

FCA Supervision Strategy for GI brokers

Branko Bjelobaba FCII

Regulation & Compliance Consultant



Branko Ltd

FCA compliance consultants

- * BIBA/AMII Compliance Manual
- * Engaging Events
- * Tailored Solutions









Today's event

- Thank you to your LI for hosting
- Verbal and chat forum questions welcome
- Please complete the feedback survey
- You will get the slides and the letter
- Feel free to connect with me on Linked in.



Learning outcomes...

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

- What the FCA will focus on
- The new rules to end price-walking
- What product governance arrangements will be including existing distribution arrangements



Bear in mind...

- Today is not formal 'advice'
- It is an <u>overview</u> in my own words of the key issues
- Please take up whatever professional help you need to ensure your business remains compliant



1. New Supervision Strategy





Read <u>VERY</u> carefully

12 Endeavour Square London

Tel: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099 www.fca.org.uk

4 September 2020

Dear CEO

FCA Supervision Strategy for Personal and Commercial Lines Insurance Intermediaries

We are writing to you to set out our view of the key risks Personal and Commercial Lines insurance intermediaries could pose to their consumers or markets. Please consider the extent of these risks in your business and assess if your strategies reduce the risks.

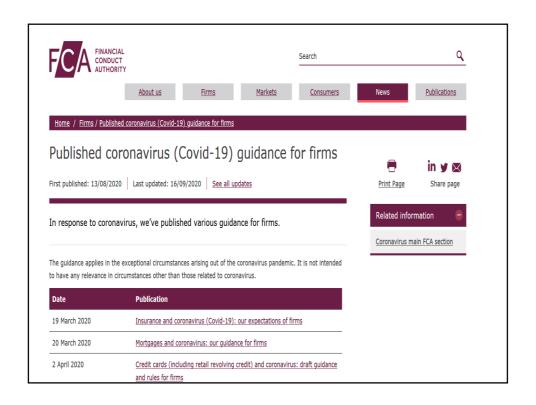
Your portfolio

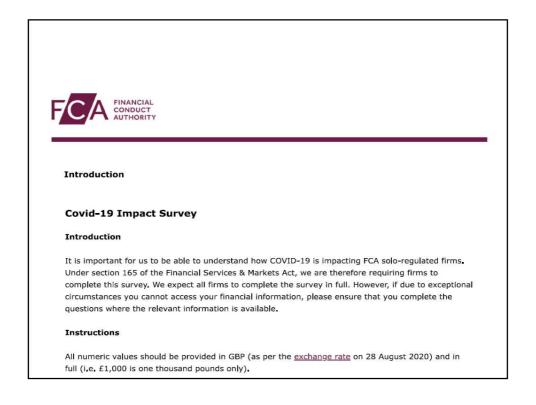
As part of our Approach to Supervision we have grouped all the firms we supervise into different 'portfolios', which are based on their business models. Your firm is in the Personal and Commercial Lines Insurance Intermediaries portfolio.

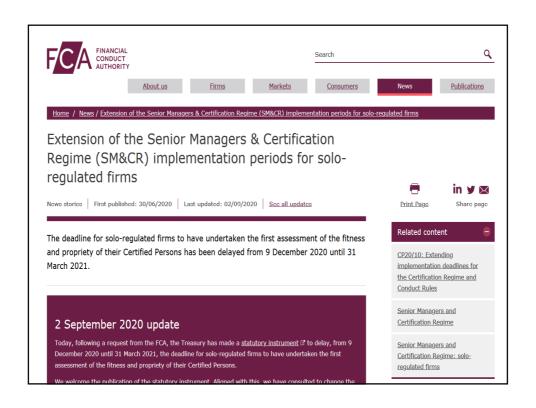
We are developing a series of supervisory strategies for each portfolio which allow us to monitor all firms effectively, and target those firms that pose the greatest risk of harm. We will be proactively monitoring indicators which seek to identify firms that pose a higher risk in each area of harm outlined, and expect to undertake additional testing of these risks with these outlier firms. Where we conclude that firms, and/or individuals are not meeting our expectations, we

