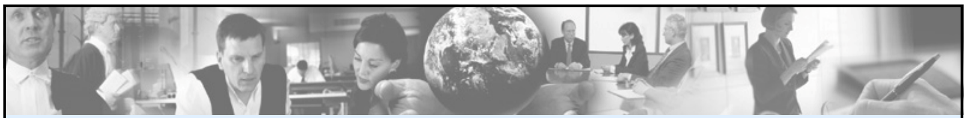

FCA GI Consumer Duty and update

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
- Feel free to connect with me on LinkedIn

Learning outcomes…

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

- What is Consumer Duty and core components of this
- Key GI issues
  - Premium Finance and Product Governance
  - Multi-occupancy insurances
  - Appointed Representatives

Bear in mind…

- Today is not formal ‘advice’
- It is an **overview** in my own words of the key issues
- Please take up whatever professional help you need to ensure your business remains compliant
- BIBA Compliance Manual will be updated shortly

Today

1. Consumer Duty overview
2. Premium Finance
3. Product Governance
4. Multi-occupancy
5. Appointed Reps

1. Consumer Duty

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NEWS

FCA's Consumer Duty causes apprehension among majority of brokers – Ecclesiastical

By Isobel Rafferty | 10 January 2023

Nearly three quarters of brokers said the ramping up of regulation was overwhelming

Three in five brokers (60%) have admitted they don't understand how the FCA's Consumer Duty regulations will affect their business, according to new research published today (10 January 2023) by specialist insurer Ecclesiastical.

Only 53% of brokers, moreover, are aware of the regulator's new rules – suggesting that 47% of firms are behind schedule to meet the requirements.

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A new Consumer Duty

Feedback to CP21/36 and final rules

Policy Statement

PS22/9

July 2022

FINANCIAL CONDUCT AUTHORITY

Finalised Guidance

FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty

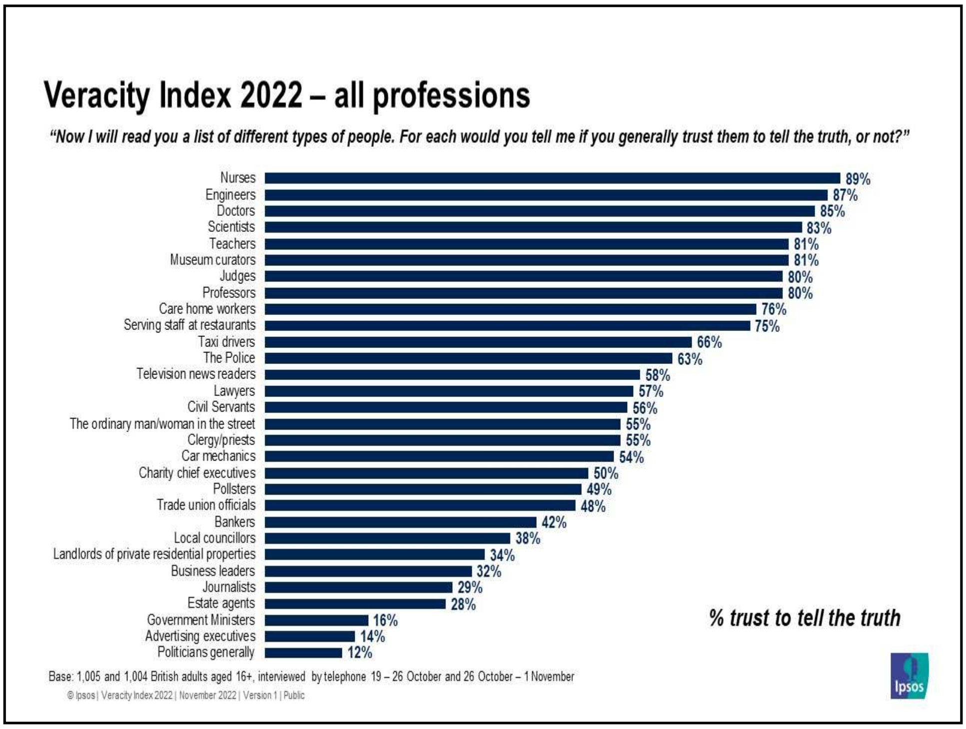
July 2022

91 pages PS
121 pages guidance
+
68 pages of
<u>new rules</u>

(The word “value” is mentioned 368 times)

Why and how

- Customers are being sold products that they don’t need, that cost too much and they experience poor service (can you speak to someone?)
- Pressure on FCA to get tough and CD gives FCA intrusive and proactive powers to do so
- Still negative perception of the sector with customer feedback being far from receptive
- Despite TCF and the customers best interests rule (acting honestly, fairly and professionally) the expected change in culture has not happened
- Lack of trust abounds
- Government hardly impressed


