

# **General Insurance Add-Ons: Final Report – Confirmed Findings of the Market Study**

July 2014





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In this Final Report we finalise the provisional market study findings we published in March.

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## Abbreviations used in this paper

<b>CBA</b>	Cost benefit analysis
<b>CMA</b>	Competition and Markets Authority
<b>FCA</b>	Financial Conduct Authority
<b>GAP</b>	Guaranteed asset protection
<b>ICOBS</b>	Insurance conduct of business sourcebook
<b>IPT</b>	Insurance premium tax
<b>OFT</b>	Office of Fair Trading
<b>PCW</b>	Price comparison website

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# 1. Executive Summary

## Introduction

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- 1.1** In this final report on our market study we:
- Summarise the feedback we received on the provisional findings of our market study into general insurance add-ons and set out our response to that feedback; and in doing so, confirm that our findings are now final;
  - Summarise feedback on the provisional remedies we proposed as well as respondents' proposals for alternative remedies, and give our high-level response on this feedback; and
  - Set out our timescales for consulting on remedies.
- 1.2** This report finalises the preliminary market study findings we published in March 2014. This means that the 'market study' phase of the project is now complete.
- 1.3** However, our remedy design work is ongoing. We will continue our detailed work on how best to tackle the issues we found, and intend to work closely with industry throughout this process. We will consult on our proposed remedies later this year.

## Context

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- 1.4** In March 2014, we published the provisional findings of our first market study ***General insurance add-ons: Provisional findings of market study and proposed remedy report.***<sup>1</sup>
- 1.5** In the report, we:
- explained why we were concerned about general insurance add-ons and what prompted us to consider the issue through a market study
  - set out our approach and methodology
  - presented our assessment of how the add-on mechanism influences consumer behaviour and how effective competition is for add-on insurance products

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<sup>1</sup> <http://www.fca.org.uk/your-fca/documents/market-studies/ms14-01>

- estimated how much consumers may be overpaying for add-on products, and
- set out our proposed remedies.

**1.6** We found that competition in general insurance add-on markets is not effective, and these markets are broadly not working for consumers. In particular, we highlighted that:

- The add-on mechanism has a real impact on consumer behaviour and affects the way people make decisions. There is little pressure on firms to offer good value as add-on buyers are less likely to shop around and are less price sensitive. They have poor awareness of buying products or of the price they paid. Their attention is on the purchase of the primary product rather than the add-on, leading many consumers to buy add-on products they do not need or understand.
- Consumers' ability to assess options and make choices is hindered by the fact there is often insufficient information available about the quality and prices of add-ons, and what information is available is often presented very late. We expressed concerns about the impact this has on consumers' ability to make informed decisions.
- Add-on providers have a clear point of sale advantage, which is reinforced by the way consumers respond to the add-on mechanism. Competition between bundles (package of primary product and add-on) is not effective, and standalone products do not generally constrain sales of add-ons. Our analysis showed that this can lead to poor value and prices significantly above cost for many add-on products.
- Add-on insurance often represents poor value for money, but we found many instances of poor value for standalone products too. We are concerned that there is currently no easily comparable measure of the value of an insurance product.
- Ineffective competition translates into consumers paying too much when buying the products in our study as add-ons. The scale of this overpayment is such that we believe there is a clear case for us to take action. We acknowledge that some of the overpayment may be returned to consumers via cross-subsidies on the price of the primary product. Nonetheless we are concerned about the size of this distortion.

**1.7** We invited feedback on our provisional findings and proposed remedies, asking:

- i. Do you agree with the conclusions we have drawn from our analysis?
- ii. Are there any reasons why our provisional findings should not become final?
- iii. Are our proposed remedies likely to be effective in addressing the issues we have found?
- iv. Are there any other remedies we should consider?

**1.8** The period for submitting responses closed on 8 April 2014.

### About the responses

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- 1.9** We received 65 responses from a cross-section of stakeholders including regulated firms, trade bodies, a consumer group and individuals.
- 1.10** Appendix 1 lists those who responded, except those who asked for their responses to be confidential.

