FINANCIAL CONDUCT AUTHORITY

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FINAL NOTICE

To:	**Lloyds Bank General Insurance Limited;** **St Andrew's Insurance Plc;** **Lloyds Bank Insurance Services Limited; and** **Halifax General Insurance Services Limited.**
Reference Numbers:	**202091;** **202932;** **310738; and** **309513.**
Address:	**25 Gresham Street, London, EC2V 7HN;** **1 Lovell Park Road, Leeds, LS1 1NS;** **Tredegar Park, Duffryn, Pencarn Way, Newport, Gwent, NP10 8SB; and** **Trinity Road, Halifax, West Yorkshire, HX1 2RG.**
Date:	**8 July 2021**

1. ACTION

1.1. For the reasons given in this Final Notice, the Authority hereby imposes on Lloyds Bank General Insurance Limited, St Andrew's Insurance Plc, Lloyds Bank

Insurance Services Limited and Halifax General Insurance Services Limited (together "LBGI") a financial penalty of £90,688,400 pursuant to section 206 of the Act.

1.2. LBGI agreed to resolve this matter and qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £129,554,914 on LBGI.

2. SUMMARY OF REASONS

2.1. Between 1 January 2009 and 19 November 2017 (the "Relevant Period"), LBGI breached Principle 3 (Management and control) and Principle 7 (Communications with clients) of the Authority's Principles for Businesses (the "Principles") in relation to the way it communicated with home insurance customers at renewal. Home insurance is a type of insurance product that protects against the cost of repair or rebuilding of property and/or replacing belongings. There are three main types of home insurance: buildings insurance, contents insurance and combined buildings and contents insurance.

2.2. LBGI is a large provider of insurance products, including home insurance. In the final year of the Relevant Period, over 18 million home insurance policies were written. In 2017, LBGI was the second largest provider of home insurance in the UK, representing approximately 12.29% of the UK home insurance market. The total amount spent by its customers in 2017 on home insurance premiums was approximately £713m.

2.3. In the Authority's 'General pricing practices: Final Report' published in September 2020, the Authority noted that typically, insurance premiums increased each year on renewal as insurers sought to recover any losses that may have been incurred by the insurer offering an introductory discount. The effect of this is that existing policyholders will likely have paid more at renewal than a new customer presenting an equivalent insurance risk, sometimes significantly so, unless they shopped around.

2.4. Over the life of a home insurance policy, customers may receive a number of documents about their policy. Home insurance customers can be expected only to decide whether to renew an existing home insurance policy once a year, towards the end of the policy term. It is therefore important that each communication sent to a customer is clear, fair and not misleading to enable the customer to make an informed decision whether to renew their existing home insurance policy. This is particularly important where the insurance contract automatically renews at the end of the policy term in the event that the customer takes no action.

2.5. However, during the Relevant Period, LBGI sent millions of renewal communications to home insurance customers that contained language which was not clear, fair and not misleading. Specifically:

(1) LBGI sent communications to customers, across a number of different products, which included language to the effect that they were receiving a "competitive price" at renewal. Policies were renewed in respect of approximately 7.8 million (87%) of renewal communications containing this language. For the majority of home insurance customers who received these communications it was likely that the premium quoted to them at renewal would have increased when compared to their prior premium. The renewal premium was also likely to have been higher than the premium quoted to customers that chose to switch insurance provider or who were new home insurance customers to LBGI. This was particularly likely to be the case for customers who renewed repeatedly. LBGI did not substantiate the "competitive price" language included in the renewal communications by taking steps to check that it was accurate.

(2) As a result of errors in computer-based coding, LBGI informed approximately 500,200 customers that they would receive a discount based on their "loyalty", based on the fact they were a "valued customer", or otherwise on a promotional or discretionary basis, where the described discount was not applied and was never intended to apply. This equates to approximately 1.2 million renewals, with approximately 1.5 million communications sent by LBGI.

2.6. LBGI had processes in place throughout the Relevant Period that sought to ensure the compliance of its home insurance communications with regulatory requirements. These included a requirement to ensure that claims made in financial promotions, including renewal communications, were substantiated so that they were clear, fair and not misleading. Among these processes were

‘Periodic Reviews’ which required a regular review of all active promotions to confirm that the offering in the communication was still valid, alongside a series of questions around issues such as changes in legal and regulatory requirements, feedback and complaints.

2.7. However, weaknesses in LBGI’s systems and controls in relation to the Periodic Reviews meant that, despite repeated opportunities, they never identified that the “competitive price” language in renewal communications during the Relevant Period was not substantiated.

2.8. Regardless of the original purpose for the historic inclusion of “competitive price” language in renewals correspondence prior to the Relevant Period, the Periodic Reviews and outcome testing undertaken by LBGI during the Relevant Period failed to properly assess whether the “competitive price” language was capable of substantiation (i.e. whether the reference to cover offered in the renewal quote being at a “competitive price” was accurate). This meant that the review process was not fit for purpose as it failed to prevent the deployment, over many years, of communications to millions of customers that included language that was not clear, fair and not misleading, without effective challenge. LBGI persistently failed to adequately identify the inclusion of unsubstantiated language across its renewal correspondence during the Relevant Period.

2.9. LBGI rewrote renewal communications during the Relevant Period, starting with its products with the largest customer base. Its rewritten communications did not contain unsubstantiated “competitive price” language. Despite this, no consideration was given to whether customer renewal communications for other home insurance products continued to include any such language.

2.10. As a result of these serious and persistent failings in the Periodic Review process “competitive price” language continued to be included in renewal communications throughout the Relevant Period. Although LBGI’s renewal communications were rewritten during the Relevant Period, as a result of which “competitive price” language began to be removed from 2009 onwards, it was nevertheless present in a substantial number of renewal communications throughout the Relevant Period despite repeated missed opportunities to address it. The total number of communications that included “competitive price” language reduced from 2012 onwards, with a 30% reduction in 2013.

2.11. The effect of these weaknesses was that LBGI continued to send renewal communications which stated that customers were receiving a "competitive price" when LBGI had not taken steps to check whether that claim was accurate, and it is likely that the premium quoted to the majority of customers would have increased when compared to their prior premium and was likely to have been higher by comparison to the premium quoted for a customer who chose to switch provider or who was a new customer to LBGI. This was capable of discouraging customers from seeking insurance elsewhere, which they would have been likely to obtain at a cheaper price.

2.12. In January 2012, LBGI's review of call scripts identified that certain language contained in renewal communications to home insurance customers, including language that referred to the "competitive price" offered to the customer at renewal, was capable of overstating the offering made to the customer in certain circumstances. LBGI removed the language by September 2012. However, neither on this occasion, nor any other during the Relevant Period did LBGI undertake an holistic consideration of whether similar language also appeared in communications or call scripts for other products.

2.13. In addition, the computer-based coding used by LBGI to automatically complete parts of template renewal communications was, in certain instances, applied incorrectly. This meant that approximately 1,509,435 template renewal communications were sent to approximately 500,211 customers containing language that was either never intended to be included given the customer's personal circumstances, or which was intended to have been removed earlier in the Relevant Period.

2.14. The failings included in this Notice relating to the identification and rectification of the erroneous discount language were only recognised by LBGI during the course of the Authority's investigation and reflect LBGI's serious and persistent weaknesses in identifying erroneous language in its customer communications.

2.15. The Authority considers LBGI's failings to be serious for the following reasons:

(1) The breaches revealed serious and persistent weaknesses in LBGI's procedures relating to the review of home insurance renewal communications;

(2) The breaches persisted for a long period of time without being properly identified and fully rectified by LBGI and continued as the Authority was taking action concerning the lack of competition in the market and the need for customers to shop around if they were not to pay more for their insurance than necessary; and

(3) The breaches created a potential for harm to LBGI's existing customers.

2.16. The Authority has also taken the following factors into account:

(1) The Authority has not established whether individual customer behaviour would have been different had the communications been clear, fair and not misleading;

(2) During the Relevant Period, LBGI took steps to make positive changes to customer communications;

(3) During the Relevant Period, LBGI voluntarily participated in work with the Authority relating to customer engagement at renewal;

(4) Since the end of the Relevant Period, LBGI has taken steps to improve renewal communications including by undertaking a number of projects resulting in the comprehensive re-writing of renewal communications, and participating in work with the Authority relating to home insurance, customer communications and engagement;

(5) LBGI engaged openly with the FCA in addressing the breaches and has voluntarily made payments of approximately £13,605,000 to customers that received renewal communications that incorrectly referred to the application of a discount when none was applied;

(6) The breaches were committed inadvertently; and

(7) LBGI has cooperated significantly with the Authority's investigation.