Veracity Index 2022 – all professions
"Now I will read you a list of different types of people. For each would you tell me if you generally trust them to tell the truth, or not?"
Nurses 89%
Engineers 87%
Doctors 85%
Scientists 83%
Teachers 81%
Museum curators 81%
Judges 80%
Professors 80%
Care home workers 76%
Serving staff at restaurants 75%
Taxi drivers 66%
The Police 63%
Television news readers 58%
Lawyers 57%
Civil Servants 56%
The ordinary man/woman in the street 55%
Clergy/priests 55%
Car mechanics 54%
Charity chief executives 50%
Pollsters 49%
Trade union officials 48%
Bankers 42%
Local councillors 38%
Landlords of private residential properties 34%
Business leaders 32%
Journalists 29%
Estate agents 28%
Government Ministers 16%
Advertising executives 14%
Politicians generally 12%
% trust to tell the truth
Base: 1,005 and 1,004 British adults aged 16+, interviewed by telephone 19 – 26 October and 26 October – 1 November
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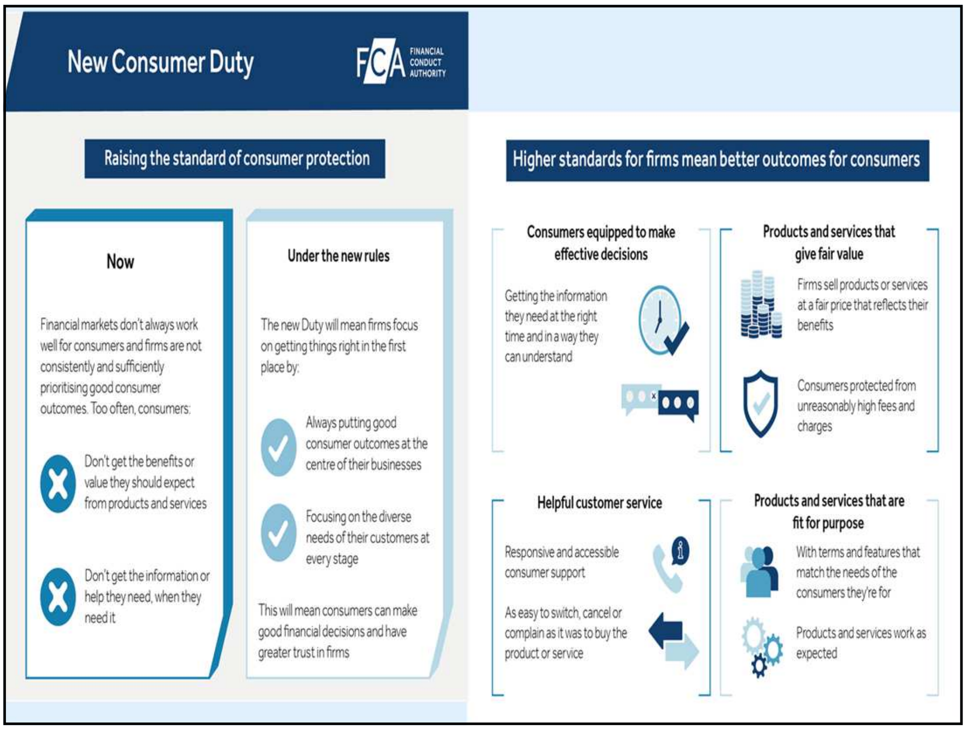
New Consumer Duty
FCA FINANCIAL CONDUCT AUTHORITY
Raising the standard of consumer protection
Now
Financial markets don't always work well for consumers and firms are not consistently and sufficiently prioritising good consumer outcomes. Too often, consumers:
Don't get the benefits or value they should expect from products and services
Don't get the information or help they need, when they need it
Under the new rules
The new Duty will mean firms focus on getting things right in the first place by:
Always putting good consumer outcomes at the centre of their businesses
Focusing on the diverse needs of their customers at every stage
This will mean consumers can make good financial decisions and have greater trust in firms
Higher standards for firms mean better outcomes for consumers
Consumers equipped to make effective decisions
Getting the information they need at the right time and in a way they can understand
Products and services that give fair value
Firms sell products or services at a fair price that reflects their benefits
Consumers protected from unreasonably high fees and charges
Helpful customer service
Responsive and accessible consumer support
As easy to switch, cancel or complain as it was to buy the product or service
Products and services that are fit for purpose
With terms and features that match the needs of the consumers they're for
Products and services work as expected

Consumer Duty Structure

New Principle 12

- A firm must act to deliver **good** outcomes
  - what the customer wanted from the product
  - ensure they have a “no regrets” purchase

The scope for “customer/consumer” does include most forms of commercial business to incl SMEs (an excl for large risks and group commercial)

