

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



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

- Firms must share relevant information with each other
- Manufacturers must consider how they expect products to be sold and regularly monitor the product and its distribution over time so that it can deliver good customer outcomes
- 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 <u>Duty</u>



Price and Value

- Some firms have relied solely on an assessment of similar product offerings in a market
- 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
- Fees added along the distribution chain that might mean the overall cost to the end consumer does not represent fair value
- Charging customers for services they don't benefit from
- Understand what has to be done where it considers a product does not provide fair value



2. Product Governance



FCA calls on insurers to ensure they demonstrate fair value and good customer outcomes.

View as a webpage / Share





Press release

FCA calls on insurers to ensure they demonstrate fair value and good customer outcomes.

Insurers and brokers have improved governance and oversight of how products are designed, managed, reviewed, and distributed, but many still cannot show how they are providing fair value to customers or that they were receiving good outcomes.

In a report published today, the Financial Conduct Authority (FCA) set out issues with information sharing between insurers and brokers, and in identifying target markets.

Matt Brewis, Director of Insurance at the FCA, said:

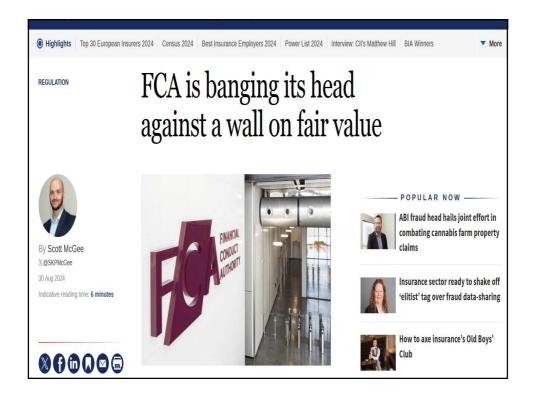
"Insurers need to make sure their customers are getting fair value. Progress is being made, but we are still seeing too many examples of insurers and brokers lacking the right information, governance, or oversight to ensure their customers get consistently good outcomes."

"All insurance firms should take note of our findings and make improvements where appropriate.

"We found many manufacturers did not meet the core requirement to consider the total price the customer paid. Where firms had undertaken a FVA, they did not always consider the expected total price and the elements that make up the total price. There was also no clear rationale and justification of how each element of the total price was consistent with providing fair value."

The same issues the regulator has been banging on about for years now. It said many insurers had failed to consider the remuneration of brokers, or costs to the firm for operating the product, when considering the total price of the insurance.

	% of premiums pa		id out in claims	
Product Category	2022	2023	Change	
Healthcare cash plan (All)	67%	72%	7%	
Pet - covered for life (All)	65%	66%	1%	
Gadget (including mobile phone) (Stand-alone)	58%	59%	3%	
Motor (All)	64%	56%	-12%	
Pet - time limited (All)	50%	54%	8%	
Pet - maximum benefit (All)	51%	53%	4%	
Home - buildings only (All)	57%	51%	-11%	
Motor cycle (All)	61%	48%	-22%	
Travel - annual worldwide (All)	35%	46%	33%	
Home - (buildings and contents combined) (All)	50%	45%	-11%	
Extended warranty - motor (Stand-alone)	39%	44%	12%	
Gadget (including mobile phone) (Add-on)	44%	43%	-2%	
Dental insurance (All)	42%	42%	0%	
Travel - annual european (All)	29%	39%	34%	
Travel - single trip (Stand-alone)	31%	35%	11%	
Payment protection (credit card, store cards and personal loans) (All)	22%	34%	53%	
Home - contents only (All)	35%	34%	-4%	
Home emergency (Stand-alone)	34%	33%	-2%	
Personal accident (Stand-alone)	20%	29%	50%	
Excess protection (for motor insurance) (Stand-alone)	30%	29%	-3%	
Key cover (Add-on)	31%	28%	-8%	
Payment protection (mortgage) (All)	26%	28%	4%	
Home emergency (Add-on)	25%	25%	1%	
GAP insurance (Stand-alone)	7%	22%	220%	
Personal accident (Add-on)	19%	20%	8%	
Excess protection (for motor insurance) (Add-on)	15%	13%	-14%	
GAP insurance (Add-on)	4%	10%	127%	



