



Compliance update
Webinar
Bite Size session

What you need to know about the FCA's remedies to address GI pricing and product value concerns

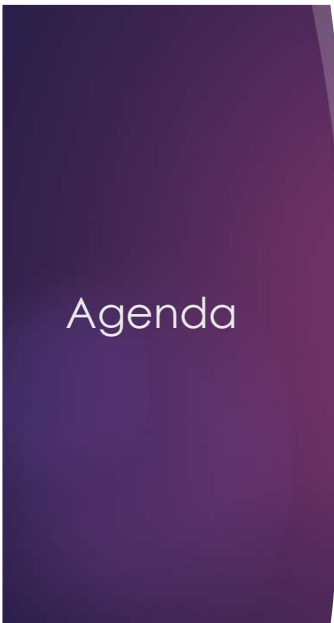
Insurance Institute of Bradford, Halifax, Hull, Middlesbrough and York

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Create Solutions

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- Why FCA CP20/19 has been issued to address GI pricing and product value concerns
- An overview of the FCA's proposed reforms
- What your firm needs to start considering
- The consequences of not taking this seriously
- Questions and answers

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Over to you...

Poll questions



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FCA CP20/19 – what you need to know

- ▶ Immense reforms
- ▶ £1bn compliance costs
- ▶ £3.7bn to £11bn reduction in revenue
- ▶ Changes will affect you firm's
 - Business model
 - Strategy
 - Processes
- ▶ Disappearing add-ons?
- ▶ Premium finance
- ▶ Heavy reporting requirements



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FCA CP20/19 – what you need to know

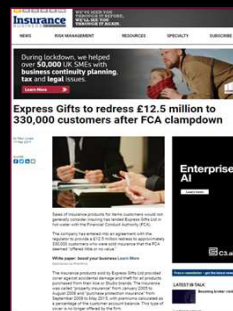
- ▶ Does your firm...
- ▶ Sell products at a loss during the first year of tenure?
- ▶ Receive profit from premium finance products?
- ▶ View premium finance as an add-on product?
- ▶ Sell other add-ons?
- ▶ Charge existing customers a higher premium than new customers?



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Consequences of not taking the FCA's proposals seriously

- ▶ Express Gifts redress exercise, 2017
- ▶ Firm agreed with the FCA the insurance cover it had sold....did not provide adequate value to customers
- ▶ Items covered were predominantly items of clothing – which customers would not generally consider insuring



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Why has FCA CP20/19 General insurance pricing practices market study been issued?

- ▶ FCA Market study: evidence of price walking
- ▶ Customers believe they receive a competitive price at renewal
- ▶ Customers discouraged from shopping around
- ▶ Product governance and fair value concerns
- ▶ Package of remedies proposed: FCA MS18/1.3 September 2020



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Who does FCA CP20/19 affect?

- ▶ Primary focus: Home and motor insurance markets
- ▶ Broad application of remedies to all types of general insurance and pure protection insurance



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FCA wider context

- ▶ Citizens Advice super-complaint about loyalty pricing made to Competition and Markets Authority (CMA)
- ▶ FCA PS20/09 General Insurance value measures reporting and publication (September 2020)



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FCA wider context

- ▶ 2018 FCA thematic review into pricing practices for home insurance
- ▶ FCA launched GI pricing practices market study and found:
 - Complex and opaque pricing techniques for renewing customers
 - Prices increased annually at renewal – price walking
 - Customers discouraged from shopping around – distorting competition and leading to higher overall prices



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FCA package of measures

- ▶ Designed to:
 - Improve competition
 - Ensure fair value products
- ▶ Pricing remedy (Chapter 3)
- ▶ Product governance (Chapter 4)
- ▶ Auto-renewal (Chapter 5)
- ▶ Reporting requirements (Chapter 6)



