

# GI Consumer Duty + new MOBI rules

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## **Branko Ltd**

#### FCA compliance consultants

- \* BIBA Compliance Manual
- \* Engaging Events
- \* Tailored Solutions







# Today's event

- Thank you for hosting
- Interaction, debate and your questions are very much welcome!
- Please provide your FB
- · You will get the slides

brankobjelobaba Linkedin.

brankoinsurance X





# Learning outcomes...

By the end of this event you will have gained an insight into:

- Where we are with Consumer Duty and what you should have done;
- Current issues when it comes to general insurance:-
  - Key aspects of the product governance rules to include product value assessments;
  - New rules on multi-occupancy insurances and the ramifications for insurers and brokers alike



## Bear in mind...

- Today is not formal 'advice'
- It is an <u>overview</u> in my own words of the key issues
- Consumer Duty and Product Governance are very closely linked
- Please take up whatever professional help you need to ensure your business remains compliant
- BIBA fair value assessment framework, events and new edition of the Compliance Manual





# **Today**

- 1. Consumer Duty
- 2. Product Governance
- 3. Premium Finance
- 4. Multi-Occupancy Buildings Insurance



# 1. Consumer Duty



# FCA are asking

- 1. Are you satisfied your products and services are well designed and perform as expected?
- 2. Do they have features that could harm vulnerable customers? How do you communicate with them and are these effective? Is your customer support meeting their needs?
- 3. What action have you taken as a result of your fair value assessments?
- 4. What data, MI and other intelligence are you using?
- 5. How are you testing the effectiveness of your communications? How are you acting on these results?
- 6. How good is your post-sale support?
- 7. Do individuals understand their role and responsibility?
- 8. Have you identified the key risks to your ability to deliver good outcomes and sorted them?



# **Examples of MI**

- Outcomes of product reviews/manufacturer value assessments to incl PF and fees (this is key)
- Readability of policy documentation
- Complaints data why, how addressed, redress paid, what can improve post complaint, etc
- Claims data volumes, frequency, quantum, declinatures, loss ratios, interaction with service partners, time taken, etc
- Cancellations/lapses/re-broking reasons
- Customer feedback/scores/surveys/social media
- Vulnerable customer data/awareness
- Defaqto, Insurance DataLab, Trust Pilot, Consumer Intelligence, Insurance Times Broker Survey, Fairer Finance, etc

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# Consumer Duty implementation: good practice and areas for improvement

Good and poor practice | Published: 20/02/2024 | Last updated: 22/02/2024

- 1. Next steps
- 2. Culture, governance and monitoring
- 3. Consumers in vulnerable circumstances
- 4. Products and services
- 5. Price and value
- 6. Consumer understanding
- 7. Consumer support

Copy available – please message me if wanted

#### **Products and Services**

- We want firms to share relevant information with each other this will help firms to quickly address issues to prevent consumer harm and deliver good outcomes
- Not pay close enough attention to ensuring that their distribution strategies are driving good customer outcomes - a manufacturer must consider how it expects a product to be sold and regularly monitor the product and its distribution over time so that it can deliver good customer outcomes
- Fail to grasp that they might have a role in a distribution chain, what that role is, and what it means for their responsibilities where a firm has a material influence over customer outcomes but does not have a direct relationship with the end customer, it will still be subject to the Duty



## **Price and Value**

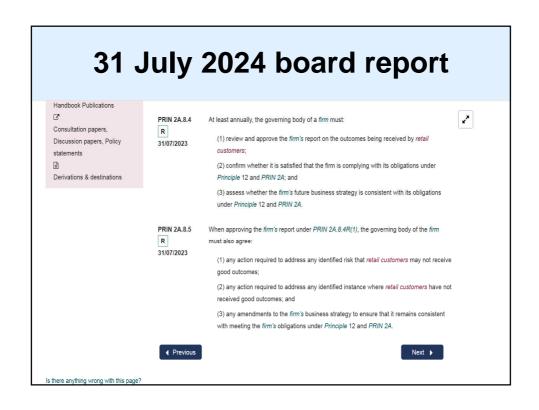
- Fail to show that products offer fair value some firms have relied solely on an assessment of similar product offerings in a market this alone does not prove that the customer is getting a good deal. In addition, no qualitative reasoning outlining why a firm considers that its product offers fair value
- Unable to justify what they provide for the remuneration they receive. We expect firms to be able to explain their remuneration practices and how they are proportionate to the work they do
- Add fees along the distribution chain that might mean the overall
  cost to the end consumer does not represent fair value. This is likely
  to be particularly relevant where there are long or complex
  distribution chains with multiple fees added by multiple parties
- Charge customers for a service they are not benefiting from
- Fail to share sufficient information to enable other firms in the distribution chain to properly assess value to the end customer
- Understand what has to be done where it considers a product does not provide fair value

