

# Added Value Products – Friend or Foe

A Presentation to  
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# Agenda

- Market History and Background
- Why they are important
- Where it has all gone wrong
- Case Studies
- Regulatory Perspective
- How it can all go right
- Dave's Dos and Don'ts

# Background

- From separate product to standard feature
- Reduced margins on core products
- Rise of affinity schemes
- Innovative industry
- Alternative distribution channels

# Why are they important?

- £1bn estimated market value
- Fulfil customer needs
- Support pricing of core products
- Specialist knowledge and service
- BUT.....estimated £200m overspend by customers

# Background

<b>Company</b>	<b>AVPs as a % of earnings</b>	<b>Instalment Income as a % of earnings</b>
Admiral	33%	6%
Direct Line	12%	22%
Esure	24%	16%

# Products

motor legal expenses \* household legal expenses \* commercial legal expenses \* loss of driving licence \* domestic warranty \* vehicle warranty \* camping equipment \* home emergency \* PPI (life / accident / sickness / unemployment) \* bicycles and accessories \* helmet and leathers \* GAP \* breakdown \* tyre \* MOT \* mis-fuelling \* key protection \* dent and ding \* PA \* gadgets \* mobile phones \* handbag \* credit cards \* ID theft \* excess protection

# Where Has It All Gone Wrong?

## Why Us?



The Warranty.m4v

# Why Us? - PPI

- PPI Mis-selling scandal
  - Loss ratio (20%)
  - 1 in 6 claims rejected
  - Inappropriate incentives / “training needs”
  - Customer engagement
  - Collection of premiums

# Why Us? - PPI

Loan Type	Loan Amount	PPI Premium	Premium % of Loan
Unsecured PL	£11,000	£5,133	47%
HP for a Car	£5,059	£2,157	43%
Secured Loan	£25,000	£12,127	49%
Conditional Sale For A Car	£4,300	£2,394	56%

# Why Us? – The FCA Gets Busy

- CPP – Credit Card / ID Theft
- Homeserve – Home Emergency
- Swintons – PA / Home Emergency / Breakdown
- Motor Legal Expenses
- Mobile Phone Insurance

# The Consequences - Homeserve

- Investigation starts January 2012
- Mis-selling dates back to 2005
- £30.6m fine
- £16.8m redress to customers
- Share price fell £23.44 to £4.53 in 4 weeks
- 400,000 customers lost
- 300 job losses

# The Consequences - Swinton

- 2009 - £770k fine for mis-selling PPI
- 2013 - £7.4m fine for mis-selling PA, Home Emergency and Motor Breakdown.
- £11.2m redress to customers (over 650,000 affected?)
- Former Directors – personal fines and bans

# Motor Legal Expenses

- A product of value
- Most commonly sold add-on as an “opt out” (58%)
- Pop up messages if de-selected
- Most commonly “bundled” product
- Profit distorted by historical data including income from referral fees.

# Why Us? – Mobile Phones

- Little / no product governance
- Poorly designed products
- Unclear terms and conditions
- Poor sales practices
- Claims handling slow and unfair
- Inappropriate complaints handling

# Current Position

- FCA Market Study – March 2014
- Confirmed Findings : July 2014
- Proposed Remedies – March 2015
- Focused on 5 types of product :
  - PA
  - Home Emergency
  - Gadget
  - Travel
  - GAP (Guaranteed Asset Protection)
- Comparison of add-on v standalone for the above

# Current Position

- FCA Market Study - Confirmed Findings : July 2014
- Review Included :
  - Product literature
  - Sales process
  - Pricing
  - Profitability
  - Claims

# Current Position

The FCA Review in Numbers :

- Its all about the consumer
  - 25% unaware the product was available elsewhere
  - 58% did not make comparisons
  - 38% had not planned to purchase add –ons
  - 69% could not remember how much they paid
  - 19% could not even remember buying it