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Pricing remedy: chapter 3

- ▶ Home and Motor insurance pricing: proposed rule changes
 - *'When a firm offers a renewal price to a customer, that renewal offer price should be no greater than the equivalent new business price that the firm would offer a new customer'*
- ▶ Aimed at stopping firms 'price walking' - increasing prices for customers based on tenure, or those less likely to shop around/negotiate at renewal
- ▶ Customer harm reduced as equivalent new business price would need to be offered to existing customers



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Pricing remedy

- ▶ Home and motor markets
- ▶ Price walking and Lifetime value pricing
- ▶ Introductory discounts
- ▶ Recover initial losses through increased premiums over time
- ▶ Customers unaware renewal prices are not competitive



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Pricing remedy

- ▶ A ban on price walking
- ▶ Anti-avoidance measures
- ▶ Attestation
- ▶ Individual and multi-product discounts
- ▶ Additional products (add-ons)



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Pricing remedy

- ▶ Ban on price walking
 - At renewal: offer price to be no greater than equivalent new business price offered to a new customer
 - New business price assumptions:
 - Customer using same distribution channel
 - Customer using same payment method as when first bought
 - Renewal price to be set on same basis as new customer
 - Equivalent new business price used may differ due to changes in:
 - Customer's risk over time
 - Firm's margin
 - Pricing model
- ▶ Multiple firms setting renewal price – reasonable steps



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Pricing remedy

- ▶ Attestation
 - Senior management to confirm compliance with the pricing remedy
 - Annual confirmation with the first 3 months after rules take effect
 - Record keeping requirements to demonstrate pricing model compliance



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Pricing remedy

- ▶ Individual and multi-product discounts
 - Negotiation and/or offer of better price or terms still permitted at renewal
 - Firms to comply with same pricing rules for the combined price and any components when offering multi-product pricing (e.g. combined home and motor insurance)
 - Discounts for taking both policies still permitted
 - Combined renewal price offered to be no higher than equivalent combined new business price



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Pricing remedy

- ▶ Additional products (add-ons)
 - Pricing remedy rules to apply to add-ons as well as both home or motor policy prices (e.g. premium finance)
 - Prices for add-ons products and premium finance are typically the same between new and renewing customers
 - Proposed renewal price for add-ons products, including premium finance, to be no greater than that offered to a new customer
 - Products must offer fair value



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Slide 18

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Adrian Golifer, 23/10/2020

Product governance: chapter 4

- ▶ PROD sourcebook: firms to have processes to deliver products that offer fair value to customers
- ▶ Current PROD rules: firms to have processes when manufacturing, distributing and managing products manufactured or significantly adapted after 1st October 2018
- ▶ Proposed PROD rules: extend scope to all General Insurance and Protection products – irrespective of date manufactured
- ▶ Application to core products and add-ons, incl. premium finance alongside insurance products – fair value



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Product governance

- ▶ Proposed 'fair value' rule changes applying to manufacturers and distributors
 - Value = relationship between total price and the quality of products and services
- ▶ Manufacturers to consider value of product through product approval process



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Product governance

- ▶ PROD rules to apply to all GI and pure protection products manufactured before 1st October 2018
 - Product approval process to be applied to existing products retrospectively
 - Firms will need to update approval for existing products taking into account fair value
 - To be completed within 1 year of rules taking effect
 - Future products to provide fair value, including at renewal
 - Remedy customer harm where identified



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Product governance

- ▶ Application to non-investment insurance products and add-ons:
 - FCA's view that the requirement to provide fair value products is relevant to all insurance products
 - Applicable irrespective of whether products sold as a core product or add-ons
 - Value to be considered for each individual component product, and in aggregate
 - Premium finance, where it is a component of the package



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Product governance

- ▶ Ongoing review and remedial action
 - Minimum requirement to review products at least annually
 - Firms to consider if 'more frequent' or 'ad-hoc' reviews are necessary
 - Risk of customer harm?
 - New provisions proposed with remedial actions where products do not provide fair value