2.17. The Authority hereby imposes on LBGI a financial penalty of £90,688,400 pursuant to section 206 of the Act.

3. DEFINITIONS

3.1. The definitions below are used in this Notice:

"the Act" means the Financial Services and Markets Act 2000;

"the Authority" means the body corporate previously known as the Financial Services Authority and renamed on 1 April 2013 as the Financial Conduct Authority;

"BoS" means Bank of Scotland PLC;

"BRT" is the Business Retention Team (known as the Customer Relationship Team or "CRT" from around July 2016);

"competitive price" language means various iterations of wording relating to customers being offered their cover at a 'competitive price' that appeared in renewal communications issued by LBGI, including the phrases 'competitive price', 'great quote', 'great price', 'great renewal quote' and 'competitive rate';

"C&G" means Cheltenham & Gloucester PLC;

"CRAT" is LBGI's Communications Regulatory Approval Team which provided first line risk approval for renewal communications, with a view to ensuring that financial promotions met regulatory requirements, and undertook outcome testing;

"discount" language means various iterations of wording relating to customers receiving a discount based on their "loyalty", based on the fact that they were a "valued customer", or otherwise being applied on a promotional or discretionary basis;

"GBM" means the Group Brands and Marketing function of LBG;

"Market Study Interim Report" is an Interim Report of a Market Study titled "General insurance pricing practices: Interim Report" published by the Authority in October 2019;

“Market Study Final Report” is the Final Report of the Market Study titled “General insurance pricing practices: Final Report” published by the Authority in September 2020;

“GI” means the General Insurance division of LBG;

“HGISL” means Halifax General Insurance Services Limited;

“ICOBS” means Insurance: Conduct of Business sourcebook in the Authority’s Handbook;

“IT Logic” means computer-based coding used to generate template communications for each customer. This would automatically complete sections of the template letters that would follow a formulated template, but were intended to vary insofar as the customer’s circumstances and policy details differed;

“LBG” means Lloyds Banking Group;

“LBGI” means the regulated entities operated by Lloyds Banking Group that are the subject of this Notice, namely: Lloyds Bank General Insurance Limited, St Andrew’s Insurance plc, Lloyds Bank Insurance Services Limited and Halifax General Insurance Services Limited and which operate as a separate subgroup independent of the ringfenced retail bank within LBG;

“LBGIL” means Lloyds Bank General Insurance Limited, formerly Lloyds TSB Bank General Insurance Limited until 23 September 2013;

“LBISL” means Lloyds Bank Insurance Services Limited, formerly Lloyds TSB Insurance Services Limited until 23 September 2013;

“LBISDL” means Lloyds Bank Insurance Services (Direct) Limited;

“Lloyds Bank” refers to Lloyds Bank Plc during the Relevant Period from 24 September 2013;

“Outcome Testing” means reviews carried out to assess the outcome of an interaction between LBGI and customers to determine whether an appropriate solution has been achieved;

"Principles" means the Principles set out in the Authority's Principles for Business Sourcebook;

"Relevant Period" means 1 January 2009 to 19 November 2017;

"Relevant Product" means an LBGI home insurance product where customers received a renewal communication containing "competitive price" language, or erroneous discount language;

"response letter" means the final response letter sent in certain circumstances (following investigation) to customers of LBG who had made a complaint about the price quoted to them at renewal;

"Scripts Assurance Report" means the Final Assurance Report titled "Sales & Retention Scripts in virtual integrated call centre", dated 16 January 2012;

"St. Andrew's" means St Andrew's Insurance plc;

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber)

4. FACTS AND MATTERS

Background

4.1. LBGIL, St Andrew's, LBISL and HGISL are each wholly owned subsidiaries of LBG. LBGI is a large provider of insurance products. The following entities were involved in LBGI's home insurance operations during the Relevant Period:

(1) LBGIL;
(2) LBISL;
(3) LBISDL;
(4) Lloyds Bank;
(5) C&G;
(6) HGISL;
(7) BoS; and
(8) St Andrew's.

4.2. During the Relevant Period, LBGIL and St Andrew's were the principal entities that underwrote home insurance on LBGI's behalf. LBISL was an authorised intermediary for LBGIL and third-party underwriters. Lloyds Bank, BoS, and C&G offered insurance products (including home insurance) through Lloyds Bank's branch network, often in connection with other banking services. LBISDL employed the staff that sold insurance underwritten by LBGIL. HGISL operated as an intermediary which sold and renewed home insurance policies underwritten by St Andrew's and third-party underwriters.

4.3. LBGI's home insurance business sat within the General Insurance function of LBG between 2009 and 2011. This included all the business functions that dealt with home insurance on a day-to-day basis. LBGI's Marketing department was primarily responsible for customer communications with home insurance customers during this period. During 2012, LBG reorganised into a divisional structure following which General Insurance marketing moved from the General Insurance function to GBM in 2013. From 2013 to the end of the Relevant Period, GBM was primarily responsible for customer communications with home insurance customers. Other functions within LBGI, including Legal, Compliance and Risk also performed roles associated with the review and approval of customer communications, including those sent to home insurance customers at renewal.

4.4. As LBGI was part of LBG throughout the Relevant Period, it was also subject to certain group-level policies, procedures and oversight. For example, the home insurance business within LBGI was subject to LBG's Customer Treatment Policy throughout the Relevant Period, which sought to set standards relating to the treatment of customers for all areas of LBG, including home insurance customers of LBGI (discussed at paragraph 4.68 below). In addition, in some instances, certain group-wide functions performed roles in reviewing and approving customer communications for home insurance customers. For example, from 2012 to the end of the Relevant Period, the Risk function had responsibility for compliance and conduct risk advice.

The requirements on home insurers and relevant FCA publications

4.5. A general insurance (or "GI") product, such as home insurance or motor insurance, is important for a consumer and provides them with protection when things go wrong. A home is likely to be the most significant purchase most people make. Home insurance describes two types of insurance, for buildings and contents. Home insurance protects a consumer's property and/or possessions and is important given the likely significant costs to repair the fabric of a building (in the event of a buildings claim) or replacement of possessions (in the event of a contents claim) that might result from an unexpected event like a fire, flood or burglary. The average home and contents insurance claim for LBGI in 2017 was between £3,000 and £3,499.

4.6. The home insurance market is large: In 2017, over 18 million home insurance policies were written across the UK. LBGI was the second largest provider of home insurance in the UK that year, representing approximately 12.29% of the UK home insurance market. The amount spent in 2017 by its customers on home insurance premiums was approximately £713m.

Requirements

4.7. An insurer must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. This applies to the risk management systems relating to the way an insurer communicates with its customers.

4.8. When communicating with a customer, an insurer must pay due regard to the information needs of the customer and communicate information to them in a way that is clear, fair and not misleading. This includes when selling insurance to new customers and sending renewal communications to existing customers.

4.9. Over the life of a home insurance policy, customers may receive a number of communications from their insurer. Home insurance customers can be expected only to decide whether to renew an existing home insurance once a year, towards the end of the policy term. It is therefore important that each communication regarding renewal is clear, fair and not misleading to help the customer make an informed decision. This is particularly important where the insurance contract automatically renews at the end of the policy term given the increased risk that customers will not actively engage in shopping around in such circumstances.

FCA publications (2015-)

4.10. Towards the end of the Relevant Period, the Authority issued publications specifically referring to the need for insurers to pay due regard to the information needs of home insurance customers and the importance of communicating information to them in a way that is clear, fair and not misleading, in particular in relation to the price of renewing their insurance. These include:

(1) a Discussion Paper titled 'Smarter consumer communications' (June 2015) (the "June 2015 Discussion Paper"). This paper noted that the Authority's thematic work and market studies had identified that consumers are often heavily focused on price, but that consumers did not necessarily well understand the difference between price and value. The paper reiterated that the Authority expects firms to ensure that information relating to pricing is clear, to help ensure consumers are able to make informed decisions. It therefore highlighted to firms the importance of ensuring that claims made about the price offered to consumers were clear, fair and not misleading; and

(2) in December 2015, the Authority consulted on new rules and guidance for general insurance renewals. Its proposals were intended to address concerns about levels of consumer engagement across the industry as a whole and the treatment of consumers by firms at renewal, and the lack of competition that results from this. In particular, the Authority was concerned that, across the industry, prices increased in a way that was not transparent at renewal, and longstanding customers paid more than new customers for the same product. In its Policy Statement titled '*Increasing transparency and engagement at renewal in general insurance markets – feedback on CP15/41 and final rules and guidance*' (August 2016) (the "August 2016 Policy Statement"), the Authority explained the feedback it had received and published new rules. These rules required firms, from 1 April 2017, to disclose last year's premium at each renewal, so that it can be easily compared to the new premium offered. This publication, and the consultation and market study to which it related, highlighted to firms the importance of providing clear, fair and not misleading information to customers about renewals pricing, with the aim of encouraging customers to shop around at renewal to ensure they obtained the best price.

