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General Insurance Pricing Practices
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By email: GIPricingPractices@fca.org.uk

Dear Sir/Madam,

Financial Services Consumer Panel (the Panel) response to the General Insurance (GI) Market Study Interim Report MS18/1.2

The Panel welcomes the opportunity to respond to this Interim Report which found gross levels of consumer harm in the GI home and motor market. We do not believe the harm can be effectively addressed without the Regulator's intervention. As such, we welcome the proposed remedies and believe the FCA could go further in its prescription of automatic upgrades to avoid price walking.

Firms are not only penalising loyal customers with high premiums, even those who have been with their provider for under four years suffer from high prices.¹ The FCA must focus on supply-side remedies to stop the unfair pricing practices highlighted in the report. This will avoid industry first-mover disadvantage and encourage firms to put the consumer at the heart of firm culture. If monitored robustly, the principles of the Insurance Distribution Directive (IDD) should be a preventative measure to remove conflicts of interest and improve firm behaviour in favour of the consumer. As the FCA has recognised, it is not in the customer's best interest to be offered an insurance product that does not provide value.² However, TCF principles, being weaker than those of the IDD, should not be relied upon to enforce the IDD requirements.

While consumers are benefitting from switching provider each year, the onus should not be on the consumer to drive competition in the market. The consumer's time and energy should be considered when removing barriers to switch. We have consistently made the point that being a consumer should not be a full-time job. The FCA should strongly consider the case for going further with automatic upgrades,³ as per the Panel's research which was acknowledged in the Interim Report.⁴ This will likely have a significant impact on the market and prevent consumers losing out.

¹ <https://www.fca.org.uk/publication/market-studies/ms18-1-2-interim-report.pdf>

² *ibid* pg64

³ https://www.fs-cp.org.uk/sites/default/files/automatic_upgrades_position_paper.pdf

⁴ Pg 59 <https://www.fca.org.uk/publication/market-studies/ms18-1-2-interim-report.pdf>

The FCA should be cautious about how effective the introduction of Open Finance will be in boosting competition in this market. While benefits do exist, Big Data and FinTech solutions alone may not solve the issues around consumer inertia. It will inevitably come with new challenges such as algorithmic bias which risks excluding and penalising consumers with protected characteristics, or who are outside the defined risk criteria. It comes with its disadvantages, as the Panel's response to the FCA's Big Data Call for Input explained⁵, including the time it will take to come to fruition, the issues around consumers' data and consent and the lack of incentive created for firms to change harmful business models and behaviours.

It must also be stressed that the FCA's own research finds that £1.2 billion of detriment is being caused to 6 million consumers for every single year the current practices continue. The FCA's data shows that those suffering this detriment are more likely to be older, vulnerable and less comfortable buying products online or changing providers regularly to get the best deal. This means they are far less likely to take-up any Open Finance based service or respond to any information prompt to shop around. In assessing potential remedies, the FCA should also take into account that proposals from the Panel for automatic upgrades would be far quicker to reduce the detriment than Open Finance or information remedies.

Anyone can become vulnerable at any time and the way in which the market is currently operating could be causing vulnerability. It is important that proposed remedies serve *all* consumers and not just those deemed 'vulnerable.'

Yours faithfully

Wanda Goldwag
Chair, Financial Services Consumer Panel

FCA Questions

Q1. Do you have views on the interim findings set out in this report?

It is clear that firms have the upper hand in terms of high demand for these insurance products putting the consumer in a weak position to begin with. Consumers have been suffering from high premiums in this market for many years. The sheer level of harm is alarming and is a clear indication that consumers will continue to lose out unless the FCA intervenes. There is enough evidence of harm for the FCA to implement robust supply-side measures to boost competition and avoid further consumer harm in this market.

⁵ https://www.fs-cp.org.uk/sites/default/files/fscp_response_-_big_data_call_for_input.pdf

Q2: Do you have views on the potential remedies we propose to focus on? What are the potential benefits, challenges and unintended consequences that may arise from these?