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Product governance

- ▶ Proposed changes for insurance distributors
- ▶ Distributors must:
 - Understand value assessment undertaken by a product manufacturer
 - Consider impact of distribution strategy and process on product value, incl. remuneration received
 - Provide information to support a manufacturer's product reviews, incl. remuneration
 - Amend distribution processes, if customer harm occurs



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Product governance

► Premium finance

- Firms must not offer premium finance to customers if not meeting the customers' best interest rules, for example:
 - If APR is higher than would be available elsewhere
- Firms must:
 - Give clear information about the cost and explain contact will be more expensive when buying with premium finance
 - Do more than ask customer to pay monthly or annually
 - Not be influenced by remuneration to offer high interest rates



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Product governance

► Senior management responsibility

- Firm's governing body to ensure compliance with:
 - All relevant product level requirements
 - Product approval process
 - PROD 4
 - ICOBS 6B
- Manufacturers and distributors to allocate senior manager with responsibility for:
 - Product governance and pricing
- Senior manager to confirm compliance with pricing remedy annually



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Product governance

- ▶ GI value measures PS 20/9, September 2020
 - New rules for reporting and publishing 'value measures' data across GI products:
 - Policies
 - Claims
 - Complaints
 - Report and publish data from July 2021, FCA reporting expected in Q1 2022.
 - Value measures data in product value reviews from January 2021



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Auto-renewal: chapter 5

- ▶ Making it easy for customers who wish to cancel their auto-renewal
- ▶ Firms to offer a range of accessible and easy options for customers
- ▶ Application to all retail general insurance products – not just home and motor insurance



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Auto- renewal

- ▶ Cancelling auto-renewing policies
 - Firms to provide customers with options to stop auto renewal using methods including:
 - Telephone / Email / Online / Post
 - Firms should not impose unnecessary barriers e.g. Long wait times or unnecessary questions
 - Customer processes should be straightforward
 - Customers to make use of options at any time during contract
 - Information about options available to be provided at point-of-sale and before renewal
 - Explain whether policy is set to auto renew and the implications for customers



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Reporting requirements: chapter 6

- ▶ FCA ongoing supervision of home and motor insurance markets
- ▶ New reporting requirements for:
 - All intermediaries distributing Home or Motor Insurance & add-ons incl. Premium Finance
 - All Insurers and Intermediaries responsible for price setting these products
- ▶ Separate Value Measures reporting requirements exist:
 - Claims frequencies, acceptance rates, claims pay-outs and claims complaints as % of claims



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Reporting requirements

- ▶ Proposed scope
 - Retail home (home only, contents only, and home and buildings) and motor insurance
 - Add-ons sold incl. premium finance
- ▶ Reporting granularity, split by:
 - Sales channel (direct, phone, online, branch, intermediated, intermediated via price comparison websites, and affinity/partnerships)
 - Customer tenure
 - Large books (100,000+ policies)
 - Closed books
- ▶ Insurers and price setting intermediaries
 - Net-rated and gross rated bases



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Reporting requirements

- ▶ Reporting period and frequency
 - Annual data collection using 1st January to 31st December basis
 - Firms to submit pricing practices report on or before 31st March annually
 - Firms to submit quarterly reports, using FCA mailbox, until end of 12-month transition
 - Firms to notify FCA if making significant changes to pricing models



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FCA next steps

- ▶ Responses to Annex 1 questions
- ▶ Consultation period ends 25th January 2021
- ▶ Policy Statement due Q2 2021 with final rules
- ▶ New rules to take effect 4 months after Policy Statement
- ▶ FCA plans reviews at 12 months and 2 years after implementation



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Considerations

- ▶ Do you understand the FCA's proposed changes in respect of FCA CP 20/19?
- ▶ Will the proposals affect your firm's business model and what action will you need to take?
- ▶ How you will plan to make required changes e.g. reporting requirements?
- ▶ How 'fair value' will be considered in your product strategies?
- ▶ How will changes to Premium Finance affect your P&L?
- ▶ How will the Board and senior management be engaged?
- ▶ Will you respond to the FCA's consultation?



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Questions and answers

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