FCA work on General Insurance pricing practices after the Relevant Period

The Authority's General Insurance Market Study (2018-2020)

4.11. The General Insurance Pricing Market Study was conducted between October 2018 and September 2020 (after the end of the Relevant Period), to understand whether pricing practices in home and motor insurance support effective competition and lead to good consumer outcomes. In the Market Study Final Report, published in September 2020, the Authority noted that price is an important factor in a customer's decision on which home insurance policy to take out, and that significant new business discounts are commonplace in the UK home insurance market. It is also common in the market for insurance premiums to go up each year on renewal as insurers seek to recover any losses that may have been incurred by the insurer offering an introductory discount. The effect of this is that existing policyholders will likely pay more at renewal than a new customer presenting an equivalent insurance risk, sometimes significantly so, unless they shop around.

4.12. Customers who are less aware of pricing practices, or who do not understand them, are less likely to shop around. The Market Study Final Report noted that firms used complex and opaque pricing techniques to identify customers who are more likely to renew with them, and then increase prices for these customers at renewal each year, resulting in some loyal customers paying very high prices. It also found that firms' pricing practices did not make clear the true lifetime cost of home and motor insurance policies, leading some customers to believe that their renewal price was more competitive than it really was. In this context, it is therefore particularly important that communications to customers about price are clear, fair and not misleading.

4.13. The Authority's rules do not require (and have never required) firms to explain in renewal communications why the price may have changed from the previous premium paid by the customer. Throughout the Relevant Period a firm was, however, required to pay due regard to the information needs of its existing customers when communicating to them with an offer to renew their home insurance and describing the basis of renewal premiums, and to do so in a way that was clear, fair and not misleading.

Home insurance renewals

Auto-renewal

4.14. Auto-renewal clauses are typical in the home insurance sector in the UK. Customers can negotiate, amend, switch or cancel a home insurance policy up to the renewal date. Where the policy contains an auto-renewal clause, unless the customer informs the insurer of cancellation prior to renewal, the policy will renew automatically on the terms set out in the renewal communication, without any further action needed from the customer. Customers do, however, have at least 14 days from the date of renewing their home insurance during which they can cancel their policy for any reason: this is often referred to as the "cooling-off" period. Auto-renewals can protect customers against being left without cover if they forget to renew their policy.

4.15. As is common in the market, all the home insurance policies offered for sale or renewal by LBGI during the Relevant Period contained auto-renewal provisions, though the operation of those clauses differed slightly depending on the payment method selected by the customer. The operation of auto-renewals clauses was not the subject of the Authority's investigation.

Home insurance products offered by LBGI

4.16. LBGI offered a number of different home insurance products to customers during the Relevant Period. Not all LBGI home insurance products held by customers during the Relevant Period were available for sale to new customers, but all were open for renewal for at least part of the Relevant Period.

4.17. The products sold by LBGI with the largest customer base (representing approximately 16 million renewals and 65.6% of all home insurance products offered by LBGI), either on sale and open for renewal, or only open for renewal, during the Relevant Period were:

(1) Home Solutions (HIA), which was renewed approximately 7.5 million times during the Relevant Period;

(2) Home Options (HDA), which was replaced by the Aries product from June 2016. The Home Options and Aries products were together renewed approximately 6.1 million times during the Relevant Period; and

(3) Halifax Home (MOR) product, which was renewed approximately 2.4 million times during the Relevant Period.

Prices of LBGI's home insurance renewals during the Relevant Period

4.18. The Market Study Final Report describes the various different pricing policies and approaches firms have historically used to set both the risk price (i.e. cost of underwriting) and margin (profit) which, together with expenses, determine the renewal premium of home insurance products. The Market Study explains that new customers typically benefit from low prices which are sometimes set below risk price (i.e. cost) and that firms then seek to recover initial losses by increasing the customer margin and thus the price at renewal. That increase may continue after firms have made back the initial discount. When setting both new business and renewals prices, firms typically aim to predict the likely behaviour of consumers including likelihood of renewing. Most firms also adapt the margins they aim to earn from individual customers and do so for a variety of strategic reasons, including maximising profit, retention, customer numbers and to balance their customer portfolios. The Authority makes no specific criticism/observations in this Notice on these pricing practices.

4.19. LBGI's approach to home insurance renewal pricing throughout the Relevant Period varied between products, brands and the channel through which the product was sold. Despite these variances, LBGI's practices were consistent with those general practices described in paragraph 4.18 above. In broad terms, and in line with the findings of the Market Study as set out above, the pricing policies LBGI adopted meant both that margins for individual customers would vary depending on their characteristics and that prices would, in the majority of cases, increase at renewal. The consequence was that for the majority of the Relevant Period, the more often a customer renewed, the higher the premium they could pay, resulting in many customers paying higher prices than they would likely have paid if they had shopped around and sought a competitive quote.

4.20. In May 2012, minutes of a meeting of LBGI's Insurance Division Executive Committee meeting explained the reason for this:

"*…in an increasingly competitive Home Insurance market, it was deemed necessary to discount new business premiums to remain competitive. Premiums were then increased at subsequent renewals in order to secure the required profitability over the lifetime of the policy.*"

4.21. From October 2015, LBGI began to implement a revised approach to setting prices by introducing new limits to the margin which could be applied above the new business price, which meant that some renewal prices decreased compared with the prior year.

4.22. On 28 May 2021 the Authority announced new rules on pricing in the home and motor insurance markets. These will (amongst other things) end the new business discounting price model widely used across the market, including by LBGI during the Relevant Period, and will mean that the renewal price can be no greater than the equivalent new business price.

Methods of communication – written communications

LBGI's communications

4.23. During the Relevant Period, LBGI generally sent the following key written communications to customers at renewal in a "renewal pack":

(1) renewal letter;

(2) insurance statement; and

(3) policy schedule.

In certain circumstances, where a customer made a change during the term of the policy, they would receive a mid-term amendment letter.

4.24. LBGI created template renewal communications for each insurance product. The template communications were used for certain products, or groups of products, and each template communication was subject to changes at various times during the Relevant Period. LBGI made use of computer-based coding (or "IT logic") to automatically complete parts of the template letters that might differ depending on a customer's particular circumstances. LBGI generated renewal communications for each customer using IT logic and, although they would follow a template, they were intended to vary insofar as the customer's circumstances and policy details were different.

Methods of communication – telephone calls

4.25. LBGI did not generally initiate calls to customers by phone relating to renewals, save for instances where the customer had missed payments or where a direct debit had been cancelled by the customer. It sent SMS text messages to customers in similar circumstances. It did, however, have a process in place to manage calls received from customers throughout the Relevant Period.

4.26. Throughout the Relevant Period, where a customer contacted LBGI by telephone to discuss their renewal quote or to discuss cancelling their policy, the BRT (which was renamed as the Customer Relationship Team from around July 2016) generally handled these calls. This included where a customer had originally raised a query on their home insurance in a branch. In those circumstances, the customer was to be directed to contact LBGI by phone.

4.27. From the start of the Relevant Period to September 2017, the BRT only handled calls relating to the renewal of an existing home insurance policy. During this period, if it became apparent during a call that the customer wished to take out a new policy with LBGI, the customer could be transferred to a dedicated sales team. From September 2017, the BRT was permitted to handle calls from customers seeking to renew and calls where a customer wished to discuss taking out a new policy with LBGI. The BRT was able to offer discounts to customers in order to retain business (as described at paragraph 4.30).

Telephone call scripts

4.28. LBGI prepared scripts to assist call handlers in dealing with customer calls. Until July 2015, all call scripts were printed and held in paper form. From 2015, LBGI started to roll-out a computer-based system using scripts on PowerPoint slides to allow calls to be handled electronically. An "internet-based" system was used to handle calls relating to the Aries product from 2016.

4.29. During the Relevant Period LBGI prepared various training packs and further material for call handlers, which they could use alongside call scripts. This included suggested phrases for call handlers to use when dealing with customers and information to calculate discounts. Throughout the Relevant Period, LBGI had a documented review and approval process for call scripts.