Review

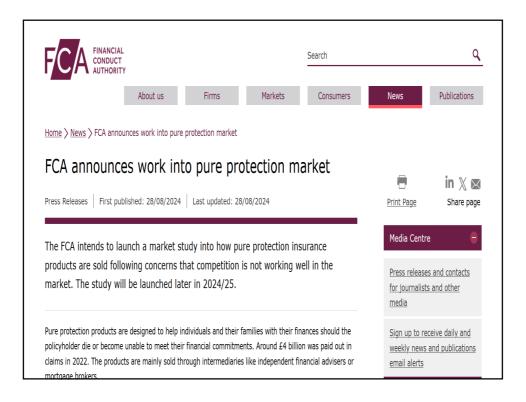
- 28 manufacturers
- 39 distributors
- Home, motor, travel, pet, health cash plans and private medical insurance
- Commercial insurances sold to SMEs
- Whole of life, over 50s, term assurance, critical illness and income protection
- Product oversight and governance
- Product reviews and FVAs



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





- Consumer needs, engagement and understanding: the benefits and the value
 of pure protection products to consumers, the nature and complexity of products
 and whether they are presented in a way that is understandable to consumers,
 how consumers make choices, the benefits and the value of services provided
 by intermediaries, how well consumers understand how intermediaries are
 remunerated, how engaged consumers are with pure protection products they
 have, and how cross-selling occurs.
- Competitive constraints on insurers and intermediaries: the importance of intermediaries as a route to market and the value of services they provide to insurers, the relative bargaining power between intermediaries and insurers, the nature of competition between insurers for distribution channels, the broader macroeconomic environment and its impact on how insurers and intermediaries compete, and the nature of competition between insurers and between intermediaries.
- Commission incentives and potential conflicts of interest: the size and structure of commissions in the pure protection market, the incentives that commissions create, and the effectiveness of FCA rules and features of commissions schemes (such as clawback) in mitigating incentives and conflicts of interest.
- **Firms' behaviour and practices:** how firms' incentives impact their conduct in relation to products, the market and their treatment of consumers.

- The design of commission arrangements may not always support the delivery of fair value. When commissions are designed well, they can be an effective tool for renumerating intermediaries for providing valuable services to consumers, such as information and advice. When commissions are not designed well, they may incentivize firms to push products that are not consistent with a consumer's needs or do not meet them as well as another product would do. We want to understand the impact that commission has on intermediaries' incentives, both for advised and non-advised sales. We have seen examples of intermediaries encouraging customers to switch unnecessarily (eg to a product that does not meet their needs as well or that provides poorer value) to earn repeat commission. We also want to understand the use of 'loaded premiums' – a mark-up to the standard premium paid by a consumer that enables additional commission to be paid to an intermediary. We will consider the extent of any impact that their use could have on intermediaries' incentives. Commission arrangements, such as loaded premiums, may also impact price and therefore fair value outcomes for consumers. We want to understand whether the distribution arrangements for pure protection products are consistent with the aim of providing fair value
- Some pure protection products may not provide fair value to customers.

 Guaranteed acceptance over 50s insurance can be beneficial to some consumers, for example, those with pre-existing medical conditions and those not wanting to undergo a medical assessment. However, some guaranteed acceptance over 50s life insurance products appear to have low average payouts in comparison to

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 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
- 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 Mutual and Hiscox 0%

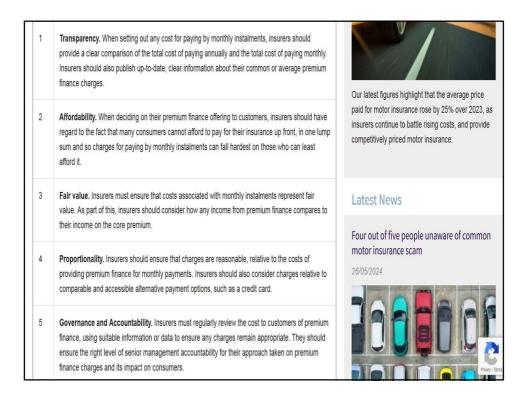
"The insurance distribution crowd have taken the view that this is a money-making opportunity."