### Key messages from responses

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- 1.11** The majority of respondents did not comment on our high-level assessment that competition in markets for general insurance add-ons was not effective, or were supportive of this conclusion. Only a small number of respondents were critical of our general conclusion. Instead, respondents commented on aspects of our approach or methodology or queried points of detail.
- 1.12** In fact, the majority of the feedback focused not on findings but on our proposed remedies.
- 1.13** Many respondents acknowledged the findings showing how the add-on mechanism affects consumer behaviour and decision-making. However, some respondents felt that we did not give sufficient weight to the role that peace of mind, convenience and brand trust play in consumers' purchase decisions, and felt that we did not sufficiently acknowledge that our research clearly showed that consumers were generally happy with their purchase and would repeat it.
- 1.14** A number of respondents questioned whether the sample sizes for our consumer research and behavioural experiment were large enough to allow us to draw robust conclusions and inform remedy design.
- 1.15** Most of the feedback we received on our analysis of firm data centred around our use of value as an indicator of whether markets were competitive and consumers were getting good outcomes, and on our use of the claims ratio in particular. Industry respondents expressed concerns that the claims ratio did not reflect all relevant costs and as such was not a good indicator of value or profitability, and queried some of the detail of our calculations, as well as the comparisons drawn between products.
- 1.16** More generally, some respondents also asked whether we could draw conclusions about the value consumers were getting and potential overpayments without considering in more depth the waterbed effect – in other words, considering whether overpayments on add-ons might be returned to consumers through reductions in the prices of primary product prices.
- 1.17** The majority of respondents commenting on our firm findings focused on the GAP market. While respondents tended to agree that competition in GAP markets was not as effective as in other markets, they also questioned whether our conclusions had been properly substantiated. Respondents also felt that our conclusions did not adequately acknowledge that the value of GAP products (as represented by the claims ratio) would vary over time and that the period for which we analysed data would not have reflected subsequent improvements in the market.
- 1.18** A small number of respondents said they did not recognise the existence of a structural point of sale advantage, stressing that while such an advantage may exist for add-ons, it was not the case that a point of sale advantage existed across products by virtue of the mechanism alone.

- 1.19** This is linked to a point a number of respondents made, namely that they felt that we did not sufficiently take into account the differences between products in forming our conclusions and designing our remedies. Some respondents raised concerns over what they felt was a 'one size fits all' approach to remedy design, and queried the broad scope of some remedy proposals.
- 1.20** Responses to our specific remedy proposals varied. We received broad support for our proposals to ban opt-out selling and to improve the way add-ons are sold through price comparison websites (PCWs). However, respondents did note that we should be mindful of unintended consequences in designing these remedies, including inadvertently restricting legitimate business practices (opt-outs ban), or overwhelming consumers with information (PCWs proposal).
- 1.21** Respondents were largely critical of the claims ratio proposal, though it received strong support from a consumer group. Respondents raised objections in principle to using the claims ratio to shine a light on poor value, and also raised a number of practical concerns with the proposal.
- 1.22** Responses to the GAP insurance proposals focused on the possible impact of this remedy on the sales of GAP and the wider market, as well as on consumers. Respondents questioned whether the deferred opt-in would deliver the Financial Conduct Authority's (FCA) stated objective, and also raised a number of practical concerns with the proposed remedy.
- 1.23** We also received a number of alternative suggestions for remedies to tackle the issues we identified and wider concerns with add-on sales which respondents highlighted.

### Key messages from our response

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- 1.24** This final findings stage is focused on responding to the feedback we received on our findings rather than on the details of remedy design. While this report does not provide an update on our remedy design work, it does summarise the feedback we received on remedies and provide a high level response indicating how this is influencing our ongoing design work.
- 1.25** We have considered this feedback carefully. Our detailed response to feedback is set out in chapter 2. Our overall conclusion is that the feedback does not challenge our overall conclusion that competition for add-ons is not effective. While respondents questioned aspects of our methodology, they did not present evidence to suggest that our conclusions were wrong. Some comments have highlighted issues which we will want to consider in more detail as part of our remedy design work.
- 1.26** **In this report we are therefore making our provisional findings final. These are:**
- **first, that the add-on mechanism has a clear impact on consumer behaviour and often affects consumers' decision-making and weakens engagement which in turn strengthens a structural point of sale advantage; and**
  - **second, that many consumers are getting poor value not just from some add-on products but also from standalone purchases, and there is a lack of transparency and comparability about the value provided by general insurance products.**

