
- ◆ ensure that the intended distribution strategy is consistent with the target market;
- ◆ identify groups of customers for whose needs, characteristics and objectives the product is generally not suitable or will not provide the intended level of fair value.

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Product Information

Customer Needs & Objectives

This product is designed to provide customers with access to legal support and if required, indemnify them against legal costs and expenses associated with taking legal action arising from specific legal disputes including:

- ◆ Property damage, nuisance and trespass
- ◆ The buying, renting and selling of goods and services
- ◆ The pursuit of compensation following a personal injury or death

The product can also include the following additional benefits:

- ◆ Access to a 24/7 Legal Helpline

A key condition of cover is customers must have a 51% or greater chance of winning their case and the legal costs and expenses associated with pursuing a claim must be proportionate to the amount of damages that are being sought.

Target Market

This product is designed for professional and part-time owners of holiday & second homes which may be for personal use or available for short-term holiday let for all or part of the year and may have legal needs, requiring access to legal support, and potentially indemnity to cover legal costs.

This product **is** suitable for customers who:

- ◆ want to purchase it alongside their holiday & second property insurance
- ◆ are owners of holiday & second homes who reside in the United Kingdom, Channel Islands or Isle of Man
- ◆ want access to telephone based legal advice
- ◆ want protection against unexpected legal costs and expenses

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This product is **not** suitable for customers who:

- ◆ do not reside in the United Kingdom, Channel Islands or Isle of Man
- ◆ already benefit from equivalent cover elsewhere such as an embedded benefit or as part of another insurance package
- ◆ are owners of properties with long-term tenants
- ◆ are prepared and have the means to self-fund their own legal disputes

Specific characteristics and customer vulnerability

There are no specific characteristics to be aware of for this product.

We recognise that some customers and potential customers may have vulnerabilities which can include, but are not limited to, financial circumstances, life events & health issues.

If there is reason to believe that a customer is vulnerable, we will manage them accordingly. This may include updating file notes to ensure staff are aware of the customers circumstances, verify with the customer that the information provided has been understood and offer to provide any additional support where appropriate.

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Distribution Strategy

This product must always attach to a second and holiday property insurance as an optional add-on with a common renewal date.

The product can be sold on either an advised or non-advised basis (dependant on preference) and in line with FCA regulations. The following sales channels have been selected due to their appropriateness to the Target Market and closeness to the customer:

- ◆ Insurance Companies
- ◆ Insurance Intermediaries
- ◆ Managing General Agents

This product can be sold face-to-face, over the telephone or online through the distributor's website or via price comparison websites (PCW).

Commission Level

The maximum commission tolerance for this product is currently **£15.00**.

To ensure agent commissions remain appropriate and offer fair value to customers, Arc's Conduct & Governance team undertake an annual review of commission tolerances.

In carrying out our review, Arc will undertake market research using aggregator websites, such as 'confused.com' and 'comparethemarket.com', as well as a selection of independent companies for selected business types, to obtain multiple quotes from a range of various insurance companies across all relevant business types.

We must stress that Arc Legal are not a price setter, so do not dictate the level of commission that should be charged, however, based on our research we have arrived at commission tolerances which we feel are fair and reasonable for that product type.

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We understand that each agent is different in terms of their roles, activities and operational costs and so one level of commission is not always practical across all our partner network and so it is important that there is an element of flexibility.

Where commissions exceed our tolerance, we will work with the agent to obtain further information regarding the remuneration paid to all parties in the chain, including the role and activities undertaken by that party to justify that remuneration, focusing on what functions and work the agent does as part of the process.

Depending on the rationale and evidence provided, combined with evidence of good customer outcomes, then Arc Legal will consider commissions which fall outside the tolerance levels, provided such commission levels fall within our Binding Authority Limit.

Agent commission levels are approved by Arc Legal's Business Conduct & Governance team prior to onboarding any new business opportunity and on an ongoing basis in line with agent premium returns with action being taken including any remediation work if required, where commissions fall outside tolerance.

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Fair Value Assessment (FVA)

When undertaking our FVAs, we use all appropriate and relevant data and insights that are available to us including but not limited to:

- ◆ Claims MI, Performance MI, Conduct Risk MI and Helpline Usage;
- ◆ Customer research & feedback (complaints, claims and partners);
- ◆ Competitor analysis and benchmarking;
- ◆ Distributor Remuneration review and;
- ◆ Results of agent monitoring and oversight of distributor's processes e.g. call monitoring and file reviews.