Discounting of home insurance renewal premiums

4.30. During the Relevant Period, the BRT call handlers were able to offer a discount to the price offered to a customer who was considering renewing their home insurance policy, and who contacted LBGI about the renewal price quoted in their renewal letter. These discounts were described as "loyalty discounts" and, when they had been applied, they were described as such in certain communications with customers. Over the course of the Relevant Period changes were made to the degree of discretion given to BRT call handlers and the amount of discounts that they could offer.

Communicating loyalty discounts to customers

4.31. Where a customer contacted the BRT to query their renewal quote, and the call handler had applied a discount, this would reduce the premium and would be reflected in the renewal communication as a "loyalty discount", although the use of that term varied over the Relevant Period.

4.32. Other than as explained above, LBGI's renewal communications would generally not refer to the application of a "loyalty discount" before the discount had been offered by a call handler in the BRT. The wording would also not be carried over where a "loyalty discount" had been applied in a previous policy term.

Communications relating to renewal

"Competitive price"

4.33. During the Relevant Period, LBGI informed customers holding the products listed below that they were receiving a "competitive price" in certain renewal communications.

4.34. 8,962,695 renewal communications were sent to customers holding a Relevant Product during the Relevant Period that informed them: "*Whatever you decide* *with us you will always receive … a competitive price."* In 87% (7,804,392) of cases, the policy was renewed.

In particular:

(1) Home Solutions, which included the phrase "competitive price" in renewal communications from the start of the Relevant Period until 14 September 2014. 5,413,443 renewal communications that included this language were sent to customers holding a Home Solutions policy during the Relevant Period. In 89% of cases (4,842,863), the policy was renewed. From the beginning of the Relevant Period until 27 August 2009, a customer would have also been informed that LBGI:

(a) *"[was] making every effort to provide you with a competitive rate"*;

(b) *"aim to provide you with the right cover at a competitive rate"*, and

(c) *"[was] making every effort to keep your premium rate as competitive and as low as possible"*;

(2) MHA, from the start of the Relevant Period to 18 June 2017. 373,098 renewal communications that included this language were sent to customers holding an MHA policy during the Relevant Period. In 90% of cases (335,868), the policy was renewed. In communications sent from the start of the Relevant Period to 28 August 2009, a customer with an MHA product would have also been informed that LBGI:

(a) *"[was] making every effort to provide you with a competitive rate*";

(b) *"aim to provide you with the right cover at a competitive rate"*, and

(c) *"[was] making every effort to keep your premium rate as competitive and as low as possible"*;

(3) Home Options, from 14 April 2009 to 17 September 2012. 2,136,352 renewal communications containing this language were sent to customers holding a Home Options policy during the Relevant Period. In 78% of cases (1,663,638), the policy was renewed. In the same communications, a customer with a Home Options product would have also been informed that they were receiving a *"competitive quote", "great quote", "great price", "great renewal quote"* and that LBGI was *"[was] making every effort to keep your premium rate as competitive as possible*".

(4) BRIT, from the start of the Relevant Period to 24 September 2017. 125,362 renewal communications containing this language were sent to customers holding a BRIT policy during the Relevant Period. In 90% of cases (113,254), the policy was renewed. In communications sent from the start of the Relevant Period to 28 August 2009, a customer with a BRIT product would have also been informed that LBGI:

(a) "*[was] making every effort to provide you with a competitive rate*";

(b) *"aim to provide you with the right cover at a competitive rate"*; and

(c) *"[was] making every effort to keep your premium rate as competitive and as low as possible"*;

(5) HIP, from the start of the Relevant Period to 19 November 2017. 700,658 renewal communications containing this language were sent to customers holding an HIP policy during the Relevant Period. In 93% of cases (653,416), the policy was renewed. In communications to 4 September 2009, customers would have also been informed that LBGI:

(a) *"[was] making every effort to provide you with a competitive rate"*;

(b) *"aim to provide you with the right cover at a competitive rate";* and

(c) *"[was] making every effort to keep your premium rate as competitive and as low as possible"*;

(6) HIA (Verde), from 13 May 2013 to 28 August 2016. 208,132 renewal communications containing this language were sent to customers holding this policy during the Relevant Period. In 92% of cases (191,198), the policy was renewed;

(7) HDB, from the start of the Relevant Period to 2017. 2,254 renewal communications containing this language were sent to customers holding an HDB policy during the Relevant Period. In 82% of cases (1,848), the policy was renewed. In the same communications, a customer with an HDB product would have also been informed that LBGI:

(a) "*[was] making every effort to keep your premium rate as competitive and as low as possible*", and

(b) *"aim to provide you with the right cover at a competitive rate"*;

(8) HIB, from the start of the Relevant Period to 2012. 3,395 renewal communications containing this language were sent to customers holding an HIB policy during the Relevant Period. In 68% of cases (2,307), the policy was renewed. In the same communications, a customer with a HIB product would have also been informed that LBGI "*[was] making every effort to keep your premium rate as competitive and as low as possible*" and *"aim to provide you with the right cover at a competitive rate"*.

4.35. LBGI did not substantiate the claim that the cover received was at a "competitive price" by taking steps to check that it was accurate.

4.36. The Authority considers that, as a result of the pricing strategies adopted by LBGI (which were common in the industry), for the majority of customers holding the Relevant Products, it is likely that the premium quoted at renewal would have increased when compared to their prior premium and was likely to have been higher by comparison to the premium quoted for a customer that chose to switch insurance provider or who was a new home insurance customers to LBGI.

4.37. On this basis, the Authority does not consider that those communications that state that LBGI was "*making every effort to keep your premium rate as competitive as possible*" were clear, fair and not misleading. Similarly, the statement that customers would always receive a "competitive price" was not clear, fair and not misleading.

4.38. The Authority has not established whether customer behaviour would have been different had the communications been clear, fair and not misleading.

4.39. The Authority has identified the following examples where LBGI informed customers holding one of the Relevant Products that they were receiving a "competitive price" in the customer's annual renewal communication, where this was not clear, fair or not misleading in the customer's case.

Customer A

4.40. Customer A purchased a Home Solutions product with LBGI in 2005, having discussed their home insurance options at their local branch of Lloyds Bank. The Home Solutions policy renewed automatically each year, and Customer A continued to renew their home insurance policy with LBGI each year from 2005 up to, and including, 2014.

4.41. In renewal letters sent to Customer A in at least 2009, 2010 and 2013, LBGI informed Customer A that: "*Whatever you decide with us you will always receive … a competitive price.*" Against this background, between 2005 and 2014, Customer A's annual insurance premium increased incrementally from £268 in 2005 to £905 in 2014.

4.42. The Authority considers that the inclusion of language to suggest that Customer A was receiving high quality cover "at a competitive price", when their annual insurance premium increased by £637 between 2005 and 2014, was not clear, fair and not misleading.

Customer B

4.43. Customer B purchased a home insurance product with LBGI when they arranged a mortgage in 2009. The policy renewed automatically, and Customer B continued to renew their home insurance policy each year from 2009 to 2014.

4.44. In renewal communications, LBGI informed Customer B that: "*Whatever you decide with us you will always receive … a competitive price*" and that the policy benefitted from *"substantial discounts".* Between 2009 and 2014, Customer B's annual insurance premium increased from £401 in 2009 to £829.84 in 2014. In 2015, Customer B cancelled the policy having found an alternative online through a price comparison website.

4.45. The Authority considers that the inclusion of language to suggest that Customer B was receiving cover "at a competitive price" when the premium increased by £428.84 between 2009 and 2015, was not clear, fair and not misleading.

"Competitive price" language in complaint response letters

4.46. On occasions during the Relevant Period until February 2017, similar unsubstantiated "competitive price" language also appeared in some response letters sent to customers who had made a complaint about the price quoted to them at renewal.

4.47. This occurred because, when drafting response letters, some complaints handlers used wording from renewal letters and/or policy documents which contained unsubstantiated "competitive price" language (from the beginning of the Relevant Period until February 2017), or used outdated versions of those documents.

4.48. The complaints handling oversight framework was not intended to check that any claims made in them were accurate, but instead focused on ensuring that all aspects of the complaint were responded to and informing the complainant of their rights under the Financial Ombudsman Service.

4.49. LBGI used a particular template letter between 2013 and 2015 when rejecting complaints about price increases which included the following language referencing the "competitive" nature of the level of cover offered:

> *"Please be assured that we have not increased your premium unnecessarily, we endeavour to be the most competitive based on the level of cover that we offer."*

4.50. The inappropriate, unsubstantiated "competitive price" language that was adopted from renewal communications should not have appeared in response letters. The root cause of this was the failure to substantiate the same language in the renewal communications themselves which, for the reasons above, the Authority does not consider to have been clear, fair and not misleading.