- 1.27** In confirming our findings we do, however, also reiterate two points we made in our provisional findings report. First, that we recognise the value that some add-ons can provide (including the convenience they offer to consumers). Second, that we recognise that there are differences between the five products in our study, and between different general insurance products more widely. We will apply cross-market remedies only where our findings suggest that markets may be affected more widely.
- 1.28** We highlight these points in the context of our ongoing remedy design work. In the provisional finding report, we gave a set of clear objectives against which we would evaluate prospective remedies. We can confirm that these objectives remain, and include the need to be proportionate, to consider wider market impacts and unintended consequences, and to design remedies based on a firm understanding of consumers' behaviours and motivations.
- 1.29** The feedback we received on remedies makes clear that there are no easy solutions to the problems we are seeking to address. In finalising our findings, we are confirming our intention to find ways of making the add-on mechanism deliver better outcomes for consumers, and of exposing poor value products through sunlight remedies. The feedback we received will help us do this.
- 1.30** Respondents raised a number of issues relating to all aspects of remedy design and delivery that we are already considering carefully.
- 1.31** For both the PCWs work and the opt-outs ban, feedback has further highlighted the need to strike a balance between delivering better consumer outcomes and ensuring that consumer-friendly business practices are not hit unintentionally and with negative consequences. We will also consider findings from the thematic review into PCWs and the Competition and Markets Authority's (CMA) investigation into add-ons sold alongside private motor insurance.
- 1.32** We remain committed to acting in respect of the ineffective competition we identified in GAP markets and the poor consumer outcomes for add-on sales of GAP. We are considering feedback on our specific proposals as well as alternative suggestions made.
- 1.33** Facilitating more effective competition and better outcomes for consumers through greater transparency remains a key objective for us. We are still concerned about the lack of transparency and comparability of the value that insurance products offer consumers. We are aware that introducing a public measure of value is a challenging undertaking. The feedback we received confirms that there are several complex issues to address before such a measure can be introduced. But we believe that by working closely with industry and others it will be possible to overcome these obstacles and deliver against our shared ambition of delivering good value products to consumers that meet their needs. We are considering the feedback received to assess how best to design a measure that shines a light on product value, and how best to present this information and to whom. At this stage, the claims ratio remains our preferred measure, but we are considering alternatives suggested by respondents.
- 1.34** We will also consider the alternative remedies proposed, where these tackle the two key issues we identified. We will update on these as part of our wider remedies consultations.

### Next steps

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- 1.35** To help us with our remedy design work, we will work closely with industry and other stakeholders, including through a series of working groups which we will launch shortly.
- 1.36** We will consult on our proposed remedies later in the year. The timetable reflects the complexity of the issues at stake and our desire to take on board the feedback received.
- 1.37** The following chapters of this report give an overview of the feedback we received, and set out our response in relation to this feedback.

## 2. Our findings

- 2.1 In our provisional findings report, we asked whether respondents agreed with the conclusions we had drawn from our analysis, and whether there were any reasons why our provisional findings should not become final.
- 2.2 This chapter summarises the responses we received to these questions and our response.
- 2.3 We note that many respondents focused more on our proposed remedies than our provisional findings in their responses.

### Consumer and behavioural research findings

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- 2.4 The responses we received focused both on the research itself, and on the conclusions we drew from the research.
- 2.5 A consumer group provided high level findings from consumer research that supported many of our findings and highlighted other issues consumers may face when buying add-ons such as problems when making a claim on the add-on policy.
- 2.6 No other respondents submitted alternative consumer research on the questions investigated in the provisional findings report or provided any other evidence in respect of consumer behaviour.

### Recognising non-price value and consumer satisfaction

- 2.7 The main concern among those who responded to our consumer findings was that they felt our findings did not sufficiently recognise the role that peace of mind, convenience and brand trust play when consumers decide to buy add-on products. This point was highlighted by the majority of respondents.
- 2.8 A number of respondents also felt that our findings did not sufficiently reflect that our research showed that consumers were generally happy with the sales process and product purchased, and would repeat their purchase.
- 2.9 One firm was concerned that our research focused the consumer solely on the price of add-ons and did not refer to the alternative cover and services that products provide. The firm raised concerns that a consumer may consequently equate the price of an add-on with its value.
- 2.10 Further, the firm felt that the stimulus presented to consumers used negative descriptions and did not promote the benefits, which will have impacted consumers' opinions and may have influenced their responses.

- 2.11** One firm also raised concerns that we had drawn conclusions about the existence of sales pressure in direct contradiction to our research, which suggested that consumers broadly did not feel they were subject to sales pressure.

### Our response

We reflected in chapter 4 of our provisional findings report that the consumer research findings do show that consumers value peace of mind, convenience and brand trust. We also reported our findings on consumers being satisfied with their purchases.

However, it is also important to consider reported consumer satisfaction in the broader context of our findings on poor consumer understanding and low value for money offered by some of the products under consideration. For example, although reported satisfaction appears high, we also found that consumers significantly overestimate their understanding of product cover. We also note that survey participants were recent buyers and so, with very few exceptions, they had not had an experience of claiming on their current policy – a potentially important element of quality that would inform a repeat purchase later.

