

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

GI Pricing Practices Market Study Team
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

21 January 2021

By email: cp20-19@fca.org.uk

Dear Sir/Madam

The Financial Services Consumer Panel (the Panel's) response to General Insurance (GI) Pricing Practices Consultation on Handbook Changes

The Panel welcomes the opportunity to respond to the FCA's GI Pricing Practices consultation and fully supports the FCA's bold pricing intervention in the home and motor insurance market, and the remedies more broadly. The Panel has some concerns however that the remedies will not apply to small businesses especially given the huge impact the coronavirus pandemic has had on them this past year. The issues SMEs face and their significant contribution to the UK economy have been brought to the fore and the FCA should consider how excluding SMEs from the potential benefits of these proposals could impact them.

The market study and the proposed remedies confirm that the prices consumers pay for GI products are made up of a large number of complex, opaque components. The questions firms have asked FCA during the consultation further demonstrate the complex relationship between marketing, distribution and overall value for new and existing consumers.

The Panel shares the FCA's vision that the relationship between price and quality needs to be more transparent to enable consumers to exert influence through their choices and actions. The proposals represent an important step in the right direction, but will not, on their own, deliver all of the outcomes we want to see:

- Clarity on the relationship between risk, cover and price
- Clarity on the cost of add-ons and distribution
- Incentives on insurers to improve efficiency and claims performance
- Consumers receiving the cover they can reasonably expect
- The need to ensure that products are not substantially changed as an instant solution to a change in claims

With these outcomes in mind, we'd urge the FCA to consider how it can use its powers to improve transparency, building on the lessons from existing GI value measures pilots and work in other areas (e.g. the reports published by pension scheme IGCs and investment funds). The data the FCA proposes to collect will improve its scrutiny of firms, but publication will improve accountability and consistency to consumers.

It is well known that price comparison websites (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.*¹' The Panel would expect a much closer scrutiny of PCWs going forward, to ensure the consumer harm identified in the findings from the FCA's thematic review of 2014² are not repeated, as the recent portfolio letter to PCW firms seems to, worryingly, indicate.³ 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, as stated in our response to the GI Interim Market Study Report.⁴

We feel that as the FCA moves towards becoming an outcomes-based regulator it should establish clear metrics to determine the impact of any remedies with a focus on whether consumer harm has diminished and whether competition for new business remains strong in the market as the FCA predicts.

The Panel suggests the following should be measured to ensure that the pricing remedies tangibly help make the insurance market work well for consumers and protect them from further harm:

1. The ratio of renewal price to equivalent new business price should fall to 1 straight after the rules go live, so should be monitored
2. Actual new business and renewal prices to show which component of the ratio is moving
3. Trends in new business prices in particular, to ensure strong market competition
4. The percentage of customers granted lower prices on negotiation
5. The experience of vulnerable consumers
6. The number of customers switching to better deals or alternative providers

We also would like the FCA to commission research on the level of insurance take-up of non-mandatory insurance, such as house insurance, and monitor how that changes over time as these remedies are put in place.

These factors should create a better picture of overall value to meet wider FCA objectives. 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.⁵

We would like FCA to publish alongside the final rules the dashboard of measures and metrics against which it will judge the effectiveness of the remedies. The FCA can then monitor how the market is adjusting, get early insight on any remaining pockets of harm or consumer risk, and focus supervisory resources accordingly.

¹ <https://www.gov.uk/government/publications/digital-comparison-tools-summary-of-final-report/digital-comparison-tools-summary-of-final-report>

² <https://www.fca.org.uk/news/press-releases/price-comparison-websites-failing-meet-fca-expectations>

³ <https://www.fca.org.uk/publication/correspondence/portfolio-letter-price-comparison-webiste.pdf>

⁴ <https://www.fs->

[cp.org.uk/sites/default/files/final_fscp_response_to_gi_interim_market_study_report_20191115.pdf](https://www.fs-cp.org.uk/sites/default/files/final_fscp_response_to_gi_interim_market_study_report_20191115.pdf)

⁵ <https://www.fca.org.uk/publication/market-studies/ms18-1-2-interim-report.pdf>

While 2 years might be appropriate for a full, published post-implementation review, the FCA will need to work in a way that exposes and remedies problems with the rules or firms' compliance *much* more quickly than that.

Yours faithfully

Wanda Goldwag
Chair, Financial Services Consumer Panel

Consultation Questions

Q1: Do you have any comments on the proposed implementation period?

We agree with the proposed implementation period.

Q2: Do you have any comments on the possible impact of our proposals on people with protected characteristics under the Equality Act 2010?

The FCA should monitor the datasets used by firms to ensure that consumers with protected characteristics are treated fairly, especially as firms adjust to the new pricing requirements in home and motor, and act quickly when harm is identified (e.g. any move by firms to change product terms and cover in ways that might disadvantage particular groups).

Q3: Do you have any comments on our proposal to apply the rules on which we are consulting to firms based in Gibraltar and firms in the temporary permissions regime?

The Panel agrees with the proposal.

Q4: Do you have any comments on our proposal to ban price walking?