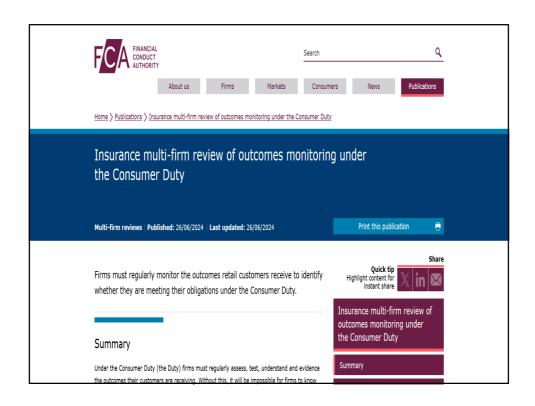


#### Sheldon Mills 20th Feb 2024

- You do need to get it all done by July but if you are struggling with the order, ask: Which products or services are likely to cause the greatest harm?
   Where is the most work needed? This, rather than if a product is open or closed, should be the key factor – particularly once the July deadline has passed.
- This is where your board report will be key: it will be used to assess and evidence how firms have provided good outcomes for consumers under the Duty - the first one will be due by the end of July

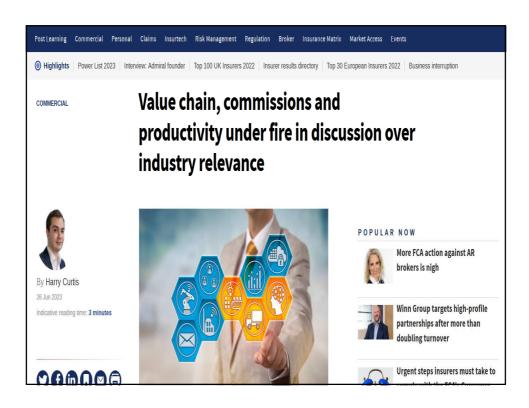






# 2. Product Governance





- "We have too long a value chain, that value chain is probably too complicated, and all along that value chain there are administration costs, there is profit to be made, there is brokerage being taken," WTW
- "There are too many areas where we have expenses that are not justifiable - for every \$1 the customer pays 40 cents and doesn't know what for...we have to reduce [expenses] by at least half, or even more." Swiss Re
- British American Tobacco "too much leakage of our premium along the way"

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Copy available – please message me if wanted



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23 February 2024

Dear Sir/Madam,

Re: Product Governance Thematic Review – General Insurance and Pure Protection

Ensuring financial products and services offer consumers fair value has been a key focus for the FCA, for a number of years. For General Insurance and Pure Protection, we implemented fair value rules ("PROD 4") in 2021, and these were further strengthened and introduced across all products we regulate as part of the Consumer Duty. As consumers across the country are affected by the current cost of living crisis, the fairness of the price of financial products and services and the value they offer is more important than ever before.

In March 2023, we began a thematic review assessing insurance manufacturers' and distributors' product oversight and governance arrangements and whether firms are meeting their obligations and our expectations. The background to our review and details of the work we have undertaken are set out in the annex below. We are sharing our key observations and concerns, so that manufacturers can take swift action, where necessary. These are the key observations from the review of the

#### **Review**

- 28 manufacturers
- 39 distributors
- Home, motor, travel, pet, health cash plans and private medical insurance
- Commercial insurances sold to SMEs
- Whole of life, over 50s, term assurance, critical illness and income protection
- Product oversight and governance
- Product reviews and FVAs



#### Fair value assessments

- Did not always consider the expected total price to be paid and the elements that make up the total price
- Most considered the cost of underwriting the product but did not consider the cost of operating it
- Most insurers had not adequately assessed the distribution arrangements including in relation to the value of the product
- Firms did not evidence how the remuneration of distributors (i.e. any commission, fee, charges, or other payment etc) was consistent with providing fair value including having considered the total price compared to the type and quality of services provided by the distributor/any other person within the chain



# **Senior Managers**

- A firm's governing body has ultimate responsibility for these arrangements and needs to ensure that the firm complies
- NEDs have a key role here are you happy with the way your firm makes its money?
- FCA remind firms that they must have a <u>Senior</u> <u>Manager responsible for compliance</u> with the regulatory system to incl product governance and pricing
- It should be clear which SM has responsibility for these areas (check your SoR)

# Brokers need to...

- 1. Assess impact of any distribution arrangements and whether these provide/enhance fair value
- 2. Obtain manufacturers value assessments
- 3. Provided manufacturers with all relevant information to enable them to assess how your fees/charges, add-on products, finance costs and distribution arrangements impact fair value
- 4. Is the commission paid to you commensurate with the service/value you provide?