- 1. Firms' response to Covid
- 2. Governance and oversight
- 3. Bedding in of SMCR
- **4. Incentive arrangements** incl remuneration for firm and staff
- Business models incl distribution chains, product oversight and design, sales and renewals, conflicts of interest and ARs
- Uncertainty brought about by the BI court case and handling of claims, complaints and ongoing communications
- 7. EU withdrawal + actions that need to be taken by 31/12/20









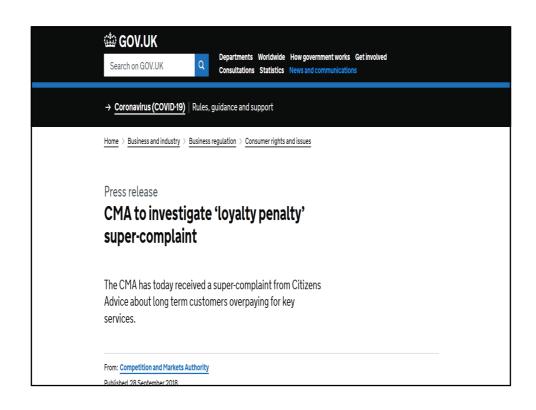
2. Pricing & Product Governance

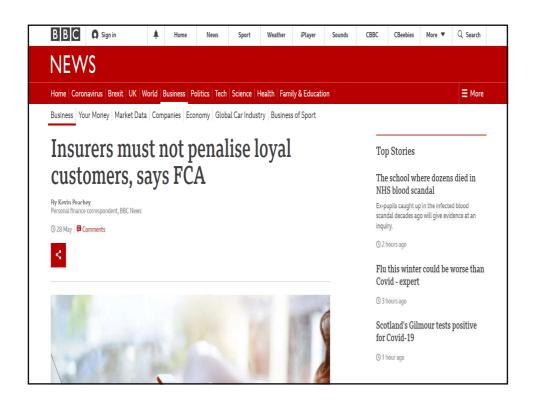


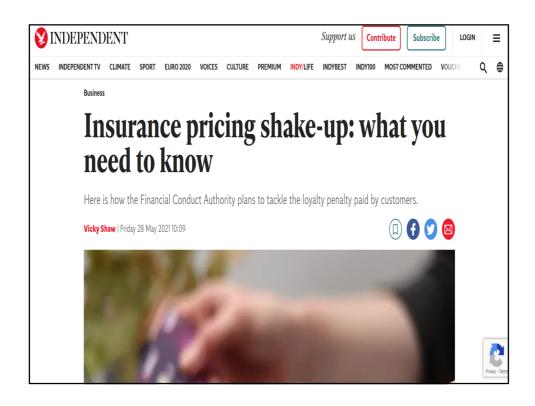
Myths

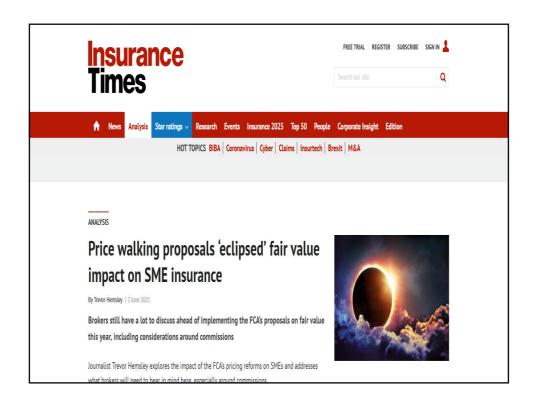
- This only applies to motor and household (commercial also)
- There is very little to do (amazed as to how much has to be done)
- The way I make extra money won't be challenged (this is under the spotlight and not too sure what customers will say when you tell them)
- This is optional... (err - no!!)