Cross-cutting rules

1. **firm must act in good faith**
   - Being honest, fair and open
2. **firm must avoid foreseeable harm**
   - Consider the product design, terms, marketing and communications to identify possible causes of harm
   - Take action to reduce (or highlight) the potential harm that might occur over the lifetime of the product, including new harms that are identified post-sale
3. **firm must enable and support customers to pursue their financial objectives**
   - Enabling customers to make good decisions by considering their immediate and longer-term objectives
   - Providing clear information for the customer to aid their decision-making
   - Recognise behavioural bias and likely level of understanding

The Four Outcomes

1. Products and Services
2. Price and Value
3. Consumer Understanding
4. Consumer Support

1. **Products and Services** - provide a product **that meets the needs** of the identified target market, both new sales and existing customers. **Distribute the product via appropriate channels, for example, considering if it can be sold with or without advice**

2. **Price and Value** - ensure customers get **fair value from their products and services** and undertake regular value assessments with sharing of information between the manufacturer (typically the insurer) and distributor(s)

3. **Consumer Understanding** - providing the right information at the right time, so that it **can be understood** and enable decisions that support good outcomes. Test whether the communications drive the right actions

4. **Consumer Support** - customers can **use** products as expected, realise the benefits and not face unreasonable barriers e.g. claim, make changes, cancel or switch (incl the method of engaging)

What does this mean?

- Regular product reviews and fair value assessments will apply to all products (open and closed)
- Pricing Practices introduced an annual review (for GI this is on a forward-looking basis only)
- What about life policies sold 10/15/20+ years ago – are they still able to deliver a good outcome? Are any comms timely, informative to enable good decision-making?
- **From 31 July 2023** (closed products 12m later) you will need evidence that the product was expected to deliver a good outcome and that foreseeable harm was anticipated and addressed
- Monitor performance against original expectations and advise customers as to what they need to do

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Consumer Duty
Key milestones

1

27 July 2022:

Final rules and guidance published.

2

31 October 2022:

Firms' boards (or equivalent management body) should have agreed their implementation plans and be able to evidence they have scrutinised and challenged the plans to ensure they are deliverable and robust to meet the new standards.

3

30 April 2023:

Manufacturers should have completed all the reviews necessary to meet the outcome rules for their existing open products and services so they can share with distributors to meet their obligations under the Duty, and identify where changes need to be made.

4

31 July 2023:

Implementation deadline for new and existing products or services that are open to sale or renewal.

5

31 July 2024:

Implementation deadline for closed products or services.

www.fca.org.uk/firms/consumer-duty

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Consumer Duty implementation plans

Multi-firm reviews | **Published:** 25/01/2023 | **Last updated:** 25/01/2023

Print this publication

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Quick tip
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The Consumer Duty will set higher and clearer standards of consumer protection across financial services and require firms to act to deliver good outcomes for customers. We set out here the findings from our review of firms' plans to embed the Duty within their businesses.

Chapters

1. Why we conducted this review

In July 2022, we set out the final rules and guidance for a new Consumer Duty. The Consumer Duty is a

FCA highlights areas of focus

- **Prioritising:** Firms should make sure they are prioritising effectively, with a focus on the areas that will make the biggest impact on outcomes for consumers
- **Making the changes needed:** The FCA urges firms to ensure they are making the changes needed so consumers receive communications they can understand, products and services that meet their needs and offer fair value, and they get the customer support they need, when they need it
- **Working with other firms:** Firms need to share information and work closely with their commercial partners to make sure they are all delivering good customer outcomes. The FCA has found that some firms need to accelerate this work to implement the Duty on time
- Letters to follow + survey to 600 firms to check progress

Areas of concern?

1. Who is leading this?
2. Board not engaged + no overall champion
3. No timings
4. Key findings:

    I. Governance & oversight
    II. Culture & People
    III. Deliverability
    IV. Third parties
    V. The four outcomes
    VI. Data strategies

2. Premium Finance

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 across the FCA Handbook and the customer's best interests rule?
- Specifically 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?

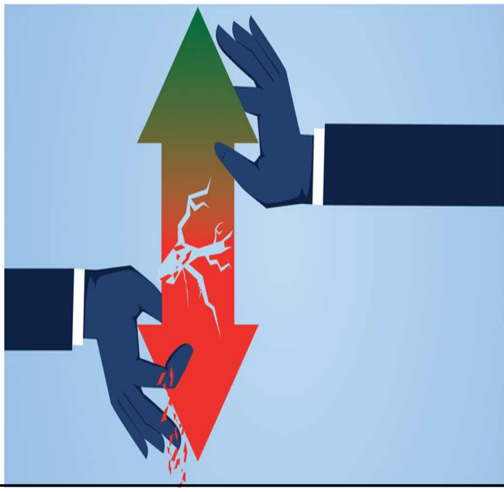
INSIGHT

News analysis: What next for brokers amid FCA premium finance crackdown?