"Loyalty discount"

4.51. Some customers were informed in error that they would receive a discount based on their "loyalty", where no such discount was ever applied and had never been intended to apply.

4.52. From 17 September 2012 to 23 March 2014, 306,000 renewal communications were sent to Home Options customers which stated in error that LBGI had applied a "5% loyalty discount" where no such discount applied, and in 81% of cases (248,000) the policy was renewed. From 23 March 2014 to 24 September 2017, 1,031,000 renewal communications were sent to Home Options customers which included a policy schedule which stated in error that LBGI had applied a "loyalty discount", where no such discount was applied, 81% of which (839,000) were renewed. In total, 1,350,141 communications containing erroneous "loyalty discount" language were sent to customers and in respect of 1,051,983 (78%) of those, the customer renewed. In total, 459,871 individual customers received a communication that contained erroneous "loyalty discount" language.

4.53. The phrase "loyalty discount" was not intended to be included in Home Options renewal letters or Home Options policy schedules, except where a discount had been applied by the BRT.

4.54. LBGI first identified in June 2017 that the phrase was included in policy schedules, as a result of an error in the IT logic that generated the written communication where the customer selected a voluntary excess greater than £0. A planned removal of the phrase from policy schedules was then moved forward to September 2017. Until LBGI undertook further steps in May 2019 in response to the Authority's enforcement investigation, LBGI believed that its customers were receiving a 5% discount, when they were not.

4.55. The fact that that the same computer issue had led to the same wording appearing in historic renewal letters between September 2012 to March 2014, as described at paragraph 4.52, was not identified by LBGI until 2019, when it responded to the Authority's investigation.

4.56. LBGI voluntarily agreed to make payments to Home Options customers that received these communications in error. As at 11 May 2021, LBGI has paid approximately £8,490,000 to approximately 307,000 customers in connection with this issue. Additional payments totalling approximately £174,000 are expected be made to a further 6,000 customers.

"Valued customer discount"

4.57. Prior to the start of the Relevant Period, LBGI offered customers holding a MOR product with more than one type of insurance cover (such as both building and contents cover) a discount. In 2009, LBGI introduced a combined discount for customers who had a combined building and contents policy, and removed the discount previously offered for holding multiple types of cover.

4.58. However, from the start of the Relevant Period to 19 November 2017, certain customers holding a MOR product received a renewal communication that stated in error that those customers were benefitting from a "valued customer discount", which was not applied and was not intended to apply. This was first identified by LBGI in 2019, during the course of the Authority's enforcement investigation, and occurred because of errors in the IT logic which generates the written communication to be sent to customers. The vast majority of customers who received the "valued customer discount" language in error did receive an alternate discount, which was based on the same criteria but not referred to within the communication.

4.59. Approximately 3,623,000 renewal communications containing this language were sent to customers holding a MOR policy during the Relevant Period, when this discount was not applied and was not intended to apply. In 90% of cases (approximately 3,247,000), the policy was renewed. However, approximately 97% (3,159,000) of these customers received a combined buildings and contents discount which was greater in value than the "valued customer discount" described in the renewal communications.

4.60. 106,508 renewal communications were sent to customers holding a MOR policy that included the "valued customer discount" language when this discount was not applied and the customer did not benefit from a 'combined' buildings and contents discount. In 88% of cases (93,469), the policy was renewed. The inaccurate language appeared in renewal communications for the MOR product until it was removed in November 2017.

4.61. LBGI voluntarily agreed to make payments to the MOR customers that received these communications in error and who did not benefit from the combined discount. As at 11 May 2021, LBGI has paid approximately £1,990,000 to approximately 27,093 customers in connection with this issue. Additional payments totalling approximately £82,000 are expected be paid to a further 1,154 customers.

"Discretionary / promotional discount"

4.62. Some customers were informed that they would receive a "discretionary/promotional discount", where the discount described was not applied or intended to be applied, as a result of errors in the IT logic which generated discount wording in renewals letters. However, approximately 81% of customers who received documentation referencing a "discretionary/promotional discount" in error, did nevertheless receive a discount.

4.63. From the start of the Relevant Period to November 2017, 33,628 renewal communications were sent to MOR customers that stated in error that those customers were receiving a "discretionary/promotional discount", where those customers did not receive a discount. In respect of 29,336 (87%) of those renewal communications (relating to 7,840 individual MOR customers), the customer renewed.

4.64. From the start of the Relevant Period to November 2017, approximately 4,410 customers holding IFI, NHP, HHH, HHB, HLH and HEX policies (relating to 16,434 renewals) received a renewal communication that stated in error that those customers were receiving a "discretionary/promotional discount", where those customers did not receive that discount.

4.65. In recognition of these errors, LBGI voluntarily agreed to make payments to customers that received these communications but who did not benefit from the discount. As at 11 May 2021, LBGI has paid £2,951,000 to approximately 12,000 customers in connection with this issue. Additional payments totalling approximately £261,000 are expected to be made to a further 1,100 customers.

4.66. In total, 1,509,435 renewal communications were sent to customers informing them that they would receive a discount based on their "loyalty", based on the fact they were a "valued customer", or otherwise being applied as part of a "promotion", where the discount described was not applied or intended to be. In respect of 1,191,222 (79%) of those renewal communications (relating to 500,211 customers), the customer renewed.

IT logic and "discount" language issues

4.67. Issues relating to "loyalty discount", "valued customer discount" and "discretionary / promotional discount" language arose from errors in the IT logic relating to renewal communications for customers who held certain products, or certain products with particular policy features. In certain instances, this resulted in template renewal communications containing language that was either never intended to be included in the customer's personal circumstances, or which was otherwise intended to have been removed earlier in the Relevant Period.

Review of written communications

4.68. During the Relevant Period, LBG used a group-wide overarching 'Customer Treatment Policy' framework, and this applied to LBGI. LBGI used a set of policy documents which governed the approval of financial promotions and detailed the processes and procedures to be followed. These policies and procedures were developed and amended throughout the Relevant Period. From July 2011, the Customer Treatment Policy was supported by a set of 'Financial Promotions Group Standards', which were intended to provide additional guidance to staff for the development of promotions. LBGI's approach to reviewing and approving written communications included:

(1) procedures for the review and approval of all written financial promotions, including where changes were proposed;

(2) periodic reviews of all existing renewal communications for home insurance products; and

(3) outcome testing of home insurance renewal communications.

Procedures

4.69. The procedures included a documented review and approval process for all written financial promotions, involving approval from a number of internal stakeholders, including the team proposing the changes and the Propositions, Legal, Pricing, Risk departments. Each of the various financial promotions procedures employed by LBGI during the Relevant Period included a requirement that claims made in marketing materials, including renewal letters, should be capable of being substantiated in order for them to be clear, fair and not misleading.

4.70. Acceptance of new or amended communications was given at a high-level by a senior manager within the business area where the document or change originated. Overall responsibility for ensuring this process was implemented and followed was assigned to a senior manager.

4.71. From October 2013 to 2016, the GI Customer Documentation Change Forum within GBM managed and prioritised changes to communications for general insurance products, including home insurance.

4.72. From October 2014, a document titled 'Group Procedure Customer Marketing and Communication' provided a framework for LBGI to comply with Principle 7 in developing, approving and review of financial promotions. In particular, it required all Financial Promotions to be robustly challenged and signed-off by an appropriately skilled and experienced member of staff. Overall responsibility for the approvals process lay with the Process and Procedure Owner.

Approval process for written communications

4.73. Throughout the Relevant Period, the steps for approval of a particular promotion were set out in the policy and procedure documents, comprising a three-stage process of 'origination', 'review and sign-off', and 'implementation'. The 'review and sign-off' process involved input from a number of internal stakeholder functions (including any regulatory requirements or industry guidelines, including requirements for treating customers fairly, substantiating claims and communications being clear, fair and not misleading) obtaining sign-off. 'Originators' were responsible for coordinating the sign-off process. Existing documents were resubmitted for approval in the event of material changes.

4.74. All of the relevant renewal communications containing "competitive price" language were first drafted, approved and in use before the start of the Relevant Period. Regardless of the original purpose for the historic inclusion of "competitive price" language in renewals correspondence prior to the Relevant Period, it is important that any communications that remain active are subject to thorough and rigorous review to ensure that they are still accurate and substantiated, prior to their use being allowed to continue.