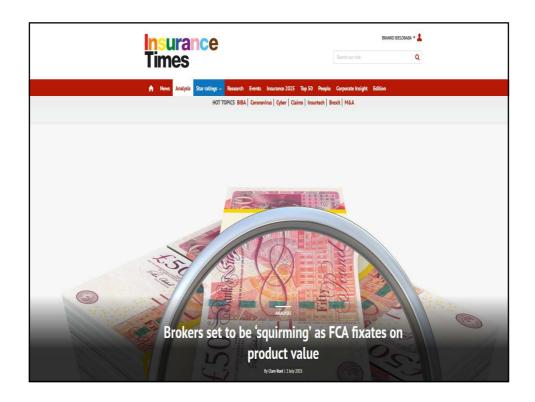


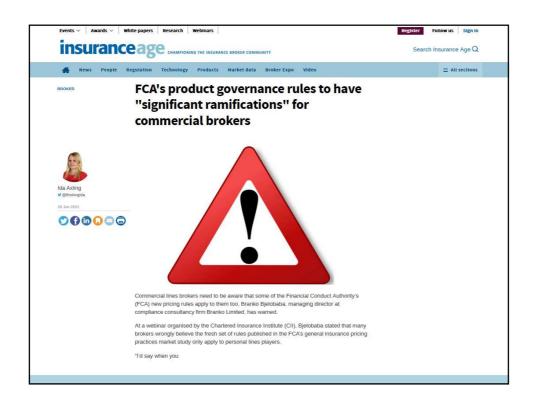


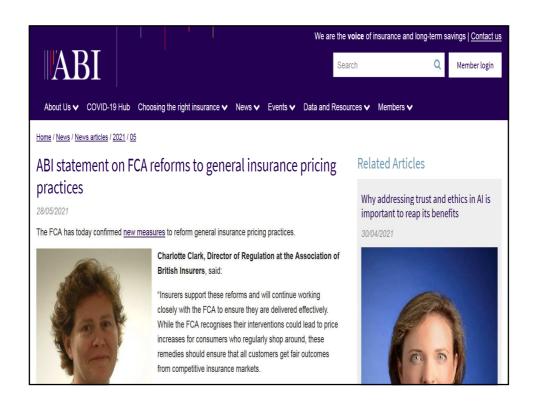












i Pricing Remedy

- FCA is banning price-walking as it estimates 6m motor and home customers would have saved £1.2bn had they paid the average price for their actual risk
- · Unsuitably low-priced deals for some will end
- Most brokers should be OK as they don't set the price but discounts and incentives will fall under the spotlight and should be available to all
- Larger fees should not be charged to renewing customers to recoup losses
- If you offer incentives or discounts you could be a price-setting intermediary so more rules
- Add-ons, to include premium finance, are caught
- Personal attestation from a SM needed



ii Product Governance

- Requirements apply to home, motor, other personal lines, premium finance AND commercial
- Firms to assess value of products at least every 12 months and if they are acting in their customer's best interests
- Most requirements fall on the manufacturer (generally the insurer but can incl the broker where they design, develop, create and/or underwrite)
- Distribution + remuneration arrangements incl



iii Auto-renewals

 Firms must provide consumers with a range of easy and accessible methods of opting out with private health, medical and pet insurance exempt



iv Reporting

- All firms doing motor and household
- Enhanced reporting for price-setting intermediaries to incl an annual attestation from a Senior Manager
- Otherwise data on premium finance, charges and add-ons split by tenure of customers





General insurance pricing practices market study

Feedback to CP20/19 and final rules

Policy Statement

PS21/5

May 2021

Contents

1	Summary	3	
2	The wider context	9	
3	The pricing remedy	14	
4	Product governance	46	
5	Cancelling auto-renewing policies	63	
6	Reporting requirements	70	
7	Cost benefit analysis	95	
Ar Ab	nnex 1 st of non-confidential respondents nnex 2 shreviations used in this paper spendix 1 ade rules (legal instrument)	109 112	

217 page Policy Statement 87 pages of new rules

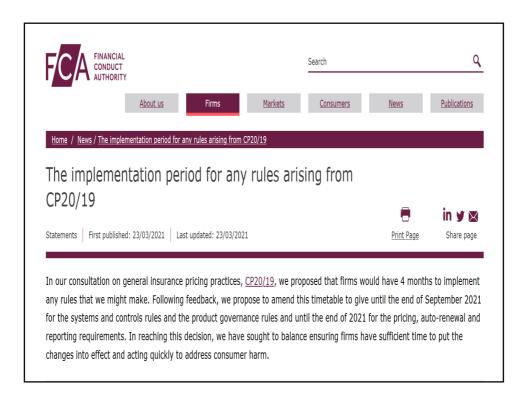
(The word "value" is mentioned 400+ times)



Sourcebooks to change

- 1. SYSC
- 2. GEN
- 3. ICOBS
- 4. PROD
- 5. SUP





- 30 September 2021 SYSC and Product Governance
- 31 December 2021 Pricing, Autorenewals and Reporting

We expect firms to implement any rules that we introduce on or before the proposed deadlines. We will check they are on track and are moving promptly to implement any final rules. To that end, we will closely monitor how firms implement their change programmes and will be checking their progress regularly.