Saxon East

07 Dec 2022

Indicative reading time:
8 minutes



POPULAR NOW

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Zurich names David Nichols UK head of retail after David Martin exit

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FCA GI consultancy and enjoyable training | Compliance Manual | Commen…
1w •

The FCA today has issued consultation on protecting insurance customers in financial difficulty.

This is a timely publication from the FCA now that we have moved on from covid to a rather more all-embracing cost of living crisis and I would be appalled if any insurers, brokers or premium finance providers were exploiting customers right now. We had rules come into force last year to ensure that renewing motor and home products were priced the same as the equivalent new business and we've also had round one of product value assessments although that has been a lamentable failure as most insurers simply did not do what was required to evidence that their product could be signed off as providing fair value once they had also considered the broker's own assessment of the services that they, and anyone else in the chain, was providing (and whether these are also providing fair value).

What would disturb me is if some are resorting to high charges for perfunctory administrative changes (that the commission already paid should be covering), selling over-priced add-ons (that may not be needed) and are continuing to drive up the costs of finance. Those rules are there to ensure that fair value is provided and apply equally to everyone in the chain. Financial difficulties are being experienced by many and this is not the time to exploit these vulnerabilities and whilst the FCA is to be applauded, they really need to bottom out what we already have in place which incidentally is a core part of the incoming Consumer Duty.

Financial watchdog consults about protections for insurance customers in financial difficulty
fca.org.uk • 1 min read
The FCA is proposing to update guidance, introduced during the Covid-19 pandemic, to su…

Jim Dart and 53 others · 22 comments · 1 repost

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3. Product Governance

Email: InsuranceSectorProjects@fca.org.uk

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29 July 2022

Dear Sir/Madam,

Product Governance and Fair Value – General Insurance and Pure Protection

Background

In May 2021, we published Policy Statement 21/5 (updated in PS 21/11) setting out our final rules on insurance pricing and the enhanced product governance. These were designed to improve competition and ensure firms offer fair value products to consumers.

The enhanced product governance rules came into force on 1 October 2021, and apply to manufacturers and distributors of all general insurance and pure protection products (except contracts of large risks or reinsurance contracts).

In August 2021, we conducted a market survey which assessed firms' readiness to comply with the final rules. Following this work, we sent a letter to all insurance intermediary firms with general insurance permissions setting out that we expected those firms to:

- establish whether it was a manufacturer or distributor of general insurance or pure protection products (excluding contracts of large risks or reinsurance contracts);
- assess the impact of the enhanced product governance rules on the firm; and

FCA’s beef?

- Products have to be assessed as providing fair value by 30 September 2022 and if this is not done, **<u>they can no longer be sold</u>**
- Rules were published on 28 May 2021 (effective 1 October 2021) and insurers have left things far too late (thus more work from brokers)
- Generic online statements are not enough and you can’t assume all is OK without asking what brokers do <u>themselves</u> to impact value
- Massive variations in insurer output and many have not done all that was needed
- We are disappointed with the progress made

What do brokers need to do?

1. Assess impact of any distribution arrangements and whether these provide/enhance fair value
2. Engage with manufacturers to obtain their value assessments
3. Provide manufacturers with all relevant information to enable them to assess whether your fees/charges, add-on products, finance costs and distribution arrangements impact fair value

- There is a potential for serious consumer detriment

The rules then?

Scope

- **Retail + commercial + pure protection + additional products sold alongside (incl premium finance)**
- Firms to consider the value that a product is likely to offer at inception, through the initial insured period and at subsequent anticipated renewals
- 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**

Where?

1.4.7 R *PROD* 4 applies to a *firm* with respect to activities carried on from an establishment maintained by it, or its *appointed representative*~~,~~:

(1) (for all insurance products and *pathway investments*) in the *United Kingdom*; and

(2) (in addition, for *non-investment insurance products*) overseas, in relation to an insurance product that is, or will be, marketed or *distributed*, or there are policies under the product that remain in force, in the *United Kingdom*.

[**Note:** in respect of (1), article 7(2) of the *IDD*]

contracts of large risks

(in *ICOBS* and *PROD*) *contracts of insurance* covering risks within the following categories, in accordance with the *UK* provisions which implemented article 13(27) of the *Solvency II Directive*:

(a) *railway rolling stock*, *aircraft*, *ships* (sea, lake, river and canal vessels), *goods in transit*, *aircraft liability* and *liability of ships* (sea, lake, river and canal vessels);

(b) *credit* and *suretyship*, where the policyholder is engaged professionally in an industrial or commercial activity or in one of the liberal professions, and the risks relate to such activity;

(c) *land vehicles* (other than *railway rolling stock*), *fire and natural forces*, other *damage to property*, *motor vehicle liability*, *general liability*, and *miscellaneous financial loss*, in so far as the *policyholder* exceeds the limits of at least two of the following three criteria:

(i) balance sheet total: €6.2 million;

(ii) net turnover: €12.8 million;

(iii) average number of *employees* during the financial year: 250.