Periodic review of written communications

4.75. In terms of their continued review, from 2009 to April 2013, LBGI's approach to monitoring the content of its renewal letters for all general insurance products, including home insurance, involved them being reviewed every six months, or when a significant change occurred that may affect the validity of approvals (including any changes that may invalidate data used to substantiate claims made within promotions), to determine if it is still acceptable for use. From April 2013, this review period was extended to every 12 months.

4.76. Originators were responsible for obtaining the appropriate sign-off from the required stakeholders. Throughout the Relevant Period the review process required that originators review the promotion "*as quickly as possible and that the review should be completed within three weeks*", to decide if it was still a valid promotion and fit for purpose, and if not, it was removed from use. Re-submission was made to the Legal and Compliance teams (whose role in the initial approval process involved ensuring that that communications were clear, fair and not misleading and that statements of fact were substantiated) in the event of material changes affecting legal or regulatory requirements. However, this did not apply to renewal communications for existing product propositions, which are the communications that are the subject of this Notice.

4.77. In addition, from 2010 promotional material was required to be re-submitted to the Communications Regulatory Approval Team ("CRAT") whose role was to review the claims from a regulatory perspective, including their compliance with clear, fair and not misleading requirements. The CRAT failed to properly assess whether the "competitive price" language was substantiated. This allowed the language to persist during the Relevant Period, without proper scrutiny of whether the communication was clear, fair and not misleading.

4.78. Despite this process, the periodic reviews failed to identify that the "competitive price" language in the renewal letters had not been substantiated. Thus, renewal communications that were developed under a potentially different, historic regulatory regime were allowed to continue to be issued without sufficient challenge for a long time.

Outcome testing of written communications

4.79. LBGI introduced outcome testing of the written communications approval process in 2011, as part of the procedure in LBG's 'Conduct Risk Customer Outcome Testing Group Procedures', which formed part of LBG's 'Group Customer Treatment Policy'. From 2012, LBGI's outcome testing for renewal communications involved the CRAT assessing a monthly sample of financial promotions which had recently gone live, which in practice required reviewing each sampled communication in line with ensuring it delivered a fair outcome and was clear, fair and not misleading, including that all statements of fact or pricing messages are substantiated. The results were reviewed by the business area (in this case, GBM), which was then responsible for undertaking any consequent action. As the renewal communications were all written before the Relevant Period, they were not subject to this testing. As a result, the outcome testing failed to identify that the "competitive price" language used in the renewal communications had not been substantiated.

4.80. If the review process during the Relevant Period had properly considered whether all statements of fact or pricing messages were substantiated, then LBGI may have been able to identify and address the "competitive price" language issue and resolve it in full much earlier.

Changes to renewal communications during the Relevant Period

4.81. From March 2012, LBGI undertook a project to address concerns arising from certain complaints about home insurance renewals pricing in relation to the Home Options product, which focussed on the content of renewal documentation, renewal pricing strategy, and whether the existing controls to prevent erroneous premiums from reaching customers were fit for purpose. Amongst other changes, this resulted in changes to renewals letters used for Home Options customers to remove "competitive price" language in September 2012 for this product. The scope of the project was limited to the Home Options product and no action was taken at that stage to remove, or to consider removing, similar language from written communications relating to other products. However, in 2014 the "competitive price" language was removed from HIA written communications as part of a wholesale re-write of the relevant template. In 2017, "competitive price" language was removed from the BRIT, MHA and HIP products. The HDB product closed for renewal in 2015 and the "competitive price" language was included in the Verde HIA product until 2016.

Issues identified by LBGI

4.82. During the Relevant Period, LBGI undertook several reviews of renewal communications and the processes intended to ensure compliance with regulatory requirements.

4.83. In March 2010, an assurance review observed that compliance with the regulatory requirements and procedures for financial promotions was unsatisfactory and identified significant control weaknesses. For instance, the review found examples where communications had gone "live" where either no approval had been obtained or amendments were made post-approval that rendered the communications non-compliant with regulatory requirements. This review was revisited in August 2010 and observed improvements in the level of staff adherence to procedures. It found that: "*numbers and pricing claims were generally substantiated*" and the financial promotions that formed part of the review "…*largely met ICOBS clear fair and not misleading requirements, and other requirements."*

4.84. Whilst the August 2010 review did not consider renewal communications, it raised a medium issue that a number of statements in LBGI's communications were not substantiated. This was a missed opportunity for LBGI to consider whether its periodic review processes were capable of addressing issues relating customer communications including unsubstantiated language.

4.85. The CRAT review in November 2010 had a positive rating, noting that there was a good degree of regulatory and operational risk control and that processes were "working effectively". However, the report noted that there were serious concerns around the volume of work required and resource capacity of that team. The review found that demands being placed on the CRAT at this time had significantly increased, examples of approval of communications being required within the hour and that this created the: "*...unacceptable risk despite the very best efforts of the [Communications Regulatory Approval] Team, regulatory communications will not be reviewed with the level of rigour they deserve increasing the likelihood that regulatory failures would go unnoticed*". Following this report, additional resourcing was procured in March 2011 and this action was closed.

4.86. In January 2012 the Scripts Assurance Report returned an 'Amber' rating, with medium risk issues relating to the content of certain call scripts following a review in September 2011. It observed that language within the script including references to 'a competitive price' could potentially overstate the offering made to the customer in certain circumstances. The "competitive price" wording was removed from call scripts as a result of this review and, in coordination with the project described at paragraph 4.81, from written communications by September 2012. However, despite this issue having been correctly identified there was no action to remove similar language from renewal communications for other products at this time.

4.87. During the Relevant Period, letter templates for some products were redrafted. This resulted in the removal of "competitive price" language from renewal communications for different products at various points during the Relevant Period. Table 1 below illustrates the proportion of renewal communications containing "competitive price" language.

Table 1: Proportion of "competitive price" language during the Relevant Period

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total policies containing "competitive price" language (million)	1.20	1.67	1.83	1.76	1.14	0.96	0.19	0.15	0.06
Policies affected by "competitive price" language as % of total policy volumes	41.3%	50.7%	53.5%	51.1%	35.8%	31.1%	6.6%	5.9%	2.7%

4.88. A number of other reviews did identify issues with the approvals process for financial promotions. However, due to the scope of these reviews, none specifically identified that the "competitive price" language had not been substantiated or the application of incorrect IT logic.

Improvements made by LBGI to renewal communications

4.89. LBGI took a number of steps during the Relevant Period to improve its renewal communications including:

(1) In 2014, LBGI volunteered to cooperate with the Authority on a research project to test the impact of different ways of communicating with home insurance customers at renewal. This subsequently led to the introduction of ICOBS 6.1.12A in April 2017 to improve the transparency of renewal communications across the insurance industry. LBGI was the only home insurer that participated in this project which enabled the FCA to test its proposed market-wide changes;

(2) In 2016, LBGI worked with a third-party consultancy to redesign its renewal letters to improve customer awareness and engagement. The re-written letters did not contain any "competitive price" language; and

(3) In 2017, following the Authority updating the ICOBS part of its Handbook in April, LBGI made changes to its renewal letters to provide enhanced disclosure of customers' renewal options (including that customers might be able to get a better price or discount or switch products, by contacting LBGI).

4.90. LBGI has taken a number of steps since the end of the Relevant Period to improve renewal communications and the associated systems and controls, including:

(1) From September 2018, LBGI took action to improve to the processes around the approval and testing of customer documentation, including creating newly defined roles and responsibilities for the approval of renewal of home insurance documentation, the development of a revised testing strategy for documentation changes in November 2019, and improvements to data on administrative platforms;

(2) In July 2019, LBGI developed guidance on substantiating claims and comparisons in customer communications, which is now included as mandatory training for LBGI's Chief Customer Office (formerly GBM).

4.91. Between January and March 2020, LBG's Insurance & Wealth Risk division undertook a "Deep Dive" to ensure that issues relating to the historic operation of home insurance discounts communicated to customers at renewal had been identified and resolved. The report rated this issue as 'yellow' (as a number of low rated issues had been identified). The recommendations made following the exercise have been completed. An internal review dated 24 June 2020 assessed the effectiveness of the approval process relating to financial promotions, giving it a "green" rating.

4.92. LBGI has taken a number of steps to reduce the likelihood of any future errors occurring relating to references to discounts in documentation, including:

(1) Simplifying the discounts offered;

(2) Clarifying responsibility for management of discounts;

(3) Checking reference to discount in renewal communications and application to premiums as part of annual reviews;

(4) Ongoing pricing checks;

(5) Completing a review of the IT logic used, with enhanced controls;

(6) Testing to ensure unintended changes are not implemented when documentation changes are implemented; and

(7) From May 2020, ensuring that changes to discounts are aligned across customer documentation, risk pricing and customer pricing.