We do not want to see consumer harm continue into 2022 and have a range of tools and powers available to us. We will consider taking action against firms where there is evidence that they have not taken sufficient steps to implement the rules by the implementation date, including action to ensure they take appropriate steps to repair any harm that arises, especially financial loss to consumers.

The pricing rules would apply to renewal notices sent after the rules take effect (rather than to policies renewing after the rules take effect). As renewal notices are sent some time before policies renew, this means firms have the full implementation period to make the necessary changes to their business models.



I. Pricing



Scope

- Motor + home + additional products sold alongside (incl premium finance but not monthly renewable contracts)
- New rule that will require firms to offer a renewal price that is <u>no</u> higher than the ENBP for that customer through the same sales channel
- Insurers and intermediaries involved in pricesetting (any involvement in setting the gross price paid for the core product or any element of that premium or the price of additional products)
- Brokers that determine their own remuneration (net rates) or impose fees are <u>included</u>
- Gibraltar based firms also included



Further...

- Price-walking is banned (does not apply if intermediary or insurer changes at renewal)
- Applies also to closed books (what is now the most equivalent product)
- FCA will use anti-avoidance measures
- Senior Managers to personally attest (and report to the FCA) 3 months after rules come into force and then annually that pricing models comply
- Records of pricing considerations to be kept
- Individual and multi-product discounts incl (combined NB price can't be higher)



Incentives

Type of incentive	Must be reflected in ENBP?
Toys	No
Carbon off-setting	No
A percentage chance to win back the premium	No
Points in a retail loyalty scheme	Yes
Retail vouchers	Yes
Cashback	Yes
A free add-on	Yes
One month free	Yes
A monetary discount on the premium	Yes
A percentage discount on the premium	Yes

The examples in the table above are not exhaustive, as it is not possible for us to anticipate every type of incentive that firms may offer their customers in the future. We expect firms to make reasonable judgements based on the rules and the similarity of other incentives to those in the table.

ENBP - Equivalent New Business Price

If NB commission is reduced/given away this needs
to be considered when determining ENBP



Attestation

Attestation format and wording

We are introducing a new form, to be submitted via our RegData platform, for firms to make the attestation.

We expect the attestation wording is to be as follows:

- 1. Lattest that I am satisfied that the firm is, and has been, complying with the requirements in ICOBS 6B for the most recent reporting period, and
- I am satisfied that the pricing of home insurance and motor insurance renewal business and related sales practices:
 - **a.** are consistent with the objectives of the rules as set out in ICOBS 6B.1.4G, and
 - b. do not discriminate against customers of longer tenure, as set out in ICOBS 6B.2.39R. ICOBS 6B.2.48R. or
- **3.** I cannot make the above attestation for the following (free text) reasons



Interesting...

- A firm must notify the FCA if it becomes aware that any other firm in the distribution chain is not or may not be complying with the rules in this chapter (ICOBS 6B2.45R)
- Existing renewal disclosures apply and a firm should not communicate with a customer of longer tenure in a manner which is objectively likely to discourage them from shopping around and records need to be kept to evidence this
- Fees for renewing customers cannot be higher



Premium Finance (retail)

- Cost of finance at renewal should be no higher than if at NB but cost can vary between customers due to credit risk
- Explain cost with/without PF and state PF cost
- Statement more expensive to use PF
- · Duration of policy and PF if different
- Customer to make an active election
- PF you provide and the remuneration you receive must not conflict with the customer's best interests rule to act honestly, fairly and professionally
- · Regular review of arrangements



To consider

- Is the PF consistent with your obligations in the FCA Handbook and the customer's best interests rule?
- PRIN 1, 6 and 8 integrity, TCF and management of conflicts of interest
- This incls APR uplift, remuneration or inducements offered or accepted from providers (cash, commission, goods, hospitality or training)
- Broker fee waived if instalment plan is the insurer's own one? Discount therefore?