Nevertheless, the non-monetary benefits of general insurance products are important, and factors such as peace of mind, and consumers' willingness to buy these products, have informed our choice of remedies and will continue to do so. Our provisional findings report recognises that not all add-ons offer poor value for consumers and that the add-on mechanism can be a convenient and efficient way for consumers to buy the products they want and need (pages 33 and 54 of our provisional findings report). As a result, our proposed interventions do not seek to impede add-on sales in general, but instead focus on helping consumers to make informed and engaged purchase decisions, and to help consumers seek out good value products, be that add-on or standalone, in markets where prices are constrained by competitive pressures from other suppliers. Peace of mind matters and consumers should still be able to secure this benefit as a result of an informed and engaged decision to buy.

We do not consider that the provisional findings report demonstrated an excessive focus on price. We note that our qualitative and quantitative consumer research was an open-ended exploration of a wide range of consumer experiences of the sale and the product. Our consumer survey included one specific question about recollection of price, it also explored a wide range of reasons for purchase, quality of the purchasing process (information provided, sales pressure), perceived and actual understanding of the quality of the product cover, and satisfaction with the product.

The experimental research looked at consumers' effectiveness of shopping around on price. Simplification of real-world problems is a common practical necessity for experiments to make the results tractable. However, a finding that consumers have difficulty comparing products on just one dimension (price) in a simplified setting makes it reasonable to conclude that they would face similar,

or greater challenges, when choosing products in the real world where they also have to compare product quality, brands, and other variables.<sup>2</sup>

Our provisional findings report clearly acknowledges (in chapter 4, pages 31 and 32) our findings on consumers' experiences of the sales process and whether they felt pressured to buy. Our conclusions about the impact of the add-on mechanism are not based on the existence of or absence of sales pressure. Rather, we note the many ways in which the mechanism impacts on consumers' engagement and their ability to make decisions, which further strengthens the point of sale advantage. These are structural findings associated with the mechanism, rather than with any tactics used by sales staff.

### Sample sizes and applying conclusions across products

- 2.12** A small number of respondents were concerned that the sample sizes for our research were limited within products, particularly for GAP insurance, and felt that they were therefore too small to draw meaningful conclusions from. For example, one firm commented that our sample may not adequately reflect the entire population of GAP buyers and would not give a true picture reflecting variables such as the type of GAP product purchased, vehicle value, brand, and vehicle age (new or used).
- 2.13** The same firm noted that not all product types were included in the experiment, and on this basis raised reservations about applying remedies across all products.

### Our response

The sample sizes used in our consumer research need to be considered in the context of the primary purpose of the market study, which was to explore commonalities across products rather than investigating individual products in-depth.

We are satisfied that the sample sizes and product coverage in different elements of consumer research were appropriate for this purpose, and we considered research design (including sample sizes for our quantitative consumer research) carefully.

In particular, we note that power calculations – the standard statistical methodology for determining minimum sample sizes needed to investigate a particular effect – showed that the sample sizes chosen for the quantitative survey would be adequate to identify any (material) differences between consumers who had purchased their product on an add-on or standalone basis both across and within products.

As our provisional findings report shows, our research found patterns across our sampled products, which had been specifically chosen to cover a diverse range of types of insurance, target consumer markets and distribution channels. We also deliberately used a slightly different set of products in our behavioural experiment (as well as unlabelled generic add-on products). We found common impacts throughout.

<sup>2</sup> The types of simplification that are appropriate in experimental research are discussed in more detail in Iscenko, Z., Duke, C., Huck, S. and Wallace, B. (2014) *How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation*, FCA Occasional Paper 3.

We therefore take the view that there are clear similarities that allow us to conclude that the general findings from this research will be applicable to other product types on the basis of the sample sizes we used.

Our remedies are largely targeted at the add-on mechanism itself or aim to highlight value. They are intended to apply across a wide range of products, irrespective of distribution channel and sales process. Because of this, we consider that our research and behavioural work is appropriate as a basis for initial remedy design work.

Where we did identify an outlier, GAP, we propose a more specific and interventionist remedy. We are considering what further research may help us to design this remedy and complete the cost benefit analysis (CBA).

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### **Differences between products and between add-on and standalone sales**

- 2.14** One firm felt that our consumer research findings were driven by certain products such as GAP insurance, and when other products such as travel are isolated, the difference between add-on and standalone purchasers are in some cases reduced.
- 2.15** A small number of respondents were concerned that there were examples in our report where conclusions had been drawn based on low levels of differences between answers for standalone products and add-on products, particularly in relation to consumer understanding.
- 2.16** One firm felt that there was no clear evidence in the report to support the conclusion that add-on buyers are less likely to shop around, less effective when they do shop around, and less sensitive to price. The firm noted that the data presented in the report suggests individuals purchasing add-on insurance behave and make decisions in a manner remarkably similar to that of individuals purchasing standalone insurance.