[Note: article 13(27) of the *Solvency II Directive* and article 2(1)(16) of the *IDD*]

Enhancing value

- Value means the relationship between the total price to the end customer and the quality of the products <u>and</u> services provided by all parties
- A firm must not use a distribution channel unless it is able to demonstrate <u>**clearly**</u> that the channel results in fair value
- Certain profit optimisation practices may not offer fair value - auto-renewals, use of PF, fees/charges (what are these for?), chains, etc
- Intermediaries to include a review of distribution arrangements (to incl remuneration arrangements) <u>at least every 12 months</u>

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(1) the <u>nature of the product</u> including the benefits that will be provided, their quality, and any limitations

(2) the <u>type and quality of services</u>

(3) the <u>expected total price</u> to be paid 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

(b) the **overall cost to the firm** and any other components of a package

(c) the **individual elements** of the total price including:

(i) the **insurance product** (including any additional features)

(ii) any **additional products** (including retail premium finance)

(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>distribution arrangements</u> support, and will not adversely affect, the intended value of the product

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Information to use/share?

1. Customer research (direct engagement with customers to ask how things went)
2. Claims information (frequency, acceptance rates, average payouts, disputed, etc - is the policy doing what it should, i.e. paying out?)
3. Public information (social media, etc - is it being received well/customers experiences?)
4. Distribution arrangements - remuneration and its impact and the levels or quality of service provided by any person within the chain

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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)
- **Value assessment to be undertaken to include distribution strategy and how this influences value (incl remuneration awareness for the chain) and distributors to have an involvement in this**
- Amend distribution process if this results in harm
- Remind that assessment of D&N is continual

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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)

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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*.

4.2.14O 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*.

4.2.14P R A *firm* must obtain from any person in the distribution arrangements all necessary and relevant information to enable it to identify the remuneration associated with the distribution arrangements to allow it to assess the ongoing value of the product, including at least:

(1) the type and amount of remuneration of each person in the distribution arrangement where this is part of the *premium* or otherwise paid directly by the *customer*, including in relation to *additional products* (other than where this relates to another *non-investment insurance product* for which the *firm* is not a *manufacturer*);

(2) an explanation of the services provided by each person in the distribution arrangements; and

(3) confirmation from any *firm* in the distribution arrangements that any remuneration is consistent with their regulatory obligations including *SYSC* 19F.2 (IDD remuneration incentives).

Must provide on request…

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).

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;

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LMA9197 - Product Value - Information Exchange Template

The Product Value – Information Exchange Template is designed to assist product Manufacturers and Distributors in meeting the requirements of the FCA PROD rules (PROD 4.2.29 R and PROD 4.2.14 P) relating to information exchange which are shown in the blue boxes below.

Manufacturers and Distributors

The term "Manufacturer" refers to a firm substantially involved in creating, developing, designing and/or underwriting a contract of insurance. As such, managing agents/insurance companies will always be product manufacturers. They may be co-manufacturers with a Distributor when the Distributor also meets the definition.

Generally a Distributor will be some form of intermediary, either authorised or exempt by the FCA. A Distributor would also include introducers.

Requirements and Responsibilities

The fair value assessment is the responsibility of the Manufacturer of a product, which will typically be the insurer unless otherwise agreed with the intermediary in a formal agreement.

ONEROUS Issues

- What value do the existing 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 fair value and regular reviews now needed
- Commercial business is included so **this will include arrangements with property managing agents and persons not regulated under FSMA**

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
- 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 and what fees/charges are for - what **extra** value do these provide?

FINANCIAL CONDUCT AUTHORITY

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Home > Data > General insurance value measures data - July to December 2021

General insurance value measures data - July to December 2021

Data | **Published:** 25/11/2022 | **Last updated:** 25/11/2022

Print this publication

Following a successful pilot, we publish value measures data for a wide range of general insurance (GI) products for July to December 2021.

The value of insurance products for consumers continues to be an important area for us given cost of living increases and is a central feature of the incoming Consumer Duty. Firms must ensure that their products offer fair value to consumers.

This is a first set of data and we will continue to analyse trends over time. General insurance is an important product for consumers and by and large provides essential protection to consumers at fair value. However, we are concerned about how the current picture presented in the data appears to compare with firms stating that virtually all products are providing fair value.

