Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Financial Conduct Authority
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Dear Awhi,

CP15/41 Increasing transparency and engagement at renewal in general insurance markets

The Financial Services Consumer Panel welcomes the opportunity to comment on the proposals set out in CP15/41.

Consumers' ability and willingness to shop around between products and providers varies markedly between sectors, and is, at best, limited. This casts serious doubt on the assertion of competition authorities and regulators that consumers can exert competitive pressure on firms so that their needs or preferences are well-served, and the overall functioning of the market improved.

Switching provider is often used as a key metric to assess whether or not a market is working well. People can often get a better price in markets with frequent opportunities for switching, e.g. car or home insurance, although whether they get better value and therefore exert competitive pressure on the market is for debate. However, for some GI products, such as health insurance and some pet insurance, switching can disadvantage an existing customer, because a new contract will not cover the same conditions as the old one.

Efforts to make retail financial services work better often focus predominantly on price and price comparison. While it is certainly important that consumers can easily understand and compare the costs of buying GI products, consumers may value other features equally, or even more highly, than cost. Comparing GI products on cost alone could leave consumers switching to a cheaper product which is less suitable for their needs, or that doesn't pay out at all.

We would like to see much better and clearer communications with customers at the time of applying for an insurance policy and in any renewal notices. Communications should leave consumers feeling the insurer has their interests at heart. Terms and conditions should be shorter, clearer, comprehensible and user friendly. They should be readable on mobiles and other smart devices. Firms that are not providing clear terms with their insurance policies are not providing information which is "fair, clear and not misleading".

There is a much greater need for firms to treat consumers fairly. When consumers stay with a GI provider, they are a known risk and should be priced accordingly. It follows that, for those who have not claimed on their policies, long-standing consumers should see premiums go down, not up. There are too many situations where, on receipt of a renewal notice, consumers get a cheaper quote and can then negotiate with their existing provider for a better deal. Providers should offer their best price automatically to existing customers. That they don't suggests they are exploiting the inertia of loyal customers who do not have the time or energy to shop around, or who trust their provider to treat them fairly.

If there are long-standing customers who no longer fit a firm's business model, the firm should help the customer find another insurer who can help.

The Panel believes that all financial services providers should have a duty of care towards their customers. This would oblige brokers and providers to act with the best interests of the customer in mind, for example, price insurance policies based on risk, and not rely on customer inertia to offer higher renewal quotes.

At the very least, firms should inform existing customers at renewal what a new customer with equivalent characteristics would pay for the same policy. This might encourage firms to treat their long standing customers more fairly. It is the fact that loyalty isn't rewarded that contributes towards the lack of trust in the insurance sector and to opportunistic fraud where people make spurious or inflated claims in order to 'get some money back'[1].

The Panel is concerned at the increasing use of continuous payment authorities (CPAs) to pay for insurance. CPAs do not offer the same guarantee as Direct Debits and give the company taking the payment more flexibility about when and how much it takes from a customer's bank account. When consumers give their card details, they may be unaware that they have given authority for future payments as well as the immediate one. At the very least, where auto-renewal is by CPA, the renewal notice should be very clear on the payment method and the date payment will be taken, and should also provide the card details used to set up the CPA. Details of how to cancel the CPA should also be included.

Answers to specific questions

Q1: Do you agree with our proposal that firms should disclose last year's premium on renewal notices?

We support the proposal to show the previous year's premium on the renewal notice. However we believe firms should show the previous two year's premiums. Otherwise it is likely that firms will inflate their prices this year, in order to not show a large price increase at renewal next year.

We believe that consumers need a better explanation of what 'auto-renewal' is at the original point of sale. Consumers should have to opt-in to auto-renewal and the renewal notices themselves should be clearer on the advantages and disadvantages of auto-renewal.

In addition, we believe that firms should inform existing customers at renewal, what a new customer with equivalent characteristics would pay for the same policy.

Q2: Do you agree with our proposal that the premium displayed should be the premium the consumer started the year with, but that firms can include other information, such as mid-term adjustments?

Yes.

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494105/PU1817_Insurance_Fraud_Taskforce.pdf

Q3: Do you agree with our proposal that firms should also provide information to consumers to check the proposed policy continues to meet their needs and to shop around?

Some people are wary of shopping around as they worry about the impact of trying to buy a different policy. Consumers worry about data sharing between companies and may not understand how a refusal of cover may affect their existing premium or policy.

As we say above, there are also some GI policies where there are no advantages to switching. Firms should ensure they do not provide a 'one-size fits all' approach to all of their policy renewal notices.

Q4: Do you have any comments about this additional disclosure? Do you have any suggestions for the proposed message to consumers?

We believe five years is too long to wait to alert a customer that they've auto-renewed a number of times and that shopping around could save them money. The price difference between year one and year five could be large, but only the comparison to the previous year (or two, if the FCA accepts our recommendation) would be shown on the renewal notice. We would like to see the evidence demonstrating no consumer detriment until five years have passed. Without this evidence, we would prefer to see the additional disclosure included after three years.

Firms should also be required to advise the customer that auto-renewing for several years may mean that the current policy no longer meets their insurance requirements - their circumstances and needs may have changed significantly over that period of time.

More work should be done by firms to identify vulnerable customers who may not be in a position to shop around. These customers may be disadvantaged by auto-renewal even though it is the only realistic option available to them.

Q5: Do you have any comments on how the disclosure should be presented to the customer?

We would like to see much better and clearer communications with customers, both at the time of applying for an insurance policy and in any renewal notices. As we said in our response to the FCA's Smarter Communications discussion paper, disclosure can only be effective if firms provide information consumers can readily understand. Consumers prefer to obtain information in different ways, so a single way of presenting facts (graph, table or text) and one medium (paper or digital) may not suit everyone.

Q6: Do you agree with the proposal to apply the measure to all situations where a general insurance policy is renewed with a retail consumer with the exception of policies with a term of less than a year?

Yes.

Q7: Do you have any comments about our proposed implementation of 1 January 2017 for the disclosure measures?

We think the proposals should be implemented sooner, to avoid the risk of firms increasing premiums in advance of the deadline. They have the information readily available, so a long lead time should be unnecessary. Alternatively, firms should have to disclose the previous two years' premiums on the renewal notice.

Q8: Do you have any comments on the proposed non- Handbook guidance?

No comments

Q9: Do you have any comments on our cost benefit analysis (CBA)?

No comments

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel