

Added Value Products – Friend or Foe

A Presentation to
The Insurance Institute of
Luton and St Albans

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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



What Is An Add on?

“Optional additional products include any type of good, service or right obtained in connection with, or alongside, a primary product – whether it is financial in nature or not. According to the FCA “optional extras” such as separate baggage cover on a travel policy, or accidental damage on a home insurance policy are optional additional products – these are insurance products purchased in connection with the primary product and customers can be defaulted into the purchase without their knowledge.”

Source: FCA PS15/22 : GI Add-Ons Market Study



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

| Company | AVPs as a % of earnings | Instalment Income as a % of earnings |
|-------------|-------------------------|--------------------------------------|
| 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



Why Us?

Meanwhile.....

At the check out.....



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 :

- It's 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

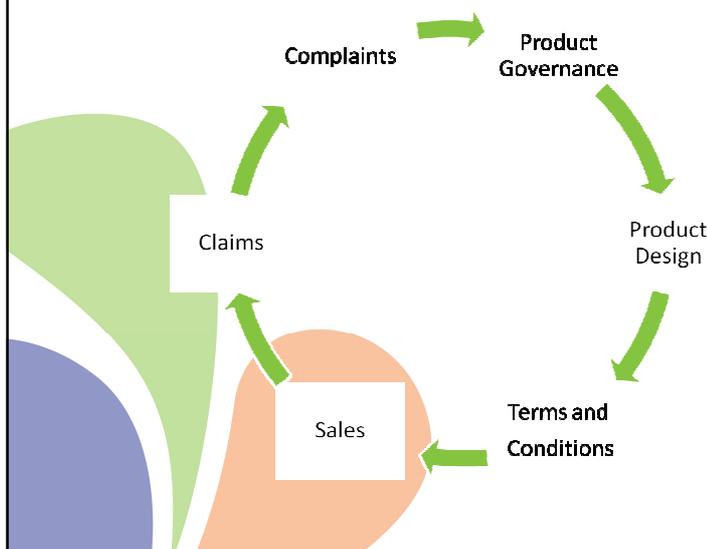
- Definition of an Add On
- Break the point of sale advantage on GAP
- Banning pre-ticked boxes (opt outs)
- Appropriate and timely information
- Improve the way add-ons are offered via PCWs
- Require firms to publish loss ratios
 - Claims ratios? Frequencies? Claims Acceptance Rates? Average Pay Outs? Customer Reviews?

Issues and Remedies

- Bundled products
- Renewal of previous “opt out” policies
- Rules apply to non regulated products sold with GI / FS products
- Ongoing consultations and investigations to design acceptable remedies

Add Ons.....The next PPI Mis- selling scandal?

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
 - Reward Schemes
 - 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
 - Fleet Management App
- 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



Contact Details

Any questions?

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