Issues

- You will need to compare the insurer's premium finance options (if any) with your own standalone provider and offer the cheapest or disclose the fact that you will only offer the most expensive
- If you up the APR or your margin then you need to tell the customer you are doing this
- If you only have one provider you should tell the customer that they could finance the premium cheaper elsewhere
- Is what you earn fair and why did you select that arrangement?

II. Auto renewals



Scope

- Retail + pure protection + additional products sold alongside (incl premium finance)
- Firms to provide a range of accessible and easy options to stop their policy from auto-renewing (to incl all methods available at NB stage)
- Private health/medical + pet <u>exempt</u>
- Clearly explain at POS whether policy is set up to auto-renew and what this means
- No imposition of unnecessary barriers on customers wanting to stop auto-renewal



III. Product Governance



Scope

- Retail + commercial GI + pure protection + additional products sold alongside (incl premium finance)
- Firms to consider the value that a product is likely to offer throughout the life of the product at inception, through the initial insured period and at subsequent anticipated renewals
- And if fair value cannot be demonstrated they need to stop marketing and distributing it
- To consider target market, testing and distribution channel and legacy products



Enhancing

- Value means the relationship between the total price to the end customer and the quality of the products and services
- Manufacturers to consider the value provided to the target market and how the product is distributed and the value this adds
- Certain price optimisation practices may not offer fair value - auto-renewals, use of PF, vulnerability (to incl unlawful discrimination)
- Intermediaries to review distribution arrangements (to incl remuneration arrangements) at least every 12 months



- (1) the <u>nature of the product</u> including the benefits that will be provided, their <u>quality</u>, and any limitations
- (2) the type and quality of services provided to customers
- (3) the <u>expected total price</u> to be paid by the customer when buying or renewing the insurance product, and the elements that make up the total price. This will need to include consideration of at least the following:
 - (a) the pricing model used to calculate the risk premium:
 - (i) for the initial policy term; and
 - (ii) any future renewal
 - (b) the overall cost to the firm of the insurance product (including the underwriting and operating of the product) and, where relevant, any other components of a package
 - (c) the individual elements of the expected total price to be paid by the customer including, but not limited to the price paid for:
 - (i) the insurance product, including any additional features which are part of the same non-investment insurance contract
 - (ii) any additional products, including retail premium finance, offered alongside the insurance product
 - (iii) the distribution arrangements, including the remuneration of any relevant person in the distribution arrangements, and including where the final decision on setting the price is taken by another person)
- (4) how the <u>intended distribution arrangements</u> support, and will not adversely affect, the intended value of the product



Further...

- Firms to review all products at least every 12 months (starting 1 October 2021 and more frequently if a product has a higher risk of generating harm)
- Distributors to understand the value assessment undertaken by the manufacturer
- Distribution strategy and how this influences value (incl remuneration awareness for the chain where this has an impact)
- Amend distribution processes if this results in harm
- Remind that assessment of D&N is continual



Senior Managers

- A firm's governing body has ultimate responsibility for product governance arrangements
- It must ensure that the firm complies
- FCA remind firms that they must have a Senior Manager responsible for compliance with the regulatory system to incl product governance and pricing
- It should be clear which SM has responsibility for these areas (check your SoR)



Fair value for non-investment insurance products: distribution arrangements

- 4.2.14N R A firm must, as far as reasonably possible, ensure the distribution arrangements for a non-investment insurance product avoid or minimise the risk of negatively impacting the fair value of the insurance product or package. This includes, but is not limited to:
 - (1) avoiding or reducing the risks arising from:
 - (a) any remuneration of a party, or parties, involved in the distribution arrangements increasing, directly or indirectly, the total price paid by the *customer* without adequate monitoring or oversight of the nature, level and fairness justification for their inclusion; or
 - (b) providing discretion to another person to set the final price, for example through a net pricing arrangement, without adequate monitoring or oversight of the final price paid by the *customer*:
 - (2) ensuring that appropriate arrangements will be in place to identify if the actions of another person involved in the distribution arrangements would adversely affect the value of the insurance product or package; and
 - (3) reducing the scope for the overall effect of any distribution arrangements to detrimentally affect the value of the products or package including where the cumulative effects of the remuneration of multiple parties unreasonably add to the overall price paid by the customer.