FCA approach to remedies

Price walking and switching

Without FCA intervention consumers will continue to be 'price-walked' while firms continue to argue 'first-mover' disadvantage. The Panel supports the proposed supply-side remedies but urges the FCA to avoid too many 'information' remedies aimed at encouraging consumers to switch. Only those consumers likely to switch in the first instance will benefit, not *all* consumers.⁶ Our own research highlighted that relying on consumers to drive competition in the financial services sector is ineffective.⁷

We welcome the FCA's proposal for restrictions on price increases to renewing customers, and a ban on price walking as a GI strategy could be effective. The Panel has long been concerned about the lack of transparency in insurance pricing. The FCA should consider adapting a form of the US model setting three mandatory rating factors in the pricing of motor insurance which are transparent to consumers and these criteria must be the primary drivers for premiums. The Panel believes it is key to get to the heart of insurance pricing models.

The Panel believes that periodic automatic switching could help prevent long term price walking as set out in our research paper.

Automatic renewals

We welcome remedies that give consumers genuine choice but the default must be that there is no 'auto-renewal' unless explicit consent has been given. There should be a requirement that consumers are reminded each year (or whatever the policy period is) that the policy will automatically renew. This reminder must be early enough to allow consumers to shop around in advance of the policy expiring, and include clear information about the changes to the policy cover, and of course, the premium.

We welcome the FCA's recognition that firm transparency and clarity 'is likely to reinforce and support the overall package of remedies.'⁸ The focus should be on simplifying consumer communications by avoiding wordy descriptions and industry jargon.

The FCA's evaluation of the implementation of its GI renewal transparency rules⁹ estimated an average of £185m in consumer savings had been made per year as a result but, relative to the level of consumer harm, more needs to be done. The renewal notices themselves should be clearer on the advantages and disadvantages of auto-renewal. We further believe that firms should inform existing customers at renewal, what a new customer with equivalent characteristics would pay for the same policy. As we have said previously, the FCA should consider whether firms should be required to state

⁶ https://www.fs-cp.org.uk/sites/default/files/automatic_upgrades_position_paper.pdf

⁷ https://www.fscop.org.uk/sites/default/files/fscop_consumers_and_competition_thinkpiece_finalpp_jtl_20170306.pdf

⁸ <https://www.fca.org.uk/publication/market-studies/ms18-1-2-interim-report.pdf>

⁹ <https://www.fca.org.uk/publications/corporate-documents/evaluation-general-insurance-renewal-transparency-intervention>

the last two year's premiums on the renewal notice and be more prescriptive as to how this information is presented for consistency and clarity.

The Panel supports the FCA's intended 'robust supervisory approach' to firms' pricing practices, but would always advocate prescriptive rules and preventative measures which will reduce or stop harm from the outset and encourage better firm behaviour. We note, in this regard, that the FCA has found that very few people would stop buying insurance if there was an increase in price. This puts firms in a powerful position.

Governance

The governance of pricing practices is still a great concern as identified by the FCA's Dear CEO letter,¹⁰ so having firms provide price differentials for new and renewing customers over the last 12 months may drive better firm behaviour. This is alongside the other workstreams and initiatives underway including the Senior Managers and Certification Regime (SMCR), Insurance Distribution Directive (IDD) requirements, the enhanced GI Distribution Chain guidance and the GI Value measures work. The Panel supports the strengthening of product governance rules to apply to all products rather than a specific category which should positively impact firm culture.¹¹

Open Finance

As we have said in our Automatic upgrades paper,¹² it is debatable that Open Finance and other Fin-Tech competition remedies will deliver a tech-driven nirvana that will address the harm to consumers of staying in poor value products, when better ones are offered by their existing providers. There is an emerging new market in automated shopping around and switching services, but new generation services based on old-style business models will not serve consumers any better. Complex and opaque services, lengthy terms and conditions, and complex business models will not lead to better outcomes for consumers or a need for firms to change their behaviours.

The Panel remains concerned about the risks of algorithmic bias which excludes some on the basis of illegal criteria.

Q3: Do you have views on the potential remedies that we propose not to focus on? What are the potential benefits, challenges and unintended consequences that may arise from these?

