GUARDIAN 1821
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FAIR VALUE (PS 21/5) March 2023

What is fair value?

The FCA introduced new rules under Policy Statement (PS) 21/5 to make sure that manufacturers (those responsible for designing products) and distributors (those responsible for selling them) always consider what's fair value for the customer.

The term 'fair value' has become a focal point for the FCA. Their 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.

Who needs to demonstrate fair value?

Guardian Financial Services Limited ("Guardian") is an appointed representative of Scottish Friendly Assurance Society Limited (Scottish Friendly") which is an authorised product manufacturer. All products are provided by Scottish Friendly, an insurer with 160 years' experience in providing financial products and services.

There are regulatory requirements for a manufacturer of any insurance product, to maintain, manage and review how it approves its products. As part of that approval process, we need to show how the product provides fair value to customers in each target market.

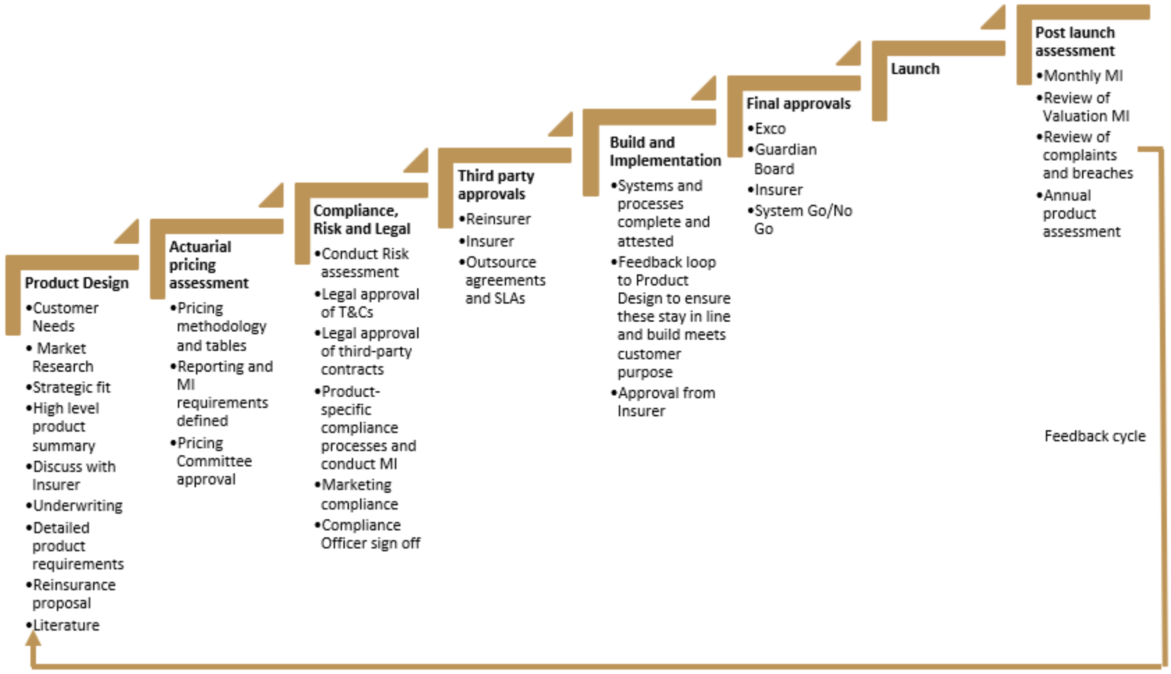
We carry out a fair value assessment based on the FCA Rule PROD 4.2.29. This requires the manufacturer to obtain sufficient information to demonstrate clearly that all distribution channels offer fair value and don't compromise any customers in the target market.

Fair value assessments are completed and approved by Scottish Friendly for the products marketed under the Guardian brand.

If Guardian identifies that any distribution activity is detrimentally affecting the intended value of the insurance product, it will take appropriate remedial measures.

How do you approve products?

We follow the process below when developing new products. This process considers whether each development is a new type of cover or potentially a 'significant adaptation' as described within the PROD rules. If the proposed development meets these definitions, then a fair value assessment will be carried out as part of the product development process.



- Prior to each product launch a pack is produced which includes Product Governance, Pricing Report, Conduct Risk Assessment and fair value assessment.
- The products, including performance against target market and fair value assessment, are then monitored quarterly and formally reviewed on an annual basis.
- If the product MI, actuarial valuations or any other factors such as market movement, issues, breaches, customer queries or complaints highlight a potential issue then an interim review will be undertaken.