FVA Metrics

A metric-based Fair Value Assessment based on 2024 data sets has been carried out to determine if the product continues to meet the needs, objectives and characteristics of customers as specified in the Target Market.

Management Information Used

Claims	Performance	Conduct Risk	Legal Helpline
Claims Frequency	Gross Loss Ratio	Policy Cancellations	Call Response Rate
Claims Acceptance Rate	Gross Net Loss Ratio	Retail Complaints	Calls abandoned
Claims Walkaway Rate	Net Loss Ratio	Claims Complaints	Customer Satisfaction
Average Claims Pay-out		Upheld Complaints	
		Commission Oversight	

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The top claim types for this product in 2024 are:

1. Contract
2. Property
3. Personal Injury Pursuit

Fair Value Assessment – Conclusion

Based on the number of successful claims, claim pay-outs and product performance in this period, we are satisfied that customers are benefiting from this product.

A low Gross (Retail) Loss Ratio can be attributed to the relatively low average retail price and therefore a high agent acquisition cost as a % of GWP. This is due to distributors needing a minimum level of income to cover their acquisition costs.

Our Conduct Risk MI demonstrates there are no barriers for customers wishing to raise a complaint.

Our Legal Advice Helpline achieved an overall satisfaction score of 92% with 95% of survey responses stating that the advice received was easy to understand.

Taking account of our overall Fair Value Assessment, it is evident that this product continues to provide fair value to customers now & for the foreseeable future. It can therefore continue to be sold in accordance with the Target Market Statement and Distribution Strategy set out in this product review.

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Annex 1 – Arc’s Product Oversight & Governance Policy

Arc’s Approach

Our approach is to ensure we meet the requirements of Product Oversight and Governance (POG) which naturally work in tandem with our:

- ◆ Product distribution strategy
- ◆ Product approvals and reviews
- ◆ Consumer Duty, Treating Customers Fairly and Conduct Risk policies
- ◆ Training and competence plans

Our aim is to maximise the long-term value of our business but not at the expense of the fair expectations of our customers. Our Senior Management Team is committed to enabling and supporting appropriate decision making so that the targets and aspirations of the business are fully aligned with good outcomes achieved for our customers.

We believe that we are managed and structured to ensure that we treat our customers fairly by having sound systems and controls, adequate skills, care and appropriate judgement. The POG policy of Arc seeks primarily to ensure the right outcomes for customers. This is the responsibility of everyone at the firm, led by senior management. We aim to minimise the danger that our actions may harm clients, threaten the sustainability of our business, cause reputational damage or risk undermining the integrity of the wider insurance market.

The extent to which POG applies depends largely on whether a firm is a manufacturer, a distributor or possibly both.

A “manufacturer” is a firm which is involved in designing, developing, creating and/or underwriting which covers activities prior to the insurance product being approved for marketing and distribution, and on a continuing basis after such approval. A “distributor” is a firm that distributes and/or recommends insurance products and services to clients.

In this regard we assess ourselves as being the lead co-manufacturer alongside our underwriters.

The product manufacturing and distribution arrangements will:

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- ◆ aim to prevent and mitigate customer detriment;
- ◆ support a proper management of conflicts of interest;
- ◆ ensure that the objectives, interests and characteristics of customers are duly considered.

As part of this policy, and in conjunction with all our other related policies, we will ensure that any products we co-manufacture have been through a suitable product approval process and will ensure that written agreements are in place, clearly setting out responsibilities between the parties. We will not co-manufacture products without fully understanding the objectives, interests and characteristics of the target market or determining that they deliver fair value to prevent customer disadvantage or detriment.