This assessment regarding multi-year contracts and a single switching and renewal period for all consumers seems reasonable.

¹⁰ <https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-fca-expectations-general-insurance-firms-undertaking-pricing-activities.pdf>

¹¹ Pg 59 <https://www.fca.org.uk/publication/market-studies/ms18-1-2-interim-report.pdf>

¹² https://www.fs-cp.org.uk/sites/default/files/automatic_upgrades_position_paper.pdf

Q4: Do you think there are other remedies that we should be considering? If so, what remedies and how do you think they would address the harm we have identified?

The change in the way that insurance is purchased has created a mismatch between what consumers expect from insurance and what it actually delivers to them.¹³ The FCA should be aware of the impact price comparison websites (PCWs) have on the market and broader pricing remedies.

It is well known that PCWs have created a risk of consumers making decisions on the basis of price alone. The CMA's Digital Comparison Tools (DCT) Market Study found that *'a lack of transparency about how products were ranked may harm consumers by causing them to make poor decisions about which products to... purchase.'*¹⁴ As we have said before, for DCTs to work properly for consumers, they need to be truly independent with no commercial relationships.¹⁵ Consumers should also be able to compare products, including key features other than price, on a single page. The Panel feels that quality standards should be established for PCWs and the FCA should consider its role in this, taking learnings from other sectors e.g. the energy sector.

Disadvantages of Open Finance and information-based switching nudges

The FCA should consider that information-based switching prompts or Open Finance remedies might see some of the gains from consumer-switching captured by PCWs or other intermediaries. As the CMA noted in its investigation into the motor insurance market *"the degree to which the benefits of competition are being passed to consumers depends also on the nature of competition in the PCW market itself. If the PCW market is competitive, then the benefits of increased provider-to-provider (or inter-brand) competition will flow through to retail consumers; but if it is not, the increased competition among PMI providers on PCWs is likely to be associated not with lower consumer prices but with higher commission fees, higher PCW profits, higher levels of advertising and higher PMI premiums."*¹⁶

The CMA analysed PCW profitability and found that the PCWs were highly profitable, with aggregate operating margins around 25% and low capital costs. This *"indicated that the full benefits of inter-brand competition might not be passed on to consumers."*¹⁷ There may be an increase in commission payments and an increase in marketing costs for existing PCWs and the new intermediaries which will help consumers use Open Finance to compare and switch products.¹⁸ This will mean that these intermediaries will capture the benefits of enhanced competition, rather than it accruing to consumers. Indeed, it could lead to pressure for greater exploitation of loyal customers in order to fund this commission and marketing costs.

¹³ <https://www.fairerfinance.com/assets/uploads/documents/Fairer-Finance-Misbuying-Insurance-Research-Report.pdf>

¹⁴ <https://www.gov.uk/government/publications/digital-comparison-tools-summary-of-final-report/digital-comparison-tools-summary-of-final-report>

¹⁵ https://www.fs-cp.org.uk/sites/default/files/fscp_response_to_cma_loyalty_penalty.pdf

¹⁶ CMA (2014), [Private Motor Insurance Investigation – Final Report](#)

¹⁷ CMA (2014), [Private Motor Insurance Investigation – Final Report](#), Para 8.7-8.8

¹⁸ Snoop Dogg doesn't work for free - 4 big comparison sites spend £110 million on advertising <http://www.thisismoney.co.uk/money/bills/article-2933401/Energy-price-comparison-sites-spend-110m-annoying-adverts.html>

We have previously noted that if DCTs/PCWs had a duty of care towards their customers this would mean:

- no conflict of interest
- no profit at the expense of the customer without their knowledge and consent
- loyalty to the customer;
- a duty of confidentiality, preventing firms from taking advantage of information gained from the customer.¹⁹

This would prove a better outcome for consumers overall.

Q5: Are you aware of potential changes or innovations in the home and motor insurance markets that may address the harm we have identified? If so, what are these and how will they address the harm and are there any potential unintended consequences?

No comment.

¹⁹ https://www.fs-cp.org.uk/sites/default/files/fscp_response_cma_digital_comparison_tools.pdf