### **Our response**

Where we highlighted differences between add-on and standalone purchasers in our provisional findings report, we did so on the basis that these differences are statistically and substantively significant. Where the differences are minimal, such as in respect of product understanding, they are clearly stated in the report (page 28). We acknowledge that consumer behaviours and outcomes are not uniform and there are some consumers who might be shopping around effectively, especially in some markets. However, we are concerned about the difficulties faced by consumers generally and what this means for how effective competition can be in add-on markets.

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### **Reliance on economic and behavioural theory**

- 2.17** More generally, two respondents raised concerns about our reliance on economic and behavioural theory, cautioning against using theoretical and academic tools too heavily in setting policy. They noted that behavioural experimentation has an unproven track record and that over-reliance on such ideas could result in artificial remedies.

### Our response

Use of economic analysis and a thorough consideration of the behaviour of market participants – consumers and firms – and how those interact to shape outcomes in the market is the standard and widely accepted approach to competition investigations, including those investigating market-wide consumer protection issues. The approach we used and the types of evidence we considered are in line with those used by other regulators, such as the Office of Fair Trading (OFT) and Competition Commission and now the CMA, in their own market studies.

Our investigation was grounded in gathering empirical evidence about actual behaviours and outcomes in the add-on markets of concern.

We consider that our use of behavioural theory or methodologies in the study was balanced and appropriate. We have previously said (alongside other authorities, including the OFT) that drawing on existing evidence and new research techniques from behavioural economics allows for a more sophisticated analysis of consumer behaviour that is important in helping regulators identify underlying drivers of problems in markets and design appropriate policy interventions.<sup>3</sup>

Behavioural experiments specifically are still a less commonly used investigative technique for regulators. This research formed only one part of our wider consumer research programme; and the findings from our experimental research were corroborated by more traditional research methods. Overall there is considerable practical and academic evidence that they can be a valuable tool for investigating behaviour for regulators when they are used appropriately and their limitations recognised.<sup>4</sup>

### Overall conclusions

We do not believe the feedback received undermines our findings. We are therefore confirming that our findings around the impact of the add-on mechanism on consumer behaviour, and the negative effect it has on consumer engagement and decision-making, are now final. Where concerns raised by respondents relate more to how we respond to the findings or design specific interventions, we will consider these as part of our remedy design work as appropriate.

3 FCA OP1 here and OFT, “What does Behavioural Economics mean for Competition Policy?”, March 2010, available at: [http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared\\_of/economic\\_research/oft1224.pdf](http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_of/economic_research/oft1224.pdf)

4 See, for example, Iscenko, Z., Duke, C., Huck, S. and Wallace, B. (2014) <http://www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-3> How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation, FCA Occasional Paper 3.

### Findings and provisional conclusions about whether markets are working well

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- 2.18** We received a relatively small number of responses to our findings on the functioning of the add-on markets. The majority of those who did respond were concerned with the GAP market.
- 2.19** General feedback focused on the conclusions drawn from our analysis, but also on the methodology we applied and the data we based our conclusions on.
- 2.20** Respondents tended to agree with the analysis that competition in the GAP market was not as effective as the other insurance markets, but raised concerns about how we had arrived at these conclusions.
- 2.21** A small number of firm respondents did not recognise a structural point of sale advantage for add-on sales. One firm in particular felt that there was no evidence that the add-on mechanism in itself confers such an advantage and plenty of evidence to the contrary in the FCA's own findings. They said that it is possible that there may be a point of sale advantage with regard to specific add-ons, but it is demonstrably untrue that such an advantage exists across products by virtue of the add-on mechanism itself.

#### Our response

We welcome the feedback we received that supports our conclusion that there are issues with the way GAP markets work.

We acknowledge the point that there are differences between products, but also note that the structural and behavioural point of sale advantage that is associated with the add-on mechanism exists across the broad spectrum of products. We note that in some markets, such as travel, the impact of the mechanism on consumers is less pronounced. This may be because consumers are more aware of alternatives, which are in turn more readily available and easily searched for, and because consumers buy the product more frequently and are thus able to learn from experience. The fact that the impact of the mechanism is weaker in this context does not mean that no point of sale advantage exists. But the difference in strength and impact of the point of sale advantage is reflected in the fact that we are not taking similar market-specific action in markets other than GAP.