Product Manufacturing Procedures

As a product manufacturer we:

- ◆ maintain, operate and review a product approval process for new products and existing products to which significant adaptations have been made, before such products are marketed or distributed;
- ◆ ensure staff involved in product design and manufacture have the necessary skills, knowledge and expertise for their roles;
- ◆ specify a target market for each product, including, where relevant, identifying groups of customers for whom the product is generally not compatible or who may be deemed to be vulnerable and therefore require further safeguards or support;
- ◆ ensure all relevant risks to the target market are assessed
- ◆ design products to be compatible with the needs, characteristics and objectives of the target market;
- ◆ ensure that the product approval process identifies whether the product (plus any identifiable packages or additional products) provides fair value to customers in the target market including whether it will continue to do so for a reasonably foreseeable period;
- ◆ where, we, as a manufacturer, appoint another firm to design products on our behalf, we will ensure that we maintain regulatory responsibility and ensure that our product approval process is followed;

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- ◆ develop a distribution strategy consistent with the target market;
- ◆ test the product before bringing it to the market;
- ◆ select distribution channels that are consistent with the target market;
- ◆ take reasonable steps to ensure the product is distributed to the target market;
- ◆ monitor and regularly review products (currently annually), to ensure that products remains consistent with the needs of the target markets and the distribution strategy remains appropriate;
- ◆ make available all appropriate information on products and the product approval;
- ◆ provide appropriate information to distributors;
- ◆ document all relevant actions taken in relation to our product approval process and ensure appropriate records are maintained.

It is our intention to ensure that all employees with responsibilities for co-manufacturing insurance products are provided with specific training relevant to their role to allow them to appropriately fulfil their responsibilities.

We maintain a record of our roles and responsibilities as co-manufacturers for each insurer we place business with as agreed with the insurer and outlined in our Binding Authority Agreements and ToBAs.

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Annex 2 – Roles & Responsibilities

As an MGA with lead co-manufacturing responsibilities, Arc carry out many of the functions which would normally be the responsibility of the Insurer (work transfer) including:

- ◆ Designing & distributing the insured products
- ◆ Setting the gross net price paid by the distributor (distributor sets the gross retail price)
- ◆ Pricing of new business & scheme renewals
- ◆ Claims handling – including the settling of claims
- ◆ Management and oversight of partner agents
- ◆ 24/7 Legal Assistance Helpline & FNOL
- ◆ Supply chain management and oversight of TPAs and panel solicitors
- ◆ The production and review of insurance documentation
- ◆ The collection of premiums and reconciliation
- ◆ Regulatory responsibility for the FCA's PROD4 & conduct rules

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Below is a more detailed table outlining the roles and responsibilities throughout the distribution chain:

Co-manufacturer		Distributor e.g. Broker/MGA/Insurer
Underwriter	Arc Legal	
Designing the product		
Approving the product	Designing a product to be compatible with the needs, characteristics, and objectives of the target market	Distributing the product to customers in the target market
The insurance cover		
Approving the policy documentation (unless otherwise agreed with Arc Legal)	Drafting the policy documentation (unless otherwise agreed with underwriter)	Ensuring customers receive all policy documentation.
Insurance Product Information Documents (IPID)		
Approving the insurance product information document. For Commercial customers only, IPID not applicable	Drafting the IPID. For commercial customers only, IPID not applicable. Arc Legal will provide customers with the information required under the Insurance Distribution Directive and applicable regulations	Ensuring customers receive the IPID

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Co-manufacturer		Distributor e.g. Broker/MGA/Insurer
Underwriter	Arc Legal	
Price setting		
Approving pricing models and providing Arc Legal with the net underwriting price from which Arc Legal is authorised to bind risks under their binding authority agreements	Providing the distributor with a net price	The distributor may set the gross premium charged to insureds provided that such gross premium shall at all times be “fair” within Principle 6 of the FCA’s Principles for Business and otherwise in accordance with the terms of business agreement. Additionally, the distributor shall identify all commissions proposed throughout the distribution chain (by percentage of premium or amount)
Costs/expenses		
N/A	N/A	Costs and expenses associated with any marketing of the product including reproduction of policy documentation and IPID
Target market definition		
Approving the target market identified by Arc Legal	Identifying the target market including, where relevant, identifying groups of customers for whom the product is generally not compatible	Ensuring the product is distributed to customers in the defined target market

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Co-manufacturer		Distributor e.g. Broker/MGA/Insurer
Underwriter	Arc Legal	
Sales and distribution process		
Approving the sales and distribution process	Creating the 'sales model' and detailing all relevant information as to how sales will be carried out/monitored on an ongoing basis	Ensuring the product is distributed to the target market and that all appropriate information on products is provided to customer
Review		
N/A	Monitor and regularly review the product, as a minimum ensuring the product remains consistent with the needs of the target market and the distribution strategy remains appropriate	N/A

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