# Current Position

## The FCA Review – Findings

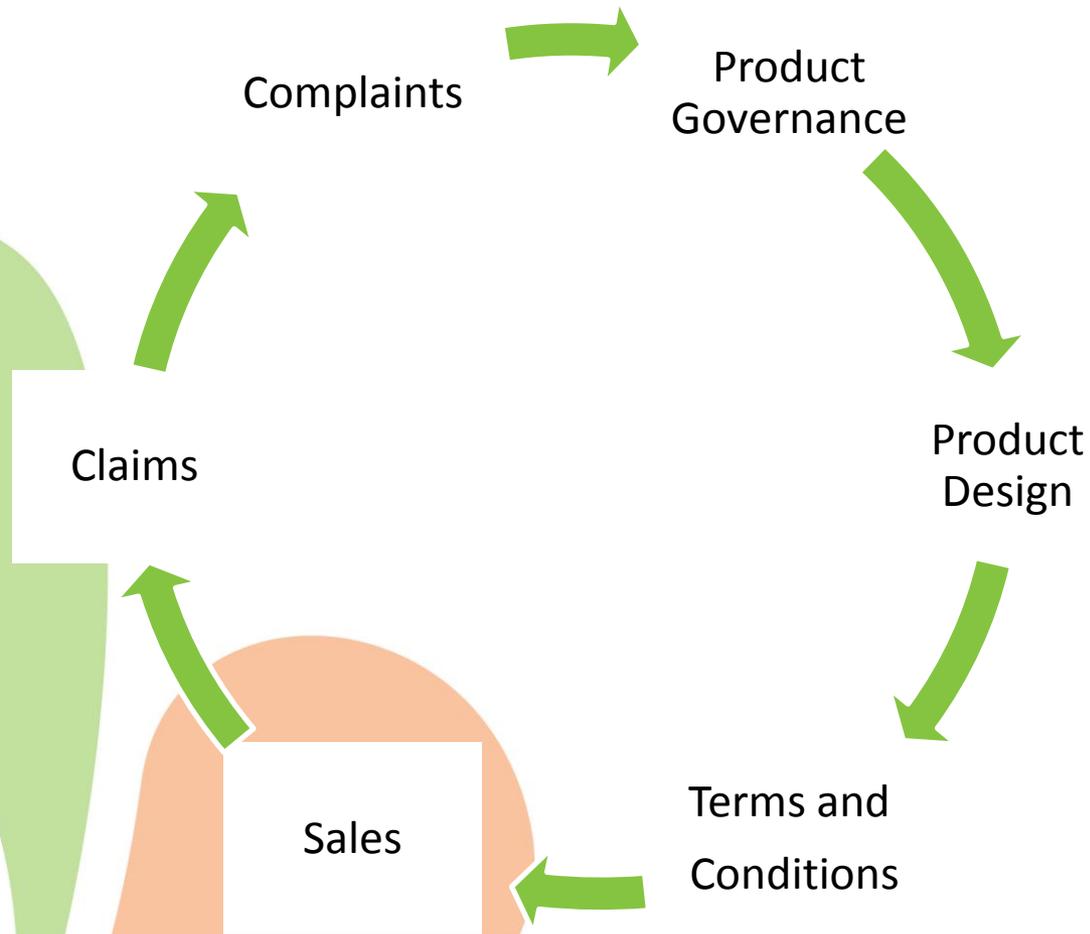
- Competition for add-ons is not effective. There is often a “point of sale advantage” which works against the consumer.
- There is an impact on consumer behaviour
- Poor value for money
- Lack of transparency / comparability

# Issues and Remedies

- Definition of an Add On
- Break the point of sale advantage on GAP
- Banning pre-ticked boxes (opt outs)
- Appropriate and timely information
- Improve the way add-ons are offered via PCWs
- Require firms to publish loss ratios

Ongoing consultations and investigations to design acceptable remedies

# Dave's Do's and Don'ts



# Dave's Dos and Don'ts

- Review staff incentives, targets and measures of success
- Who is distributing your product?
- Account management and compliance hand in hand
- Ensure the topic is on your risk register
- Improve your MI – demonstrate value
- Stay on top of FCA developments
- Avoid Guarantees

# The Opportunities

- Broaden your portfolio of AVPs
  - Membership benefits
  - Helplines
  - Airport parking / lounges
  - Try before you buy
  - Discount at point of purchase
- Market the good news stories
- Commercial Lines better placed

# The Opportunities

- Commercial Lines:
  - H and S Services
  - Risk Management
  - Disaster Recovery / Bus Continuity
  - Board Risks
  - Energy Audit
  - Digital Vaults
- Keeping business legal, keeping them safe, protecting shareholder value.

# Closing Messages

- Distributors – think about where these products sit within your strategy
- Providers – think about your business model
- Its not the product – it is the process
- **Appropriate And Timely Information**
- Don't add value on – add it in
- No more add ons – more added value products