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#### Measuring product value

- 2.22** A few respondents questioned whether the FCA had given sufficient consideration to the differences between the sampled products in considering value. Firms argued that these differences could account for or contribute to differences in value seen between the add-on and standalone products. For example, the differences in value could be driven by differences in average premiums levels, variations in policy cover, and distribution costs for different sales channels (especially when comparing add-on sales of GAP, primarily offered face to face, to other products, and online sales generally).
- 2.23** For the measurement of product value, firms questioned the inclusion of Insurance premium tax (IPT) in the claims ratio calculations, arguing that IPT should be excluded because it is not part of the income earned by firms, and because different rates of IPT apply to different insurance products. This was raised especially in respect of GAP where respondents highlighted

that add-on GAP sold face to face through dealers included IPT at 20%, whereas GAP policies sold online only incurred IPT of 6%.

- 2.24** More generally a number of firms questioned whether we should base our product value conclusions on the claims ratio at all. Respondents noted that the claims ratio does not adequately reflect all relevant costs, such as distribution and compliance costs. In addition respondents noted other shortcomings of the use of claims ratios such as the different calculation methods used by firms, and that the claims ratio does not capture the peace of mind consumers benefit from.
- 2.25** For the same reasons, firms also said that the claims ratio does not provide a good indication of profitability.
- 2.26** Finally, firms noted that the claims ratio would not be useful for consumers comparing the relative price and quality propositions offered by different insurers in the same market.
- 2.27** One respondent highlighted that drawing comparisons on product value with data from regulatory returns can be misleading given that these returns may include products with very high claims ratios such as personal motor insurance.

### Our response

A key objective in gathering and analysing data from firms was to assess the value chain for indicators of ineffective competition, and specifically to test whether consumers were getting good value from the products under consideration, and whether firms were in a position to generate higher profits than would be expected under normal competitive conditions. We used a range of indicators to help us answer these questions.

As noted in the provisional findings report, we were not generally able to compare price and cover between add-on and standalone products on a like-for-like basis (which we noted was likely to be even more challenging for consumers themselves). We also acknowledge that there are some aspects of a product's cost or service that the claims ratio does not capture.

However, in the provisional findings we used claims ratios as our core measure of product value to consumers, and we remain of the view this is appropriate because the claims ratio compares, from the consumer perspective, what is paid in against what is paid out in claims. The claims ratio does not capture all the relevant supply chain activities associated with the underwriting and distribution of insurance products. However, our focus is on the monetary value to the consumer in terms of what is paid out in claims, rather than focusing on other costs such as the level of advertising expenditure on a product, or indeed on the non-monetary benefits a consumer experiences. While peace of mind can be an important reason why consumers buy general insurance products, we would note that consumers can secure this benefit at different costs. As such, the claims ratio helps us discover whether consumers are effectively getting good value for their cover and peace of mind, or whether they are potentially overpaying and securing this peace of mind at a higher cost that is necessary.

We included IPT in our calculation of the claims ratio as we were examining value from the perspective of the consumer (who would have to pay the IPT)

and hence, whilst IPT does not represent income for firms, it does represent a genuine cost for consumers.

We note that even had we excluded IPT in our claims ratio calculations our conclusions would not have been materially impacted, and the claims ratios for the sampled add-on products (for personal accident, GAP and home emergency) would have remained relatively low. For example, if we had excluded IPT, the claims ratio for add-on GAP would have increased from 10% to 12%. The most significant impact on the claims ratio from excluding IPT would be on travel insurance. Had we excluded IPT from the calculations, claims ratios for add-on and stand-alone travel insurance sales would have increased to 62% and 50% respectively (from 52% and 42%). We will consider the merits of the inclusion of IPT in the claims ratio as we develop the claims ratio remedy.

Whilst we noted that the claims ratio can also be used as a profitability indicator it was not the main profitability measure and we undertook a separate profitability analysis which showed that some add-on distributors generated high profits from the distribution of the sampled products.

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### Measurement of consumer overpayment and capturing cross subsidies

- 2.28** One trade body questioned the basis for the overpayment estimates in the provisional findings, raising concerns that we did not capture the cross subsidies in our calculations, and questioning our reliance on claims ratio as the basis of the calculation.
- 2.29** Several respondents questioned whether the finding that a lack of competition for add-ons can lead to consumers receiving poor value had been properly substantiated. For example, a number of respondents considered that the FCA needed to undertake more work to understand the impact of the waterbed effect on both primary and add-on product pricing before concluding that consumers were overpaying for add-on products and estimating the size of this overpayment.

#### Our response

Our calculations of overpayments were indicative and were not intended to be precise estimates. Rather, they were intended to give a sense of scale. The overpayment calculations show a significant overpayment even under the most conservative assumptions. We concluded from this that there is a case for us to intervene.