4.2.140 G (1) Where the *firm* is considering the effects of the distribution

arrangements on value it should consider whether the additional costs of
any individual party in the arrangements that add to the total price paid
by the *customer* deliver any, or a proportional, additional benefit. If not, *firms* should consider how they can be satisfied that the arrangements
are consistent with their obligations to be able to clearly demonstrate
fair value to the *customer*.



ONEROUS Issues

- Does the existing distribution arrangement add any value and what does each party 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 fair value and regular reviews now needed
- Commercial business is included so <u>this will</u> <u>include arrangements with property managing</u> <u>agents and persons not regulated under FSMA</u>



Little cracker here...

- 4.3.6D G The following evidential provision provides examples of arrangements the FCA considers will breach PROD 4.3.6AR.
- 4.3.6E E (1) A firm's distribution arrangements including any distribution strategy it sets up, should not result in:
 - (a) the firm receiving a level of remuneration which does not bear a reasonable relationship to the firm's actual costs, or their contribution, level of involvement or the benefit added by them, to the arrangements for the distribution of the product, including where the firm provides little or no benefit beyond that which the customer would receive if they obtained the insurance product through another distribution channel:



One more...

- 4.3.10B R For the purposes of PROD 4.3.10UK, a distributor must provide on request to a manufacturer of a non-investment insurance product:
 - (1) information on the distributor's remuneration in connection with the distribution of the insurance product;
 - (2) information on any ancillary product or service that the distributor provides to the customer (including insurance add-ons, non-insurance additional products and retail premium finance), which may affect the manufacturer's intended value of the insurance product; and
 - (3) confirmation that the distribution arrangements are consistent with the obligations of the firm under the FCA Handbook including in particular in SYSC 10 (Conflicts of interest) and SYSC 19F.2 (IDD remuneration incentives).



IV. Reporting



- Pricing Information Report for each home and motor (only) product split by:-
 - Sales channel
 - How long policy held (NB, 1-10 years and greater)
 - Large books (100,000+)
 - Closed books (not by sales channel)
 - To incl net rated, gross rated, averages, policy count, claims ratios, expected claims ratios, reserves, etc
- Price setting intermediaries not required to report on large and closed books of business but will be required to report on total charged for PF, numbers on PF, APRs, fees, add-ons, etc
- 1st Jan to 31st Dec annually from 31 March 2022





Pricing information report form REP021

FCA Handbook reference: SUP 16 Annex 49AR

Notes for completing the form are available in: SUP 16 Annex 49BG

Financial Conduct Authority 12 Endeavour Square Stratford London E20 1JN United Kingdom Telephone +44 (0) 845 606 9966

firm.queries@fca.org.uk http://www.fca.org.uk Website

Name of firm (As entered in 1.05)

Reporting period year ended 31/12/20xx

All firms should complete Sections 1 and 6. In addition:

- insurers and managing agents should complete Sections 2 and 3; and
 price-setting intermediaries should complete Sections 4 and 5.

Pricing information - core product by channel Section 4 Only complete this section for the business for which your firm is acting as a price-setting intermediary Motor - cars Motor - motorcycles including tricycles Motor - other Home - buildings and contents Home - buildings only Home - contents only Direct channel 4.02 Total gross written premium (£) 4.03 Total net rated written premium (£) 4.04 Average gross premium (£) 4.05 Average net rated premium (£) 4.06 Average prior year gross premium (£) 4.07 Total number of policies incepted/renewed 4.08 Total number of policies in force at the end of the reporting period Intermediated channel 4.09 Total gross written premium (£) 4.10 Total net rated written premium (£) 4.11 Average pross premium (£) 4.12 Average net rated premium (£) 4.13 Average prior year gross premium (£) 4.14 Total number of policies incepted/renewed 4.15 Total number of policies in force at the end of the reporting period TO | T1 | T2 | T3 | T4 T5 T10 Page 10