Customer payments

4.93. LBGI is voluntarily making payments to customers that received renewal communications that incorrectly referred to the application of a discount when none was paid. LBGI expects total payments of approximately £13,687,000 to have been made by September 2021 in relation to a total of approximately 350,000 customers. LBGI is contacting customers proactively, meaning customers do not have to take any steps to receive payment.

5. FAILINGS

5.1. The statutory and regulatory provisions and guidance relevant to this Notice are referred to in Annex A.

5.2. Based on the facts and matters above, the Authority considers that LBGI breached Principles 3 and 7 during the Relevant Period, as explained below.

Breaches of Principle 3

5.3. Principle 3 requires that a firm take reasonable care to ensure that it has organised its affairs responsibly and effectively, with adequate risk management systems.

5.4. During the Relevant Period, LBGI's systems and controls for ensuring that renewal communications sent to home insurance customers paid due regard to the customer's information needs and communicated information to them in a way that was clear, fair and not misleading were inadequate, and accordingly breached Principle 3, in the following respects:

(1) while the relevant policies required claims made in relevant communications to be capable of substantiation, the periodic review and outcome testing processes did not assess whether the reference to the insurance being at a "competitive price" had been substantiated; and

(2) the January 2012 Scripts Assurance Report identified that language in call scripts suggesting that customers were receiving a "competitive price" at renewal was not appropriate, resulting in the removal of that language. However, no consideration was given to the use of similar language in written communications in respect of other home insurance products.

5.5. In addition, computer-based IT coding used by LBGI to automatically complete parts of template renewal communications was, in certain instances incorrect, meaning that LBGI issued a large number of template renewal communications containing language that was either never intended to be included in the customer's personal circumstances, or which was otherwise intended to have been removed earlier in the Relevant Period: See paragraphs 4.24 and 4.54, 4.58, 4.62, 4.66 and 4.67 above.

5.6. The "competitive price" language was also used in some response letters answering customer complaints, as a result of the failure to substantiate or identify the language in the renewal communications. One response template in use between 2013 and 2015 included that language. This occurred because some complaint handlers relied upon wording from other renewal communications that contained unsubstantiated "competitive price" language. Had LBGI's review processes been adequate unsubstantiated language would not have been included.

Breaches of Principle 7

5.7. Principle 7 requires a firm to pay due regard to the information needs of its customers and communicate with them in a way that is clear, fair and not misleading.

5.8. During the Relevant Period, LBGI included information in 10,472,130 renewal communications for the Relevant Products (of which 8,995,614 were renewed) that was not clear, fair and not misleading. LBGI accordingly breached Principle 7.

5.9. In particular:

(1) During the Relevant Period, LBGI sent 8,962,695 renewal communications to customers which included unsubstantiated "competitive price" language. In respect of 7,804,392 of those renewal communications, the customer renewed. However, for the majority of home insurance customers it was likely that the premium quoted to them at renewal would have increased when compared to their prior premium. The premium quoted was also likely to have been higher than the premium quoted for customers that chose to switch insurance provider or who were new home insurance customers to LBGI;

(2) In addition, some responses to complaint letters contained similar "competitive price" language that had not been substantiated. This reduced in line with the removal of the unsubstantiated "competitive price" language during the Relevant Period, particularly from 2012 onwards; and

(3) LBGI identified that in relation to 1,509,435 renewal communications, customers were informed that they would receive a discount based on their "loyalty", based on the fact they were a "valued customer", or otherwise being applied as part of a "promotion", where the discount described was not applied or intended to be applied. In respect of 1,191,222 of those renewal communications, the customer renewed.

5.10. Having regard to the failings described above, the Authority considers that it is appropriate and proportionate in all the circumstances to take disciplinary action against LBGI for the breaches of Principles 3 and 7 during the Relevant Period.

6. SANCTION

Financial penalty

6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In determining the financial penalty, the Authority has had regard to this guidance and has considered all the relevant circumstances.

6.2. Changes to the penalty policy set out in DEPP were introduced on 6 March 2010. As the conduct at issue occurred both before and after 6 March 2010, the Authority has had regard to the provisions of DEPP in force prior to 6 March 2010 (the "old penalty regime") in respect of the breaches that occurred before 6 March 2010, and the provisions of DEPP in force from 6 March 2010 (the "current penalty regime") in respect of the breaches that occurred from 6 March 2010 to 19 November 2017.

6.3. The Authority has therefore:

(1) calculated the financial penalty for LBGI's misconduct from 1 January 2009 to 5 March 2010 by applying the old penalty regime to that misconduct;

(2) calculated the financial penalty for LBGI's misconduct from 6 March 2010 to 19 November 2017 by applying the current penalty regime; and

(3) combined the penalties calculated under (1) and (2) to produce the total penalty.

Financial penalty under the old penalty regime

6.4. In determining the financial penalty to be attributed to LBGI's misconduct prior to 6 March 2010, the Authority has had particular regard to the following:

(1) The principal purpose of a financial penalty is to promote high standards of regulatory conduct through deterrence and by demonstrating generally the benefits of compliant behaviour (DEPP 6.5.2G(1)).

(2) The nature, seriousness and impact of the breaches (DEPP 6.5.2G(2)), in particular:

(a) The duration and frequency of the breach. The Relevant Period began on 1 January 2009 and continued long after the old penalty regime ceased to apply. For the purposes of considering the duration of the breaches under the old penalty regime, it is relevant to consider that they lasted over a year and had not been addressed when that regime came to an end.

(b) Whether the breaches revealed serious or systemic weaknesses in a firm's procedures and internal controls. The breaches demonstrate serious and persistent weaknesses in LBGI's procedures and controls relating to the content of home insurance renewal communications.

(c) The risk of loss caused to customers. In 2009, 1,054,777 renewal communications were sent to customers containing "competitive price" language which was not clear, fair and not misleading. The Authority considers that the "competitive price" language could have caused customers to renew their insurance in the belief that they were getting a "competitive price" when such claims were not substantiated. The Authority has not established whether customer behaviour would have been different had the communications been clear, fair and not misleading.

(3) LBGI's failings were not deliberate or reckless (DEPP 6.5.2G(3));

(4) The size, financial resources and other circumstances of LBGI (DEPP 6.5.2G(5));

(5) LBGI has taken steps both during and after the Relevant Period to improve the transparency of its renewal communications and promote customer engagement at renewal, including voluntary participation in work with the FCA relating to home insurance, customer communications and engagement.

(6) LBGI has made a number of improvements to its systems and controls as detailed at paragraphs 4.89 to 4.92 above and at paragraph 6.26(2) below;

(7) The disciplinary history of LBGI and the wider group (DEPP 6.5.2G(9), for which see paragraphs 6.25(1) below); and

(8) LBGI has provided significant co-operation to the Authority in its investigation, including disclosing the issues, openly communicating about its ongoing reviews and the progress of its customer payments.

6.5. The Authority considers that LBGI's breaches of Principle 3 and Principle 7 in the period from 1 January 2009 to 5 March 2010 merit a financial penalty of £2,000,000.

6.6. LBGI agreed to settle these proceedings, and therefore qualified for a 30% discount under the Authority's executive settlement procedures. The financial penalty for the LBGI's breach of Principle 3 and Principle 7 in the period 1 January 2009 to 5 March 2010 is therefore £1,400,000.

Financial penalty under the current regime

6.7. All references to DEPP in the rest of this section are to the version of DEPP implemented on 6 March 2010 and currently in force. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

Step 1: disgorgement

6.8. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.9. The Authority considers that in the circumstances it is not appropriate to make a proposal that there is a disgorgement element to the financial penalty.

6.10. Step 1 is therefore £0.

Step 2: the seriousness of the breach

6.11. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue. A firm's relevant revenue will be the revenue derived by the firm during the period of the breach from the products or business areas to which the breach relates.

6.12. In the circumstances of this case, the Authority has decided to calculate the relevant revenue by reference to the revenue generated by LBGI from renewals of home insurance product lines affected by the breaches. For these purposes, the relevant revenue is all the revenue LBGI was legally entitled to receive in respect of the renewal by home insurance customers of those products affected by the "competitive price" language issue, or those products which contained erroneous "discount" language where customers never received a discount, for the duration that those issues were present in renewal communications, during the part of the Relevant Period falling under the current penalty regime. The Authority considers LBGI's relevant revenue to be £4,251,830,464.