We also carry out product reviews every year to make sure the product is performing as designed, and this review includes a Fair Value Assessment.

What products are available and who's the target market?

LIFE PROTECTION

Individuals, couples and families between the ages of 18 and 65 who have financial commitments (such as a mortgage, rental payments, dependents) and who want to insure themselves and their dependents against financial hardship in the event of their death or a diagnosis of a terminal illness. The payment would allow them to maintain payments on financial liabilities such as mortgage or rent: and/or pay off a large debt such as a mortgage.

CRITICAL ILLNESS PROTECTION

Individuals and couples with and without families, between the ages of 18 and 65 who have financial commitments (such as a mortgage, rental payments, dependents) and who want to insure themselves and their dependents against the financial impact of a diagnosis of a critical illness. The payment would allow them to maintain payments on financial liabilities such as mortgage or rent: and/or pay off a large debt such as a mortgage; and/or pay for medical treatment or adjustments to their home.

COMBINED LIFE AND CRITICAL ILLNESS PROTECTION

Individuals and couples, with and without families, between the ages of 18 and 65 who have financial commitments (such as a mortgage, rental payments, dependents) and who want to insure themselves and their dependents against the financial impact of their death or diagnosis of a terminal illness or critical illness. The payment would allow them to maintain payments on financial liabilities such as mortgage or rent: and/or pay off a large debt such as a mortgage;

and/or pay for medical treatment or adjustments to their home.

INCOME PROTECTION

Individuals and couples, with and without families, between the ages of 18 and 59 who have regular earnings and financial commitments (such as a mortgage, rental payments, dependents) and who want to insure themselves and their dependents against the financial loss of income because of sickness or injury.

CHILDREN'S CRITICAL ILLNESS PROTECTION

Individuals, couples and families between the ages of 18 and 65 who are responsible for children up to the age of 23 and wish to insure themselves against the financial impact of that child becoming critically ill. The payment would help with any usual outgoings such as mortgage or rent payments should they need to take time away from work to care for their child and any unforeseen expenses, such as travel and accommodation costs if their child is receiving treatment away from home.

See appendices 1-4 for details of when each product is suitable, or not suitable.

What are your main product features?

Please see the appropriate product profile for more information:

Life Protection Product Profile

Critical Illness Protection Product Profile

Combined Life and Critical Illness Product Profile

Income Protection Product Profile

How do you assess fair value?

As part of our product development and annual review processes, we assess the value received by customers from each product; referred to as the 'Fair Value Assessment'.

The Fair Value Assessment considers a range of factors that contribute to the overall value provided to our customers.

These include:

- Claims to premiums ratio – a comparison of the value of claims we expect to pay out to customers against the value of premiums we expect customers to make to us. This includes all expected payments throughout the lifetime of the policy.
- Service – making sure service levels meet the quality we have led customers to expect
- Complaints – analysing customer complaints to identify and resolve root causes especially where the product has failed to deliver the expected outcomes
- Communications – making sure customers receive ongoing communications that are clear and transparent.

What are the results of the Fair Value Assessment?

Cover	Date of latest assessment	Result of latest assessment
Life Protection	December 2022	Pass
Critical Illness Protection	December 2022	Pass
Income Protection	February 2023	Pass
Children's Critical Illness Protection	December 2022	Pass

(Please note that the Income Protection assessment is pre-launch and based on our pricing assumptions.)

When do you carry out fair value assessments?

The fair value assessment is completed as part of our product launch and annual review processes which include:

- Market review (target market, cover type and customer age – actual v expected, fair value assessment, review of competitors, distribution and pricing)
- Core covers (a review of each of the covers)
- Options and additional benefits (Children's cover, Guardian Anytime, Halo)
- Functionality (adviser and customer experience, complaints and system functionality)
- Claims (Life and terminal illness claims, Critical Illness and Children's critical illness claims)

Any actions identified are monitored through our governance committees.

In addition, there are a number of monthly reports used to monitor performance between the regular review points. These reports are discussed in our governance committees and if any potential issues are identified, action is taken.

What will happen if the result of the assessment or the annual product review identifies an issue?

We regularly review our new and existing products to ensure they continue to deliver the value for money to our customers that they should provide. If we found a divergence from this, the action we would take would depend on the nature of that divergence.

In the context of new business such action could include reviewing the premium levels for the product in question, reviewing the benefits offered, or closing the product altogether.

Other actions could also mean reviewing the premiums through certain distribution channels to ensure that the premium paid by customers is reflective of the nature and quality of business sold through those distribution channels.