28

4.16		on website c ss written pre					_	_						_		_	_
4.17		rated written		,			_	_					_	-	-	-	-
4.18	Average	gross premiur		-/			_							_	_	_	_
4.19		net rated prer														_	
4.20		prior year gro		(£)													
4.21		nber of policie															
				the end of the	e reporting pe	eriod											
		rships chanr															
4.23		ss written pre															
4.24		gross premiur						_								_	
4.25		net rated prer		(6)			-	-						-	_	-	-
4.26	Average	prior year gro ober of policie	ss premium	(£)			_	_					_	-	-	-	_
4.28	Total nun	ther of policie	s incepted/	the end of the	roporting po	ried	_	-					_	_	_	_	_
		ed for all ch		the end of the	reporting pe	iiou											
4,29	Total gro	ss written pre	mium (f)														
4.30	Total net	rated written	premium (.)													
4.31	Average	ross premiur	n (£)														
4.32	Average	net rated prer	nium (£)														
4.33		prior year gro															
4.34		nber of policie															
4.35	Total nun	nber of policie	s in force a	the end of the	e reporting pe	riod											
Sub-	-set of t	otal in S	ection 4	ed books e business			n is	acti	ng a	s а рг	ice-s	etting	j inte	ermed		ectio	on S
Sub- Only	complete	otal in So	on for th				n is	acti	ng as	s a pr	ice-s	etting	j inte	ermed		ectio	on 5
Sub-	-set of t	otal in So this section	on for th				n is	acti	ng as	s а рг	ice-s	etting	j inte	ermed		ectio	on S
Sub- Only	complete	otal in So this section Dropdown lie • Motor - car	on for th	e business	for which		n is	acti	ng as	s a pr	ice-s	etting	j inte	ermed		ectio	on S
Sub- Only	complete	otal in So this section Dropdown lie • Motor - car	on for th		for which		n is	acti	ng as	s a pr	ice-s	etting	j inte	ermed		ectio	on S
Sub- Only	complete	Dropdown lis Motor - ca Motor - me Motor - bu Motor - bu	on for the	e business	for which		n is	acti	ng as	s a pr	ice-s	etting	j inte	ermed		ectio	on 5
Sub- Only	complete	Dropdown lie Motor - ca Motor - oth Motor - oth Home - bu Home - bu	on for the	e business	for which		n is	acti	ng a:	s а рг	ice-s	etting	j inte	ermed		ectio	on 5
Sub- Only	complete	Dropdown lis Motor - ca Motor - me Motor - bu Motor - bu	on for the	e business	for which		n is	acti	ng a:	зарг	ice-s	etting	j inte	ermec		ectio	on 5
Only 5.01	complete	Dropdown lit Motor - cai Motor - me Motor - me Motor - bu Home - bu Home - co	on for the	e business	for which		m is	acti	ng as	s a pr	ice-s	etting	g inte	ermed		ectio	on 5
Sub- Only	complete Product	Dropdown list Motor - cas Motor - ots Motor - ots Home - but Home - co	on for the	e business cluding tricycle	for which		m is	acti	ng as	s a pr	ice-s	etting	g inte	ermed		ectio	on 5
Only 5.01	complete	Dropdown line - bu - b	on for the state of the state o	e business cluding tricycle contents	for which		n is	acti	ng as	s a pr	ice-s	etting	j inte	ermed		ectio	on 5
Only 5.01	complete Product	Dropdown lit Motor - cai Motor - cai Motor - oti Home - bu Home - bu Toropdown lit Book with Aggregate:	on for the	e business cluding tricycle contents cies or more for closed book	for which		n is	acti	ng a	s a pr	ice-s	etting	j inte	ermed		ectio	on 5
Only 5.01	complete Product	Dropdown line - bu - b	on for the	e business cluding tricycle contents cies or more for closed book	for which		n is	acti	ng as	s a pr	ice-s	etting	g inte	ermed		ectio	on S
5.01 5.02	Product Closed book	Dropdown lie Motor - ca Moto	on for the	e business cluding tricycle contents cies or more for closed book	for which		n is	acti	ng as	s a pr	ice-s	etting	j inte	ermec		ectio	on S
Only 5.01	Product Closed book	Dropdown lit Motor - cai Motor - cai Motor - oti Home - bu Home - bu Toropdown lit Book with Aggregate:	on for the	e business cluding tricycle contents cies or more for closed book	for which		n is	acti	ng a	зарг	ice-s	etting	j inte	ermec		ectio	on S
5.01 5.02	Product Closed book	Dropdown lie Motor - ca Moto	on for the	e business cluding tricycle contents cies or more for closed book	for which		n is	acti	ng a	s a pr	ice-s	etting	g inte	ermed		ectio	on 5
5.01 5.02	Product Closed book	Dropdown lie Motor - ca Moto	on for the	e business cluding tricycle contents cies or more for closed book	for which	your fire						Tenur	e		liary		
5.01 5.02	Product Closed book Descripti	Dropdown lis - Motor - ca - Motor - on - Motor - on - Hotor - on - Home - bu - Home -	on for the state of the state o	e business cluding tricycle contents cies or more for closed book	for which	your fire		acti	T2	тз	ice-s			T7		ection	
5.01 5.01 5.02	Product Closed book Descripti	Dropdown list Motor - case Moto	on for the state of the state o	e business cluding tricycle contents ties or more for closed bool	for which	your fire						Tenur	e		liary		1110
5.01 5.02 5.03	Product Closed book Descripti	Dropdown lie Andro - we Motor - me Motor - me Motor - me Motor - on Moto	on for the state of the state o	e business cluding tricycle contents ties or more for closed bool	for which	your fire						Tenur	e		liary		1110
5.01 5.02 5.03 5.04 5.04 5.05 5.06	Closed book Descripti Total gross Total net 1 Average g	otal in S. a this section Dropdown lis Motor - ca	on for the state of the state o	e business cluding tricycle contents ties or more for closed bool	for which	your fire						Tenur	e		liary		1110
5.01 5.01 5.02 5.03 5.04 5.05 5.06 5.07	Product Closed book Descripti Total gros Total net Average g	Dropdown lie Motor - cai Moto	on for the control of	e business cluding tricycle contents ies or more for closed bool	for which	your fire						Tenur	e		liary		1110
5.01 5.01 5.02 5.03 5.04 5.05 5.06 5.07 5.07	Product Closed book Descripti Total gros Total net Average Average	otal in Sc this section moderness moderne	on for the strict of the stric	e business cluding tricycle contents class or more or closed bool licies each	for which	your fire						Tenur	e		liary		1110
5.01 5.01 5.02 5.03 5.03 5.05 5.06 5.07 5.08	Closed book Descripti Total gros Total net I Average n Average n Average n	Dropdown lie Motor - cai Moto	on for the strain of the strai	e business cluding tricycle contents class or more or dosed book lictes each	for which	your fire						Tenur	e		liary		1110