6.13. In deciding on the percentage of the relevant revenue that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

(1) Level 1 – 0%
(2) Level 2 – 5%
(3) Level 3 – 10%
(4) Level 4 – 15%
(5) Level 5 – 20%

6.14. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. The factors that the Authority has determined to be relevant to LBGI's breaches are set out below:

Impact of the breaches – "competitive price" language

6.15. Where renewal communications contained "competitive price" language, the Authority considers that the breaches created a risk of loss to individual customers. The Authority considers that the retention of the "competitive price" language from renewal communications that pre-dated the Relevant Period presents a risk that the "competitive price" language could have caused customers to renew their insurance in the belief that they were getting a "competitive price" when such claims were not substantiated. The Authority has not established whether customer behaviour would have been different had the communications been clear, fair and not misleading.

Impact of the breaches – "discount" language

6.16. Where renewal communications contained reference to the application of a "discount" related to a customer's loyalty, or based on the fact they were a "valued customer", or otherwise on a promotional or discretionary basis, the Authority considers that the breaches created a risk of loss to individual customers. The Authority considers that there was a risk that the communications received by customers could have caused them to believe that they were getting a "discount" on renewal, when such claims were erroneous. LBGI has made voluntary payments to these customers.

Nature of the breaches

6.17. The breaches persisted for a period of 7 years and 8 months in the current penalty regime and impacted approximately 9 million home insurance communications sent to customers at renewal over the entire Relevant Period. The proportion of all LBGI policies containing "competitive price" language reduced from 2012 onwards, with a 30% reduction in 2013 (see Table 1 above at paragraph 4.87).

6.18. The breaches revealed serious and persistent weaknesses in LBGI's review processes relevant to the content of home insurance renewal communications and LBGI's wider engagement with renewals customers.

6.19. DEPP 6.5A.2G(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factor to be relevant:

(1) the breaches revealed serious or systemic weaknesses in the firm's procedures or in the management systems or internal controls relating to all or part of the firm's business.

6.20. DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factors to be relevant:

(1) little, or no, profits were made or losses avoided as a result of the breaches, either directly or indirectly; and

(2) the breaches were committed negligently or inadvertently.

6.21. Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 3 and so the Step 2 figure is 10% of £425,183,046.

6.22. Step 2 is therefore £425,183,046.

6.23. DEPP 6.5.3(3)G provides that the Authority may decrease the level of penalty arrived at after applying Step 2 of the framework if it considers that the penalty is disproportionately high for the breaches concerned. Notwithstanding the serious nature of the breaches, the Authority considers that the level of penalty would nonetheless be disproportionate if it were not reduced and should be adjusted. In order to achieve a penalty that (at Step 2) is proportionate to the breach the Step 2 figure is reduced to £170,073,219.

Step 3: mitigating and aggravating factors

6.24. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the breach.

6.25. The Authority considers that the following factors aggravate the breach:

(1) The Authority has previously issued nine Final Notices to entities within the wider Lloyds Banking Group, eight of which involve Principle 3 breaches. None of the prior Final Notices concern similar failings to those identified in this Notice or specifically relate to the LBGI entities subject to this notice; and

(2) The Authority published widely and issued guidance on matters relating to home insurance and treating customers fairly, both prior to and during the Relevant Period, as described at paragraph 4.10 above.

6.26. The Authority considers that the following factors mitigate the breach:

(1) Remedial action taken by LBGI since the breaches were identified:

(a) LBGI acknowledged the failings raised by the Authority. Although some of the discount failings were identified following commencement of the investigation, LBGI voluntarily commenced the customer payments exercises in respect of these issues. This entails paying the value of the discounts erroneously referenced in communications that was not applied to policies, plus interest. In May 2021 LBGI estimated that customers have received, or are due to receive, payments totalling approximately £13,687,000; and

(2) Since the end of the Relevant Period LBGI has improved its renewal communications and has also undertaken significant work to remedy failings in its associated systems and controls as described at paragraphs 4.89 to 4.92 above, including:

(a) in September 2018, improving the processes around the approval and testing of customer documentation;

(b) in July 2019, developing guidance on substantiating claims and comparisons in customers communications;

(c) between January and March 2020, conducting a deep dive to examine the approach and process undertaken by GI in a 2019 review of references to discounts in renewal communications; and

(d) taking steps to reduce the likelihood of future errors occurring relating to references to discounts in documentation as described at paragraph 4.92 above.

(3) During the Relevant Period, LBGI undertook a number of extensive projects relating to the rewriting of renewal communications:

(a) in 2014, participating in work with the Authority relating to home insurance, customer communications and engagement, dedicating significant financial resource and management time to test the different ways of communicating with home insurance customers at renewal. This led to ICOBS 6.1.12A, to improve the transparency of renewal communications across the insurance industry. LBGI was the only home insurer that participated in this project which enabled the FCA to test its proposed market-wide changes; and

(b) in 2016, working with a third-party consultancy to redraft and redesign its renewal letters to improve customer engagement and providing enhanced disclosure of customers' renewal options;

(4) LBGI cooperated significantly with the Authority’s investigation, including by engaging behavioural economists to conduct in-depth research into customer behaviour around renewal communications and providing that work to the Authority in full.

6.27. Having taken into account these aggravating and mitigating factors, the Authority considers that the Step 2 figure should be decreased by 25%.

6.28. Step 3 is therefore £127,554,914.

Step 4: adjustment for deterrence

6.29. Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

6.30. The Authority considers that the Step 3 figure of £127,554,914 represents a sufficient deterrent to LBGI and others, and so has not increased the penalty at Step 4.

6.31. Step 4 is therefore £127,554,914.

Step 5: settlement discount

6.32. Pursuant to DEPP 6.5A.5G and DEPP 6.7.3AG(1), if the Authority and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement.

6.33. The Authority and LBGI reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.34. Step 5 is therefore £89,288,439. It is the Authority’s usual practice to round down the final penalty figure to the nearest £100.

Penalty

6.35. The Authority hereby imposes a total financial penalty of £90,688,400 for breaching Principle 3 and Principle 7 (comprising a financial penalty of £1,400,000 in respect of misconduct prior to 6 March 2010 and a financial penalty of £89,288,439 in respect of misconduct after 6 March 2010).

7. PROCEDURAL MATTERS

7.1. This Notice is given to LBGI, under and in accordance with the section 390 of the Act.

7.2. The following statutory rights are important.

Decision maker

7.3. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

Manner and time for payment

7.4. The financial penalty must be paid in full by LBGI to the Authority no later than 22 July 2021.

If the financial penalty is not paid

7.5. If all or any of the financial penalty is outstanding on 23 July 2021, the Authority may recover the outstanding amount as a debt owed by LBGI and due to the Authority.

Publicity

7.6. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the

Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.7. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

7.8. For more information concerning this matter generally, contact Richard Topham (020 7066 1180/richard.topham@fca.org.uk) at the Authority.

Lauren Rafter

Interim Head of Department
Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. Relevant Statutory Provisions

1.1. The Authority's statutory objectives, set out in section 1B(3) of the Act, include ensuring appropriate levels of consumer protection, ensuring market integrity and promoting effective competition.

1.2. From the beginning of the Relevant Period until 13 March 2013, section 206(1) of the Act provided:

(1) "If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act… it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

1.3. During the Relevant Period from 1 April 2013 until the end of the Relevant Period, section 206(1) of the Act provided:

(1) "If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

2. Relevant Regulatory Provisions

Principles for Businesses

2.1. The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers set out in the Act. The relevant Principle are as follows.

(1) Statement of Principle 3 (Management and control) provides that:

A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

(2) Statement of Principle 7 (Communications with clients) provides that:

A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

Insurance: Code of Business Sourcebook (ICOBS)

2.2. During the Relevant Period, ICOBS 2.2.2R provided:

(1) When a firm communicates information, including a financial promotion, to a customer or other policyholder, it must take reasonable steps to communicate it in a way that is clear, fair and not misleading.

2.3. During the Relevant Period, ICOBS 2.2.3R provided:

(1) Before a firm approves a financial promotion it must take reasonable steps to ensure that the financial promotion is clear, fair and not misleading.

(2) If, subsequently, a firm becomes aware that a financial promotion is not clear, fair and not misleading, it must withdraw its approval and notify any person that it knows to be relying on its approvals as soon as reasonably practicable.

DEPP

2.4. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

The Enforcement Guide

2.5. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act.

2.6. Chapter 7 of the Enforcement Guide sets out the Authority's approach to exercising its power to impose a financial a penalty.