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Quick tip
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Chapters

1. What the data shows
2. Our expectations
3. Consumer Duty

1. What the data shows

We have looked at claims costs as a proportion of premium. At an aggregated product level (where a minimum of 5 firms reported data):

- Claims costs as a proportion of premium range from 5.21% for GAP Insurance (Add on) to 65.95% for Motorcycle (all).
- For some products, add-ons have on average lower claim costs as a proportion of premiums, compared to the corresponding standalone product.
- We note that products with the lowest % of premiums paid out in claims included GAP Insurance (Add-on and standalone), Travel insurance (various), Excess Protection Insurance (Add-on) and Personal Accident Insurance (Add-on).

Users of the data can filter the firm specific information by product to explore the distribution of value measures across different firms.

This is a first dataset, covering a 6-month period. Future datasets will cover 12-month reporting periods and give a fuller picture of product value, also better reflecting wider factors such as seasonality.

Download GI value measures July to December 2021 (XLSX)

View the GI values measures tables

Share

Quick tip
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Chapters

1. What the data shows
2. Our expectations
3. Consumer Duty
4. Why we are publishing
5. What the data includes
6. Explaining the data
7. Data tables

More on GI values

General insurance value measures

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Quick tip
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2. Our expectations

Firms must ensure that their products offer fair value to consumers and take the value measures data into account when assessing fair value. Where value metrics indicate potentially poor value, we expect a firm's Board and senior management to strongly challenge whether its products are offering fair value to consumers.

Firms must assess the value of their products, considering, among other things, the nature of the product, including the benefits that will be provided, their quality, and any limitations (for example in the scope of cover, exclusions, excesses, or other features). In our thematic review of the general insurance distribution chain (TR19/2), we also found that consumers may not always receive fair value because of parties in distribution chains earning high (and potentially excessive) levels of commission.

Our product governance requirements for General Insurance products stipulate that firms should now have carried out value assessments of their products. Firms should refer to FCA rules and guidance in Chapter 4 of the Product Governance (PROD) sourcebook.

We will ask some of the firms offering potentially lower value products to consumers, according to the value measures data, to explain the value of these products and the outcome of the firms' fair value assessments.

Chapters

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CHAMPIONING THE INSURANCE BROKER COMMUNITY

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INSIGHT

Insurers face fresh broker scrutiny on fair value amid latest FCA data

Saxon East
28 Nov 2022
Indicative reading time:
1 minute

Brokers have been told the Financial Conduct Authority's latest release of fair value data raises searching questions over whether their insurer partners are offering fair value.

On Friday last week the FCA released a tranche of fresh claims data on personal lines.

insuranceage
CHAMPIONING THE INSURANCE BROKER COMMUNITY
My account

Top 75 Brokers Insight Voices Regulation Technology Product Hub Market access Data & Rankings Broker Expo

INSIGHT

FCA sinking 'into a quicksand' – brokers react to latest threat on fair value

Saxon East
28 Nov 2022
Indicative reading time:
2 minutes

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The Financial Conduct Authority is sinking 'into a quicksand' as it ups the ante over insurance firms failing to offer customers fair value.

Last week, the watchdog said it would consider using tools at its disposal to protect customers being offered poor value products.

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4. Multi-occupancy

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Multi-occupancy

- Increasing costs being passed to leaseholders and tenants (people at the end of all of this despite the policyholder being a commercial customer)
- FCA expect adequate resources incl knowledge and expertise to provide an appropriate service
- Intermediaries (and anyone else involved in the distribution) should not adversely affect the value of the product/are insurer commissions excessive?
- Does the commission you receive (and the PMA) bear a reasonable relationship to the benefits the services provide and the costs incurred? Higher premiums mean more commission but what extra is being provided?
- Refusal to disclose commissions

