Product Review and Fair Value Assessment

Professional Indemnity Excess

August 2026

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Product Review and Fair Value Assessment – Professional Indemnity Excess

Product Name	Professional Indemnity Excess
Product Status	Existing
Class of Business	Assistance (Class 18)
Distribution Methods	Optional-Add-on
Review Period	01 January 2025 to 31 December 2025
Date of Review	01 August 2026
Expected Date of Next Review	01 August 2027
Is Fair Value being provided?	**Yes**

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

This product is designed to provide commercial entities who want to take out a separate policy to cover some or all their excess under a primary professional indemnity or medical malpractice insurance product.

Target Market

This product is designed commercial entities with a primary professional indemnity or medical malpractice insurance product.

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

- want to purchase it alongside their primary professional indemnity or medical malpractice insurance product;
- are commercial entities who reside in the United Kingdom, Channel Islands or Isle of Man &
- want protection against unexpected legal costs and expenses associated with their excess

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

- do not purchase their primary professional indemnity or medical malpractice insurance through the same distributor;
- 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 willing and able to fund the excess themselves in the event of a claim

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Customer vulnerability and specific characteristics

We recognise that some customers may have vulnerabilities that can include (but are not limited to) financial circumstances, health issues and life events. If there is reason to believe a customer is vulnerable, reasonable adjustments will be made. This includes updating files notes regarding the customers circumstances, verifying with the customer that information provided has been understood and provide any additional support where required. There are no specific characteristics to be aware of for this product.

Distribution Strategy

This product must always attach to a primary professional indemnity or medical malpractice insurance product as an optional add-on with a common renewal date.

The product can be sold on either an advised or non-advised basis (dependent 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 Intermediaries &
- Managing General Agents

This product can be sold face-to-face, over the telephone remotely.

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Commission Level

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

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.

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.

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.

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Fair Value Assessment (FVA)

When undertaking this FVA, we use all appropriate data and insights that are available which include (but are not limited to):

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

Claims MI

When reviewing claims, we assess several key data points and compare these to tolerances that the business has set based on expected and historical results. We also look at trends that occur to understand how our product is being utilised and what type of claims are the most prevalent.

- The frequency in which claims occur;
- The percentage of claims made that are accepted under the policy terms;
- the rate at which claimants begin to make a claim and then withdraw or walkaway;
- The amount of money that is paid out for claims.

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Performance MI

When reviewing performance MI, we calculate and analyse different loss ratios to consider the customer, distribution partners and the insurance carriers and look at each perspective in the distribution chain when considering fair value.

- We look at the Gross Loss Ratio that give the distribution partner and customer perspectives;
- We review our level of income by looking at the Gross Net Loss Ratio;
- The Net Loss Ratio is reviewed to give the performance and profitability perspective of the insurer.

All performance indicators remained within approved tolerance ranges and continue to support the assessment that the product provides fair value.

Conduct Risk MI

Cancellation levels, retail complaints and claim complaints are all key data points that we interrogate to ensure that fair value is being achieved.

- We consider the rate of policy cancellations when within the cooling off period and mid-term;
- We consider partner retail complaint levels and complaints made during the claims process;
- The rate of upheld complaints is monitored as well as FOS complaint referrals to ensure there is not an issue with service, processes or product functionality.

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Fair Value Assessment – Conclusion

Based on the key data points we have reviewed in claims, underwriting performance and business conduct, we have come to the evaluation that the product is providing fair value to its customers.

Customers are benefiting from this product as evidenced in the number of successful claims made and the amount of money that is paid out in successful claims.

The underwriting performance of the product also supports this and shows that the product is being utilised by customers and that the money charged for the product is sufficient to ensure adequate performance can be maintained.

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

Key points:

- No material fair value concerns were identified.
- Key monitoring indicators remained within approved tolerances.
- Customer outcomes remain consistent with the intended product design.
- No material customer harm trends were observed.

No changes to target market, distribution strategy or product design are currently required.

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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