## **ONEROUS** Issues

- What value do the distribution arrangements provide to the end customer and what does each party in the chain do to enhance value?
- Are such arrangements unnecessarily complex which might mean customers are at greater risk of not receiving fair value?
- Firms must not use a distribution channel unless it results in demonstrable fair value and regular reviews now needed
- · Commercial business is included



#### In a nutshell

- · Joint obligation insurer and broker
- Agree what roles each party has in the manufacturing and/or distribution process
- Understand if what you do adds or detracts from the value of the product to the end customer
- Is there anyone else in the chain and if so
  - what do they do?
  - how much do they get paid for it?
  - is this fair?
  - how does any of this add value to the end customer?
- Brokers to incl net rated uplifts, add-on products, fees/charges and premium finance

#### **Commissions?**

- Brokers need to justify their earnings
- Are refunds made to clients when you have done less work than you expected to do?
- Hidden service level agreements, opaque payments and increased premiums - do you earn more?
- Truly acting as agent of your customer under the Law of Agency means secret profits cannot be made
- Insurers should assess what a fair commission is in conjunction with what brokers have said re the work they do and brokers need to have worked out their time/value/expenses/costs, etc



# 3. Premium Finance



#### **Premium Finance**

- 11% of insurer income was from non-core and 48% of that was interest made on PF
- Hastings £110m
- Direct Line £92m
- Some brokers 48% APR
- LV 17.5% APR
- NFU and Hiscox 0%

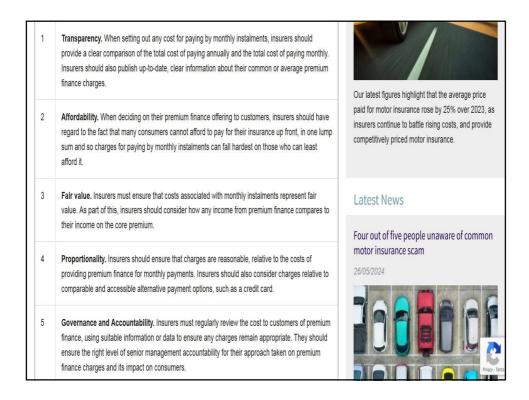
"The insurance distribution crowd have taken the view that this is a money-making opportunity."

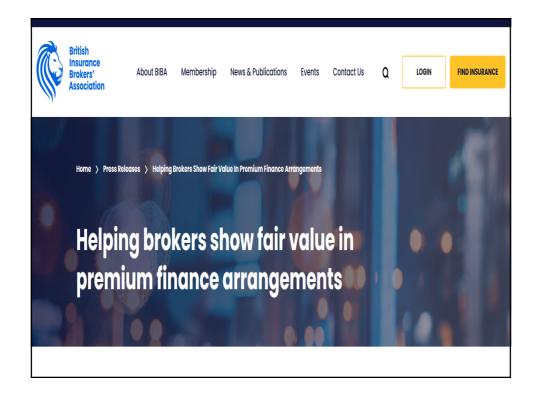


#### **Broker issues**

- What does it actually <u>cost</u> you to do the admin on the finance?
- Is the standard commission enough?
- You need to cover your costs
- Are you telling your client <u>what</u> you are doing and <u>why</u>?
- Lenders facilitate any uplift and may restrict how much you can increase it by







# 4. Multi-occupancy

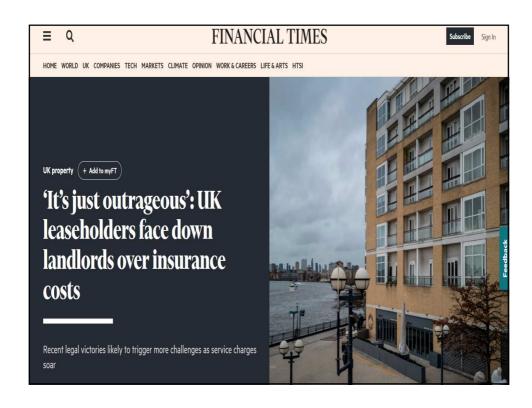


"There is a **huge insurance scandal** coming down the track with what has been going on with managing agents and leaseholders. It is **absolutely outrageous**; they are just ripping people off."