Are there additional costs such as premium rate phone numbers or charges for making changes to the policy?

No. We don't use premium rate phone numbers and we don't charge additional costs for making changes.

Customers can contact us through their financial adviser, or direct by phone or email.

All premiums are payable on a monthly basis and we don’t offer the option of premium finance.

What is your distribution strategy**?**

We partner with financial advisers who recommend our protection products to their clients.

We don’t sell directly to consumers.

What other information should distribution partners consider as part of their own assessment?

Distributors should consider if any additional fees are being charged that are not funded by the premium paid for the product.

If clients are being charged additional fees by anyone in the distribution chain, this could impact the outcome of the fair value assessment.

Appendix 1

LIFE PROTECTION IS SUITABLE FOR:

- People who want a lump sum if they die, are diagnosed with a terminal illness or are diagnosed with incurable cancer (stage 4), motor neurone disease (with permanent clinical impairment), Parkinson-plus syndromes (with permanent clinical impairment) or Creutzfeldt-Jakob disease during the term of their policy.
- People who want certainty that their premiums are guaranteed not to change (unless they've chosen Increasing Cover).
- People who are not willing or able to self-insure, or who don't have funds elsewhere.
- People who need cover between their 18th and 90th birthdays (inclusive).
- People who need cover for at least 1 year and up to 72 years.

Level Cover is suitable for:

- People looking to protect an interest-only mortgage with cover that pays out the same lump sum throughout the life of the policy.
- People looking for certainty that their amount of cover is fixed for the life of the policy.

Decreasing Cover is suitable for:

- People looking to cover the reducing amount they owe on a capital and interest repayment mortgage or other loans.
- People looking for a lump sum that reduces in line with the debt they owe on a mortgage or loan.

Increasing Cover is suitable for:

- People looking for the amount of cover to go up each year in line with the retail price index (RPI) to keep up with inflation.

Family Income Benefit is suitable for:

- People looking for a policy that provides a monthly income, helping to give financial support to cover the cost of everyday living expenses.

LIFE PROTECTION IS **NOT** SUITABLE FOR:

- People looking for a product to pay a regular income if they're unable to work for a period of time as a result of an accident or sickness.
- People looking for a product to pay a lump sum if they're diagnosed with a critical illness.
- People looking for business protection to cover the loss of a key person.
- People looking to provide finance to purchase shares of a director or partner in the event of their death.
- People looking to cover an interest-only business loan.
- People who want their premiums to be reviewable.
- People who don't have any financial dependants.
- People who are looking to protect themselves for the rest of their life.

Level Cover is not suitable for:

- Covering any rising costs to keep up with inflation as the amount of cover will be worth less in the future.

Decreasing Cover is not suitable for:

- Covering the debt on an interest-only mortgage as the amount of cover will go down and the mortgage debt will stay the same, so the debt could be greater than the amount of cover in place.

Increasing Cover is not suitable for:

- Covering a mortgage debt, as the amount of cover will go up and the mortgage debt will go down or stay the same, so this could result in people paying for extra cover they don't need.

Family Income Benefit is not suitable for:

- Covering a mortgage or other debts. Cover that provides a lump sum is more appropriate for that.

Appendix 2

CRITICAL ILLNESS PROTECTION IS SUITABLE FOR:

- People who want a lump sum if they're diagnosed with a specified critical illness during the term of their policy.
- People who want a lump sum if they're diagnosed with a terminal illness during the term of their policy and are expected to have less than 12 months to live.
- People who want certainty that their premiums are guaranteed not to change (unless they've chosen Increasing Cover).
- People who are not willing or able to self-insure, or don't have funds elsewhere.
- People who need cover between their 18th and 70th birthdays (inclusive).
- People who need cover for at least 5 years and up to 52 years.

Level Cover is suitable for:

- People looking to protect an interest-only mortgage with cover that pays out the same lump sum throughout the life of the policy.
- People looking for certainty that their amount of cover is fixed for the term of the policy.

Decreasing Cover is suitable for:

- People looking to cover the reducing amount they owe on a capital and interest repayment mortgage or other loans.
- People looking for a lump sum that reduces in line with the debt they owe on a mortgage or loan.

Increasing Cover is suitable for:

- People looking for the amount of cover to go up each year in line with the retail price index (RPI) to keep up with inflation.

Family Income Benefit is suitable for:

- People looking for a policy that provides a monthly income, helping to give financial support to cover the cost of everyday living expenses.

