



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

Presentation for the Insurance Institute of Manchester



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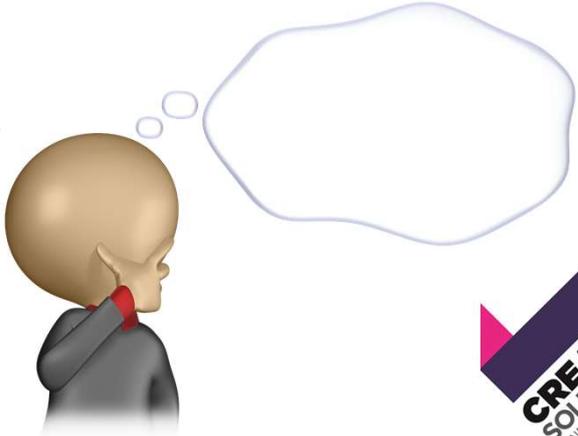
Agenda

- 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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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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