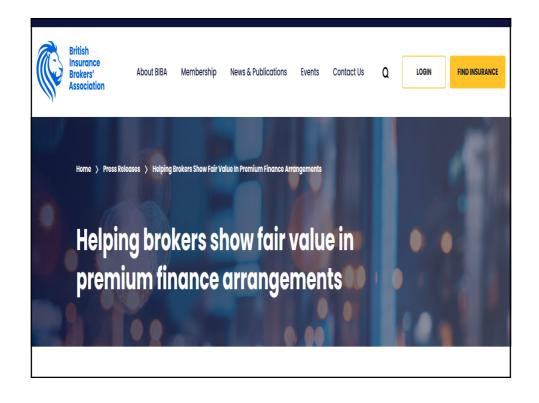


Broker issues

- 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

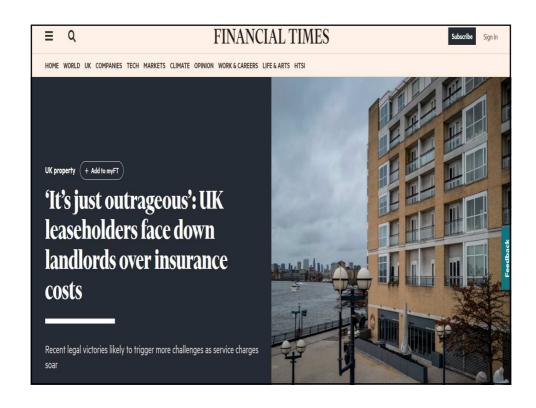


"There is a **huge insurance scandal** coming down the track with what has been going on with managing agents and leaseholders. It is **absolutely outrageous**; they are just ripping people off."

"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



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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



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

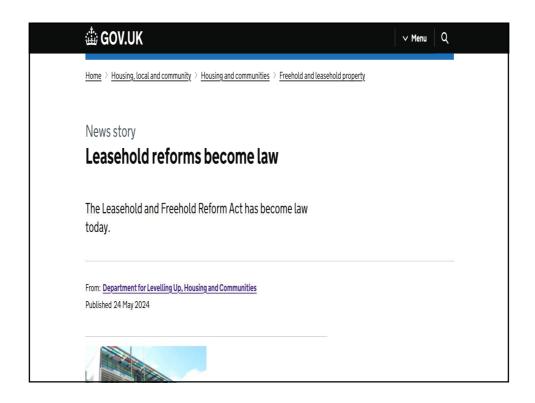
2002

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

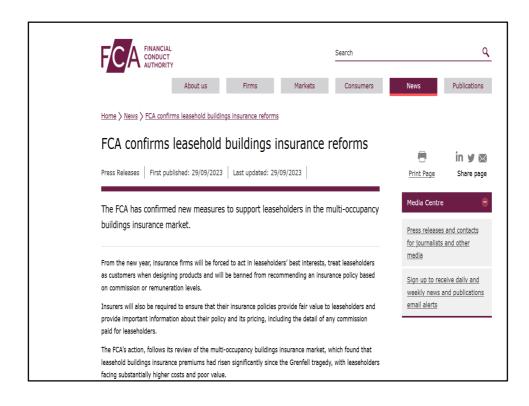


- The Government will act quickly to provide homeowners with greater rights, powers and protections over their homes by implementing the provisions of the Leasehold and Freehold Reform Act 2024.
- The Government will further reform the leasehold system, enacting remaining Law Commission recommendations relating to leasehold enfranchisement and the Right to Manage, tackling unregulated and unaffordable ground rents, and removing the disproportionate and draconian threat of forfeiture as a means of ensuring compliance with a lease agreement.
- The Government will take steps to bring the feudal leasehold system to an end, reinvigorating commonhold through a comprehensive new legal framework and banning the sale of new leasehold flats so commonhold becomes the default tenure.

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	Summary
 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 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 	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
The amount of insurance premium tax payable 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 undertaking and # from other insurance undertakings w ('Insurance undertakings' may be insurers, int wholesalers)	hen considering this policy.
The reason for recommending the selected policy and why it is considered consistent with the interests of both the customer and the leaseholders	[e.g. statement of how the particular policy selected meets the cover requirements taking into account terms and exclusions, service levels and	
CONFLICTS OF INTEREST INFORMATION	When quoting and arranging this insurance w 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?





About FAQs News Join The Claim

Do you own a leasehold flat?



Could you be one of hundreds of thousands overcharged for insurance?

Did your landlord make money from your building insurance without telling you?

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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