CRITICAL ILLNESS PROTECTION IS **NOT** SUITABLE FOR:

- People looking for a product to pay a regular income if they're unable to work for a

period of time as a result of an accident or sickness.
- People looking for a product to pay a lump sum in the event of their death.
- People looking for business protection to cover the loss of a key person.
- People looking to provide finance to purchase shares of a director or partner in the event of their death.
- People looking to cover an interest-only business loan.
- People who want their premiums to be reviewable.
- People who are looking to protect themselves for the rest of their life.

Level Cover is not suitable for:

- Covering any rising costs to keep up with inflation as the amount of cover will be worth less in the future.

Decreasing Cover is not suitable for:

- Covering the debt on an interest-only mortgage as the amount of cover will go down and the mortgage debt will stay the same, so the debt could be greater than the amount of cover in place.

Increasing Cover is not suitable for:

- Covering a mortgage debt, as the amount of cover will go up and the mortgage debt will go down or stay the same, so this could result in people paying for extra cover they don't need.

Family Income Benefit is not suitable for:

- Covering a mortgage or other debts. Cover that provides a lump sum is more appropriate for that.

Appendix 3

COMBINED LIFE AND CRITICAL ILLNESS PROTECTION IS SUITABLE FOR:

- People who want a lump sum on the earlier of their death or diagnosis of a specified critical illness during the term of their policy.
- People who want a lump sum if they're diagnosed with a terminal illness during the term of their policy and are expected to have less than 12 months to live.
- People who want certainty that their premiums are guaranteed not to change (unless they've chosen Increasing Cover).
- People who are not willing or able to self-insure, or don't have funds elsewhere.
- People who need cover between their 18th and 70th birthdays (inclusive).
- People who need cover for at least 5 years and up to 52 years.

Level Cover is suitable for:

- People looking to protect an interest-only mortgage with cover that pays out the same lump sum throughout the life of the policy.
- People looking for certainty that their amount of cover is fixed for the term of the policy.

Decreasing Cover is suitable for:

- People looking to cover the reducing amount they owe on a capital and interest repayment mortgage or other loans.

- People looking for a lump sum that reduces in line with the debt they owe on a mortgage or loan.

Increasing Cover is suitable for:

- People looking for the amount of cover to go up each year in line with the retail price index (RPI) to keep up with inflation.

COMBINED LIFE AND CRITICAL ILLNESS PROTECTION IS **NOT** SUITABLE FOR:

- People looking for a product to pay a regular income if they’re unable to work for a period of time as a result of an accident or sickness.
- People looking for business protection to cover the loss of a key person.
- People looking to provide finance to purchase shares of a director or partner in the event of their death.
- People looking to cover an interest-only business loan. People who want their premiums to be reviewable.
- People who are looking to protect themselves for the rest of their life.

Level Cover is not suitable for:

- Covering any rising costs to keep up with inflation as the amount of cover will be worth less in the future.

Decreasing Cover is not suitable for:

- Covering the debt on an interest-only mortgage as the amount of cover will go down and the mortgage debt will stay the same, so the debt could be greater than the amount of cover in place.

Increasing Cover is not suitable for:

- Covering a mortgage debt, as the amount of cover will go up and the mortgage debt will go down or stay the same, so this could result in people paying for extra cover they don’t need.

Appendix 4

INCOME PROTECTION IS SUITABLE FOR:

- People who want certainty that their premiums are guaranteed not to change (unless they’ve chosen Increasing Cover).
- People who are not willing or able to self-insure, or don’t have funds elsewhere.
- People who need cover between their 18th and 70th birthdays (inclusive).
- People who need cover for at least 5 years and up to 52 years

Level Cover is suitable for:

- People whose Income Protection needs won’t change

Increasing Cover is suitable for:

- People looking for the amount of cover to go up each year in line with inflation based on the consumer prices index including owner occupiers’ housing costs (CPIH). For example, a person who expects their income to increase over time and wants their Income

Protection to increase as well.

INCOME PROTECTION IS **NOT** SUITABLE FOR:

- People who have enough group income protection through their employer.
- People who are not currently earning an income by working at least 16 hours a week.
- People who would be eligible for material state benefits if they were unable to work.
- People who are currently off work due to illness or injury and who wouldn’t be able to claim in the future.
- People looking for business protection or key person cover.
- People who want their premiums to be reviewable.
- People who are looking to protect themselves for the rest of their lives

Level cover is not suitable for:

- People who want their Income Protection amount to keep up with inflation

Increasing Cover is not suitable for:

- People who only a need a fixed Income Protection amount through the term of their cover

2-year payment period is not suitable for:

- People who would need the payment to be made for longer than 2 years for a single claim.