As noted in our provisional findings, a detailed consideration of the waterbed effect was not within the scope of the study. We accept that some of the overpayment by consumers for add-ons may be returned to them in the form of lower primary product prices. However, from the point of view of transparency and effective competition, even in the presence of waterbed effect we would still have concerns. Competition and consumer decision making can be distorted because the price for some goods may be too high while the prices of other goods may be too low, compared to normal competitive conditions. The lack of transparency on pricing can mean that consumers are not making fully informed decisions, and that the mechanism allows for their biases to be exploited. In this way competitive pressure on prices and costs is not equally effective across products or markets.

However, where appropriate we will consider the existence of potential waterbed effects as part of our CBA when we will assess the wider impact of our proposals.

### Data issues and data gaps

- 2.30** Respondents queried the lack of data for stand-alone GAP claims ratios, combined operating ratios and claims frequencies. In addition several respondents felt that we had not adequately considered the distribution costs for add-on face to face GAP sales, which may contribute to the higher prices, and which they felt represented a gap in the analysis.
- 2.31** A few respondents noted that the claims ratio for GAP would be expected to vary over time depending on factors such as the used car market (where prices were considered to be relatively high in the review period), and the general economic climate.
- 2.32** Some firms also said that they expected that GAP insurance would improve in value in the period after the market study review period (i.e. post 2012), because of product improvements, an expected widening in the pricing gap between new and used vehicles, and improvements resulting from the embedding of the ABI GAP good practice guide.<sup>5</sup>
- 2.33** There were specific GAP insurance questions about the claims frequency calculation, the replacement vehicle terms on comprehensive motor insurance policies, the comparability of GAP standalone and add-on products and GAP profitability conclusions, because we had not captured GAP add-on face to face sales in the distributor profitability assessment.
- 2.34** Finally, respondents raised a number of specific issues relating to data used in our analysis, including:
- whether the 0.3% claims frequency was an accurate reflection of the claims frequency in the GAP market which was considered to be higher (Market study provisional findings page 43)
  - whether the relative retention percentages of the retail price by different firms for add-on GAP were accurate (Market study Annex B page 4)
  - whether the average claim pay out for add-on personal accident was correct, as they considered that it should be higher than £1,067 (Market study Annex B page 10)

### Our response

We arrived at our provisional findings having considered the indicators and sources of data available in the round, rather than relying solely on the claims ratio or profitability data. As stated in our provisional findings report, we do not have a complete set of data points for all products and all sales channels; for example, in our preliminary findings report we did not provide data on claims ratios for stand-alone GAP and distributor profitability information for add-on face to face GAP sales. Our assessment is that the add-on claims ratio data and

<sup>5</sup> ABI, "Guaranteed Asset Protection Insurance: A Voluntary Good Practice Guide for Providers", February 2011 available at: <https://www.abi.org.uk/~media/Files/Documents/Publications/Public/Migrated/GAP/ABI%20good%20practice%20guide%20-%20GAP%20insurance%20for%20providers.ashx>.

add-on and stand-alone pricing data for GAP provide strong evidence that add-on GAP has historically offered poor value to customers and that customers would benefit from shopping around. We do not consider that we need further data to finalise our market findings, but we will consider what further data may be appropriate as part of our remedy design work.

There were questions raised by respondents about specific parts of the firm data, especially the GAP data. For the GAP claims frequencies, we calculated the claims frequency based on claims per year as a proportion of policies in force in that year. Since policies are typically of multi-year duration if we were to calculate the claims frequency as claims per policy over the duration of the policy this would increase the product claims frequency to over 1% (from 0.3% in the provisional findings).

The chart on page 4 of Annex B, setting out for add-on GAP the estimated percentage of the retail price (excluding IPT) retained by different firms in the supply chain, is based on the estimates provided by a number of insurers operating in this market, and the chart reflects these estimates. We found that whilst the estimates between the insurers varied between firms, most estimated the insurer share being less than 25% and the retail distributor share being over 60%.

Following receipt of consultation submissions, and on reviewing the data, we have adjusted the claims frequency and average claims pay-out figures for add-on personal accident. Incorporating the revised data makes a significant difference to these reported figures, but not to our main conclusion in this area, which are that claims frequencies on add-on personal accident insurance are very low. The revised average claim pay-out for the add-on personal accident products is £7,366 (from £1,067 in the provisional findings) and the revised claims frequency is 0.005% (from 0.05% in the provisional findings).