So what will they use it for?

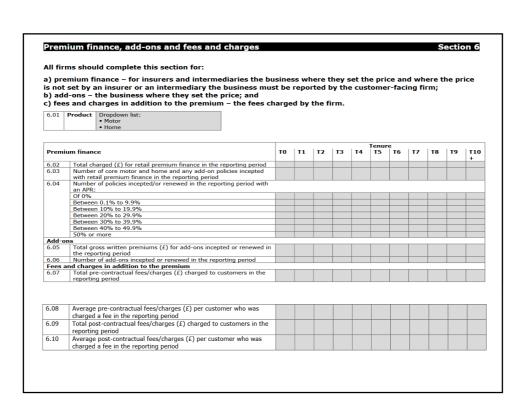
- Proportion of customers with average expected claims 10% to 30% below average when compared (typically home and motor are 50% or more)
- If more spent on claims could indicate better product value
- Analysis of reserving
- All sales channels direct, intermediated, affinity
 + partnerships, price comparison sites



And for intermediaries?

- Deep analysis of PF arrangements to incl
 - APRs to help FCA analyse costs of policies paid for using PF arrangements
- Add-on product sales
- · Fees and charges
 - what are these for?
 - and are they fair?
 - benchmark analysis





What should you be doing?

- Understand what parts of your business will be affected (so home/motor/commercial)
- Are you a price-setting intermediary?
- By 30 September you need to focus on:-
 - SYSC
 - Product Governance
- By 31 December you then need to focus on:-
 - Pricing
 - Premium Finance
 - Auto-renewals
 - Reporting



Learning outcomes...

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

- What the FCA will focus on
- The new rules to end price-walking
- What product governance arrangements will be including existing distribution arrangements



Thank you for listening

Questions and debate please

www.branko.org.uk

(0800) 619 6619