The Panel agrees with the proposal. Supply side remedies were the best way to reduce consumer harm in this market. If monitored robustly, the principles of the Insurance Distribution Directive (IDD)⁶ should be a preventative measure to remove conflicts of interest and improve firm behaviour in favour of the consumer. However, we do not believe this package will on its own deliver a GI market that always works well for consumers. More work is required on product value and transparency across *all* GI products.

Q5: Do you have any comments on how our proposal would apply to products that are no longer actively marketed?

No comment.

Q6: Do you have any comments on our proposals to address practices that aim to frustrate the intended outcomes of the pricing remedy?

We welcome the proposals but the FCA must ensure that adequate resource is allocated to the early supervision of these remedies to ensure all firms are acting in the consumers' best interests as per ICOBS 2.5-1R.

⁶ ICOBS 2.5-1R

Q7: Do you have any comments on our proposal to require senior manager confirmation that the firm is complying with the pricing remedy?

As long as the FCA is willing and able to take action for non-compliance that contributes to consumer harm, where appropriate, we are content with the proposal.

Q8: Do you have any comments on our proposal for firms to retain documentation to show how they are satisfied that their pricing model complies with our rules?

Q9: Do you have any comments on our proposals for multiproduct discounts?

Q10: Do you have any comments on our proposal to apply the pricing restriction rules to all stages of the price setting chain?

Q11: Do you have any comments on our proposal to apply the pricing restriction rules to additional products?

The Panel agrees with the proposals in Q8-11.

Q12: Do you have any comments on our proposal to enhance the product governance requirements concerning product value?

The opaque nature of price, relative to risk, makes it difficult for consumers to determine whether insurance products are offering good value for money. The reporting requirements and value measures data should improve this issue and drive better outcomes for the consumer.

As we have said earlier, the FCA must be ready to act when it identifies signs of firms not acting in the consumer's best interests from the data received and we hope that the FCA Supervision teams are adequately resourced *and trained* to do this effectively.

Q13: Do you have any comments on our proposal to apply the product governance rules to products regardless of when they were launched?

The Panel agrees with the proposal.

Q14: Do you have any comments on how we propose to apply the product governance rules to non-investment insurance products and products sold as part of a package?

No comment.

Q15: Do you have any comments on our proposals for ongoing product reviews and remedial actions firms must consider where it is identified that the product is not providing fair value?

Yes, this seems reasonable.

Q16: Do you have any comments on our proposed requirements for product distributors?

Q17: Do you have any comments on our proposals for premium finance?

Q18: Do you have any comments on our proposals for senior manager responsibility for compliance with our proposed remedies?

The Panel has no comment for Q16-18. The FCA's objectives here seem clear.

Q19: Do you have any comments on our proposals to require firms to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing?

We agree with the proposals and urge the FCA to exercise assertive supervision to ensure that vulnerable consumers are quickly identified, and offered a full range of channels available to them through which to cancel their policy should they wish to do so.

Providers operating online only must provide excellent communication channels online which are adequately resourced for consumers to reach them quickly when needed, and the FCA should monitor this.

Q20: Do you agree with our proposed rules and guidance in relation to auto-renewal?

The Panel agrees with the proposals but would urge the FCA to ensure that firms give sufficient prominence to the auto-renewal information for consumers, and learn from the poor behaviour of some firms with the disclosure of the previous year's premium requirement at renewal.

Q21: Do you agree with our proposal to apply the auto-renewal measures to all types of general insurance?

Yes. We also feel that GI providers have had long enough to get systems ready for potential changes to FCA rules.

Q22: Do you agree with our proposed scope for the reporting requirements?

The Panel agrees with the current scope but hopes the FCA will be robust in its value assessment of non-motor and home insurance products also, and not hesitate to publish any relevant data to drive up standards in the market when necessary.

Q23: Do you agree with our proposed reporting granularity?

Yes.

Q24: Do you agree with the list of metrics we propose to ask firms to report?

Yes, however as we have said in our response to the GI Value Measures Reporting Consultation⁷, we believe that claims settlement times should be considered as an indicator of overall value too. This is a very important issue for consumers and SMEs. The FCA acknowledges the 'considerable impact' delays can have on SMEs finances and business continuity in its thematic review⁸ which is why the Panel feels SMEs should benefit from the remedies proposed in this consultation.

Q25: Are there any other metrics we should consider asking firms to report?

Please see our response to Q24.

⁷ https://www.fs-cp.org.uk/sites/default/files/fscp_response_cp19_8_-_gi_value_measures_response.pdf

⁸ <https://www.fca.org.uk/publication/thematic-reviews/tr15-06.pdf>

Q26: Do you agree with our proposals on reporting responsibility for insurers and intermediaries?

Yes. Close monitoring will be required to see what may be necessary for other types of insurance and the FCA must act quickly where necessary to avoid the high levels of consumer harm that have been displayed in the home and motor insurance market.

Q27: Do you agree with our proposals on reporting periods and frequency?

Yes.

Q28: Do you have any comments on our cost benefit analysis?

Q29: Do you have any comments on the way we have estimated the impact of the pricing remedies?

Q30: Do you have any comments on the way we have estimated the impact of the non-pricing remedies?

Q31: Do you agree with the assumptions we have made in our analysis?

We have no comment for Q28-31.