"That is why the issue of control of insurance costs is fast becoming a **critical battlefield** in excessive charges for leaseholders, who are forced to pay towards a group insurance policy but have no control to, as it were, "go compare" which is the best insurance policy to choose."

"...spent £1.6 million in secret insurance commissions...this is potentially **corruption**...excessive costs have been paid that run into thousands of millions across the UK."





- 15. Buildings insurance premiums have soared hundreds of percent in recent years causing untold harm to ordinary people. What will be the measure of success for the FCA to deem their intervention, alongside that of the ABI (Association of British Insurers) and the Government, a success?
- 16. Why did you let regulated insurers get away with causing harm and ripping off innocent leaseholders for years?
- 17. Your Sep 2022 Report on insurance for multi-occupancy buildings repeatedly complained that firms were not able to provide requested information. Has this situation been resolved, and do you now have access to full data from all firms in the sector?
- 18. When can we expect an update on the Sep 2022 report (beyond the Apr 2023 report on broker commissions) based on complete data?
- 19. Will Mr Rathi and Mr Mills meet the End Our Cladding Scandal campaign team to discuss the FCA's work on leasehold building insurance premiums?
- 20. What action are you taking to push the ABI and your regulated members to launch the long-promised Reinsurance scheme that you recommended? The timescales in your report have been passed and people are still being ripped off left, right and centre. The FCA's reforms may provide transparency but will only tell us how much we're being ripped off and will still give us no choice as the actual consumer paying for insurance. What more needs to happen to ensure the harm will be resolved fully?
- 21. Insurance for Leasehold flats: where conduct in the past has been to maximise unjustified revenue from third parties before rules contained in FCA Policy Statement PS23/14 comes into force, will the FCA advocate compensation by those parties to leaseholders?
- 22. What is the FCA's Stance on Insurance Companies mandating remediation as a requirement to provide cover for buildings with Cladding primarily B1 rated cladding. In our Instance Encapsulated EPS, legally available and fit for purpose on buildings below 11m.
- 23. Where are the FCA and Insurance companies at with the formation of an insurance fund for buildings affected by cladding?
- 24. Could the FCA please clarify which are the enforcement and redress procedures open to leaseholders, and which is the authority in charge of enforcing new PS23/14 rules, in case of noncompliance with such rules by any FCA authorised and regulated firm?



#### What's been said?

- Needs of LH not considered in product design
- Premiums up 56% + broker pay up 46% (dominated by the big brokers) and costs had not increased at the same rate
- Brokers placing on basis of remuneration only
- Brokers were often unable to articulate what insurance related services or benefits of value were provided by the parties receiving shared commissions
- Inadequate evidence to show brokers deliver fair value (due to deficiencies in their product value assessment work, shortcomings in their recording and analysis of their own costs) and insufficient scrutiny of the commissions they pay to others

FCA FINANCIAL CONDUCT AUTHORITY

Rt Hon Michael Gove MP Secretary of State for Levelling Up, Housing and Communities Minister for Intergovernmental Relations 4th Floor, Fry Building 2 Marsham Street London SW1P 4DF

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29 February 2024

Dear Secretary of State,

I write with an update on our work on multi-occupancy buildings insurance ('MOBI'), which has been a concern for leaseholders. Over the past year, we have made progress on the issues within our jurisdiction and worked with your Department and other stakeholders on those outside the remit set for us by Parliament.

#### **Enhanced leaseholder rights and protections**

We progressed our consultation on enhanced protections for leaseholders at speed. We considered the 101 responses, the majority of these from affected leaseholders, before

# Is it working?

- FVAs and accompanying loss/expense ratios did not give material concerns re value
- More work needed on better MI
- Most insurers have reduced intermediary commissions
- Some have made less progress and could not evidence fair value
- Some brokers subject to S166s and attestations re fair value and product governance
- FCA supporting the bill and ready with secondary legislation to implement what is mandated



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FIRST - TIER TRIBUNAL PROPERTY CHAMBER (RESIDENTIAL PROPERTY)