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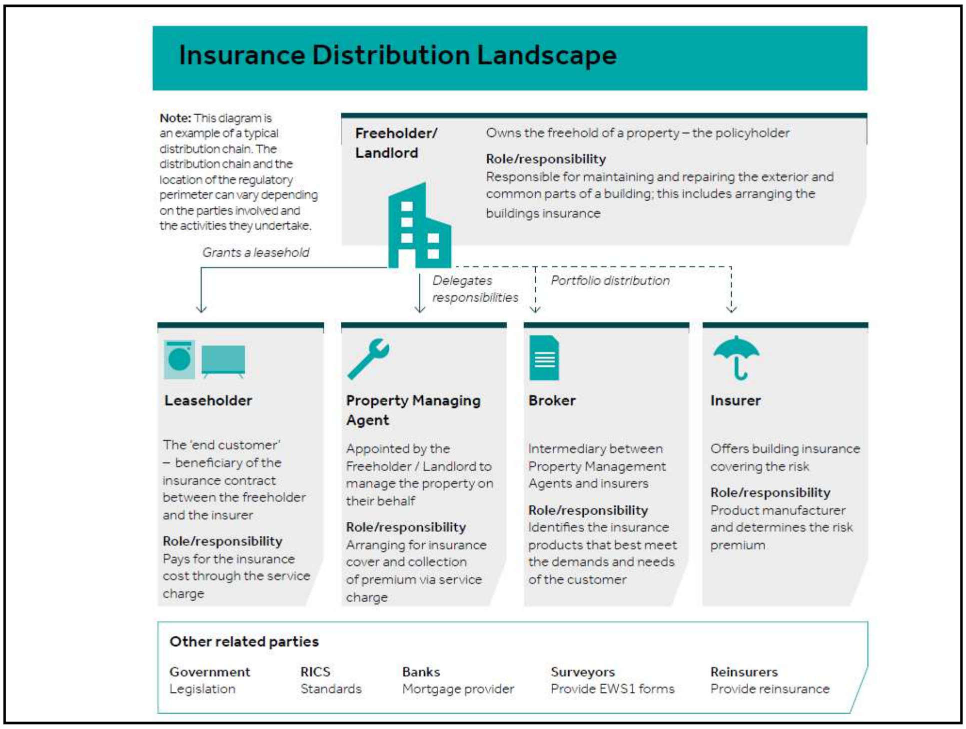
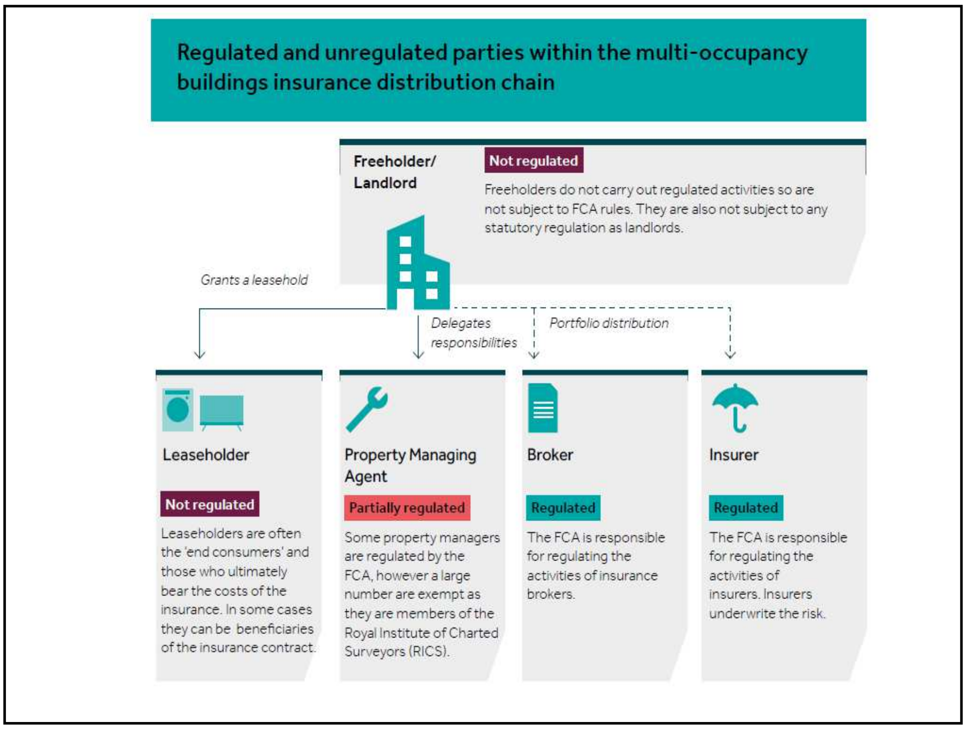
FCA FINANCIAL CONDUCT AUTHORITY

Report on insurance for multi-occupancy buildings

September 2022


Insurance Distribution Landscape
Note: This diagram is an example of a typical distribution chain. The distribution chain and the location of the regulatory perimeter can vary depending on the parties involved and the activities they undertake.
Freeholder/ Landlord
Owns the freehold of a property – the policyholder
Role/responsibility
Responsible for maintaining and repairing the exterior and common parts of a building; this includes arranging the buildings insurance
Grants a leasehold
Delegates responsibilities
Portfolio distribution
Leaseholder
The 'end customer' – beneficiary of the insurance contract between the freeholder and the insurer
Role/responsibility
Pays for the insurance cost through the service charge
Property Managing Agent
Appointed by the Freeholder / Landlord to manage the property on their behalf
Role/responsibility
Arranging for insurance cover and collection of premium via service charge
Broker
Intermediary between Property Management Agents and insurers
Role/responsibility
Identifies the insurance products that best meet the demands and needs of the customer
Insurer
Offers building insurance covering the risk
Role/responsibility
Product manufacturer and determines the risk premium
Other related parties
Government
Legislation
RICS
Standards
Banks
Mortgage provider
Surveyors
Provide EWS1 forms
Reinsurers
Provide reinsurance


Regulated and unregulated parties within the multi-occupancy buildings insurance distribution chain
Freeholder/ Landlord
Not regulated
Freeholders do not carry out regulated activities so are not subject to FCA rules. They are also not subject to any statutory regulation as landlords.
Grants a leasehold
Delegates responsibilities
Portfolio distribution
Leaseholder
Not regulated
Leaseholders are often the 'end consumers' and those who ultimately bear the costs of the insurance. In some cases they can be beneficiaries of the insurance contract.
Property Managing Agent
Partially regulated
Some property managers are regulated by the FCA, however a large number are exempt as they are members of the Royal Institute of Charted Surveyors (RICS).
Broker
Regulated
The FCA is responsible for regulating the activities of insurance brokers.
Insurer
Regulated
The FCA is responsible for regulating the activities of insurers. Insurers underwrite the risk.

What's been said?

- Directed at mid and high-rise blocks of flats (90,500 such blocks in the UK and 9,300 have flammable cladding)
- Sample was 17 insurers and 26 brokers (some 374,000 bits of data analysed)
- Commissions in range from 10% to 62% (average was 30%) and these are of significant concern
- Insurance costs have gone up 125% since 2016 and limited number of insurers operating in 3+ floor market
- Lack of transparency and increased costs leading to significant distress with leaseholders and now need for potential risk pooling as competition is not working

Some options?

1. Pooling arrangement to increase competition
2. Greater transparency and better disclosure
3. Hard disclosure of commissions to all
4. Address remuneration practices and commissions
5. Insurers working with FCA on better risk data

Department for Levelling Up, Housing & Communities

The Rt Hon Simon Clarke MP
Secretary of State for Levelling up Housing & Communities

Department for Levelling Up, Housing and Communities
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Steve White
Chief Executive
John Stow House
18 Bevis Marks
London
EC3A 7JB

21 September 2022

Dear Steve,

Actions from the Financial Conduct Authority's (FCA) report on the buildings insurance market for multiple-occupancy residential buildings

I am writing to you in light of the FCA's report into buildings insurance for multiple occupancy buildings, dated 21 September 2022.

The report has brought to light disturbing evidence on remuneration practices. Broker commissions account for 30% of the premium and the average absolute value of commissions has more than tripled for brokers between 2016 and 2021 (261% increase) to a mean of £4,690 per building. In most cases the broker shares their commission with the managing agent/freeholder: in more than half of cases, these parties receive 50% or more of the commission given to the broker. It is unclear how these practices can be of any benefit to leaseholders.

The financial pressure currently placed on leaseholders is unacceptable. The real-world increase in the commissions passed to managing agents at the expense of leaseholders is amoral, lacks a connection to delivering a fair and quality product and must cease as a matter of urgency.

My department will work closely with the FCA to ensure action is taken to tackle these unfair commissions. I would like to see immediate changes to this practice and expect a proposal from BIBA setting out how you will address broker commissions and reform culture and practice within the market ahead of any further regulatory activity.

The FCA has also recommended that you work rapidly on a pooling solution with the ABI and on improving the quality and availability of data in this area of the market. Before the month is over, I would like you to outline a timeline of the action you intend to take and the effect you expect it to have on the issues identified by the FCA.

Simon Clarke

Rt Hon Simon Clarke MP
Secretary of State for Levelling Up, Housing & Communities

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5. Appointed Reps

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FCA confirms new rules to improve oversight of Appointed Representatives

Press Releases | First published: 03/08/2022 | Last updated: 03/08/2022 |

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The FCA confirms new rules to make authorised financial firms more responsible for their appointed representatives (ARs).

ARs are not authorised by the FCA – they can offer certain financial services or products under the responsibility of authorised firms (known as principals). Principal firms are responsible for ensuring their ARs comply with our rules. While some principals do this effectively, many do not adequately oversee the activities of their ARs.

As a result, the rules will help prevent consumers being mis-sold or mis-led by ARs and will prevent misconduct by ARs undermining markets operating fairly and safely. Under them, principal firms will need to:

- Apply enhanced oversight of their ARs, including ensuring they have adequate systems, controls and resources.
- Assess and monitor the risk that their ARs pose to consumers and markets, providing similar oversight as they would to their own business.
- Review information on their ARs' activities, business and senior management annually, and be clear on the circumstances when they should terminate an AR relationship.
- Notify the FCA of future AR appointments 30 calendar days before it takes effect.
- Provide complaints and revenue information for each AR to the FCA on an annual basis.

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What have we covered?

You should have gained an insight into:

- What is Consumer Duty and core components of this
- Key GI issues
  - Premium Finance and Product Governance
  - Multi-occupancy insurances
  - Appointed Representatives

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Thank you for listening

Questions please

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