Case Reference : MAN/ooBY/LSC/2017/0099

Property : 1-80 Hollin Bank Court Blackburn BB2 4GY

Applicant : Sophie Sacofsky

Representative : Mr Brian White

Respondent : RMB 102 Ltd

Representative : Mr Jonathan Upton, Counsel

Type of Application : Landlord and Tenant Act 1985 - s27A

& S20C, & Para 5A Sched. 11 Commonhold Leasehold Reform Act

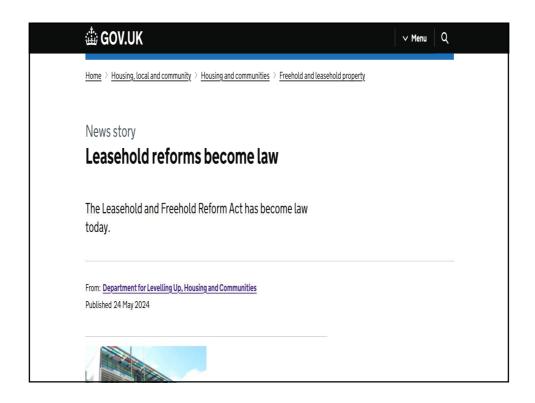
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# LHs were ripped off

- First-Tier Tribunal Property Chamber (17 May) where Gallagher provided advice to a FH to enable them to overcharge LHs by 145% and use a captive in order to maximise their income
- "In short, we do not find that the Tribunal was presented with the evidence required to show that the premiums charged were reasonable and not artificially inflated by the connected nature of the various parties or the adoption of a portfolio insurance approach... As it stands, the Tribunal has not been presented with one item of documentary evidence to suggest that the insurance premiums for the building are competitive"

#### What was said?

- The Tribunal was resolutely unconvinced with Christopher Dines, Executive Director of Real Estate at AJG stating: "in respect of responses and evidence as to processes applied to ensure fair and competitive insurance premiums...their evidence to be lacking transparency, economical as to disclosures, contradictory and lacking credibility."
- Premium was systematically inflated, by a variety of means, to maximise the monies being extracted from LHs and contended that the connected nature of the companies and individuals associated with placing the building's insurance, and the lack of any effective market testing, had resulted in LHs being charged substantially in excess of the market rate for building insurance



# **Commission sharing ban**

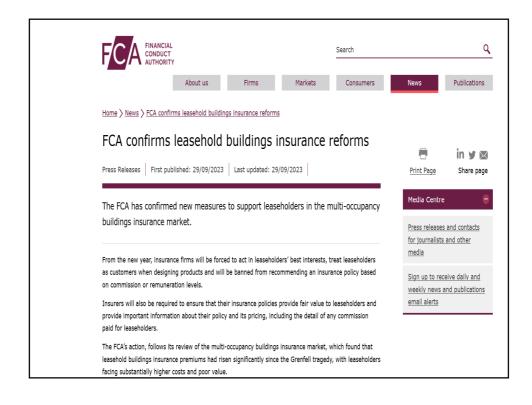
- Restrict the costs that can be passed to LHs and stop brokers paying any of these from their commissions
- A "permitted insurance payment" (to be defined) will allow transparent fees to be charged by FHs and PMAs in placing/managing insurances and handling claims (NB debate around net rate or commission)
- The intent is the cost will have to reflect the work and time undertaken to carry out the work to understand the basis of the fee and to make it more easily challengeable if considered unreasonable





#### **Considerations?**

- FCA have already requested firms stop the sharing of commissions to third parties (incl PMAs and FHs) where there is <u>no</u> appropriate justification and evidence for doing so in line with rules on fair value
- Sensible commissions = lower premiums???
- FCA expect changes in remuneration practices
- Have NEDs been kept in the picture?
- Voluntary industry agreement re flats 4+ storeys tall and with existing fire concerns where commission will be capped at 15% (very limited market) PLUS new reinsurance facility in force



#### Preamble to the new rules

- 1. Only applies to residential/non-commercial LHs (large risk excl removed)
- Where premises are mixed use retail LHs should be treated equally and fairly regardless as to the status of the freeholder
- Policy stakeholder will include all people under an obligation to pay an amount relating to the premium (incl via a service charge) where there is an interest and/or benefit in the subject matter
- 4. You cannot recommend policies that could provide you (or others) with more remuneration where a better policy with less remuneration is available

- You must take into account all interests incl prospective or actual customers - that includes policyholders, stakeholders and LHs
- 6. When considering the amount of commission paid a firm must act honestly, fairly and professionally in accordance with the best interests of all (if sharing this has to benefit the LH)
- 7. Remuneration disclosure incls all aspects
- 8. Insurers and brokers will need to show how they have considered the position of LHs when designing, pricing and distributing their products
- Where firms are receiving % based commissions, insurers will need to reduce the rates unless there has been a corresponding increase in benefits

# What has to be provided?

The information (from both insurer and broker has to be clear and easy to understand) will need to be provided to the customer (FH) by the intermediary who is in direct contact with them. If there is no intermediary, the insurer will be responsible for providing it directly

A clear message must accompany this to state that the FH should pass this to LHs



Information required	Where can I find this information?
Summary of cover	
Name of the insurance undertaking	Policy Wording or Summary
Regulatory status	Policy Wording or Summary
Type of insurance	Policy Wording or Summary
Main risks insured	Policy Wording or
Summary of excluded risks	Policy Wording or Summary
<ul> <li>Total policy sum insured, together with;</li> <li>in the case of a flat, the amount for which the building containing it is insured under the policy and, if specified in the policy, the amount for which the flat is insured under it; and</li> <li>in the case of a dwelling other than a flat (for example, an individual house insured under the policy), the amount for which the dwelling is insured under the policy</li> </ul>	Policy Schedule
Any excess payable in the event of a claim	Policy Wording or Schedule
The term duration of the policy	Policy Schedule
The policy start and end dates	Policy Schedule
Exclusions where claims cannot be made	Policy Wording or Schedule
Significant features and benefits	Policy Wording or Summary
Pricing information	
Total premium for the policy and include:  A breakdown of the premium at:  in the case of a flat, building level (if specified in the policy) the flat; and  in the case of a dwelling, that is not a flat, at dwelling level	Policy Schedule*
The amount of insurance premium tax payable	Policy Schedule
Where applicable, the amount of any value added tax	Not applicable

REMUNERATI ON INFORMATION NB. Contingent commissions, where included, are subject to us meeting certain business criteria with the insurer's concerned	Commission received by our firm (& associates) Contingent commissions (estimated) Fees added by our firm (& associates) TOTAL INCOME received by us (& associates)  The amount received by the [e.g. Freeholder, Property Managing Agent] for placing this insurance business through us	£ £ £
PLACEMENT INFORMATION	We obtained # alternative quotations from the selected insurance undertaking and # from other insurance undertakings when considering this policy. ('Insurance undertakings' may be insurers, intermediaries and/or wholesalers)	
The reason for recommending the selected policy and why it is considered consistent with the interests of both the customer and the leaseholders	We have advised that the policy recommended is suitable for the reasons shown in our demands & needs statement summarised below:  [e.g. statement of how the particular policy selected meets the cover requirements taking into account terms and exclusions, service levels and cost]	
CONFLICTS OF INTEREST INFORMATION	When quoting and arranging this insurance we customer. We do not hold or control shares representing the insurance undertaking selected. The insurance undertaking selected does not or more of the voting rights in our company.	10% or more of voting rights in

#### **Further**

- Where the broker is contacted re any of the information supplied, it must respond promptly and provide good outcomes focused support (in the interests of the LH):-
  - Appropriate level of information that is clear, fair and not misleading;
  - ii. Accessible and easy to understand;
  - iii. The information required (as set out) where this has not already been passed to the LH
- Where a LH requests this you must not create or rely on unreasonable barriers to respond, i.e. you need to respond!
- Still no access to FOS...



# Implications?

- Cost to play? More brokers? Better value? DPBs/less rigorous alternatives?
- Sharing only (interim) where there is no conflict and when fair to LHs - what does the PMA do?
- How will everyone work together to ensure it is fair for LHs in terms of:-
  - How has the premium been assembled incl a fair contribution to the risk element
  - Have premiums fallen as commissions paid have?
  - Fairness of cover to include premium v limitations
- Past conduct considerations and enforcement?



#### **Questions asked?**

- If a broker asked the freeholder for details of leaseholders and then distributed the disclosure information direct, would this justify increased commission?
- Data Protection issues legitimate?
- Does the amount of additional work that is needed to complete FVAs annually count towards the 'service' that is being provided to the end customer?
- Think about your values, culture and behaviour and the reason for these rules



# Learning outcomes...

By the end of this event you have now gained an insight into:

- Where we are with Consumer Duty and what you should have done;
- Current issues when it comes to general insurance:-
  - Key aspects of the product governance rules to include product value assessments;
  - New rules on multi-occupancy insurances and the ramifications for insurers and brokers alike



Thank you for listening

Questions please

www.branko.org.uk

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