### Overall conclusion

Overall, respondents did not argue that our findings were incorrect, but rather they questioned whether the data gaps and limitations meant that the conclusions were substantiated, and whether we should have focused on value and particularly the claims ratio to the extent that we did. We recognised the data limitations in our provisional findings report, so while we acknowledge the feedback, we consider we have obtained sufficient evidence from various sources to support the conclusions set out in the provisional findings. Thus, with the exception of the updated figures for add-on personal accident claims frequencies and average claims payout, we are confirming our provisional findings as final.

### General comments - findings and remedies

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- 2.35** A significant number of respondents raised concerns over the short time in which we asked for consultation responses.
- 2.36** Some respondents said our definition of add-ons and deferred add-ons were unclear. They highlighted situations where consumers can choose to remove elements of cover typically included within a core product in order to vary the premium but which are not generally considered as add-ons, for example baggage cover which can be removed from a travel insurance policy. They questioned how these situations would be treated for the purposes of remedy design, and asked for greater clarity.
- 2.37** A small number of respondents felt that our remedies were generic and that we had adopted a “one size fits all” approach. They were concerned that we had extrapolated the conclusions we had drawn from our five products to all general insurance products and markets, and that we had not considered the differences between different products and markets when proposing our remedies.
- 2.38** Following on from the points raised in respect of consumer and firm findings, a number of industry respondents noted that they felt further research was needed to support our remedies work, and specifically that we needed to test specific remedies with consumers before implementing them.

#### Our response

At this stage of the market study, we only asked respondents for feedback on our findings. We therefore regard the four week consultation period as adequate. There will be further opportunity to engage on remedies in detail, including formal consultation.

Drawing clear distinctions between add-ons, deferred add-ons and standalone sales was not easy. Our remedies are generally not designed to differentiate between add-ons and deferred add-ons. However, where definitions may be relevant in remedy design, we will take into account the points raised to ensure that our remedies are clear.

We acknowledge that conclusions were drawn from five products, but we do not believe that we have disregarded the differences between products. We found patterns across all products in our study that demonstrate that the add-on mechanism has a real impact on consumer behaviour and affects the way they make decisions.

We will consider where respondents suggest further research and evidence should inform remedy design. We also welcome any further research or evidence from stakeholders.

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## 3. Remedies

### GAP add-on sales – imposing a deferred opt-in

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- 3.1** As set out in the provisional findings report, we identified particular concerns about ineffective competition in the add-on GAP market and signalled our intent to intervene. The key element of this intervention is a proposal to impose a break between purchase of the primary product and the add-on GAP (called a 'deferred opt-in'), limiting the point of sale advantage held by those selling add-on GAP. We would also mandate that, if GAP is offered at point of sale, the customer must be told that they can buy it elsewhere and be given information on how to shop around. Finally, we would also consider how best to improve transparency to help tackle unclear pricing information when the vehicle and GAP are offered together.
- 3.2** Respondents generally agreed that change was needed for the add-on GAP market, but expressed concerns over our proposed remedy. In particular, they raised concerns that the proposed remedy amounted to a point of sale ban, which they considered was too severe.
- 3.3** The main objection from firms was that they believed the proposed remedy would lead to increased costs (with a two-stage GAP sales process) and lower sales for retail distributors, resulting in distributors withdrawing from the GAP market or potentially moving to alternative products. Furthermore, a number of respondents considered that the proposed remedy would result in lower consumer awareness of the risks covered by GAP insurance, with consumers forgetting to purchase the insurance, consumers having to finance the GAP purchase separately and increased difficulty for distributors to re-engage consumers after a deferred period. There was a wider concern that the proposed remedy could leave consumers exposed and uninsured.
- 3.4** There were mixed views about the financial shortfall risk to which consumers who suffered a total vehicle write-off would be exposed during any deferral period, as well as the level of protection provided by comprehensive motor insurance for new vehicles in the first year after purchase. Certain respondents questioned the effectiveness of replacement vehicle terms in some insurance policies. It was widely recognised that most used car purchasers are not eligible for replacement vehicle cover under their motor insurance, although a few respondents acknowledged that the financial shortfall during any deferral period and during the first year will generally be lower than for new vehicles.
- 3.5** Several respondents highlighted the benefit of the add-on GAP sales process compared to standalone sales (which take place primarily online), with consumers potentially benefitting from a more engaged sales process. Some respondents also stressed that consumers also benefit from the convenience of being able to buy GAP insurance at the same time as the vehicle. Some respondents were concerned that the remedy would create a competitive advantage for standalone distributors because add-on distributors, although able to inform prospective customers about the product, would not be able to sell to consumers during the deferral period, whereas there would be no restrictions on standalone sales.

### Detailed remedy design and alternative proposals

- 3.6** Respondents who focused on the deferred opt-in remedy were looking for clarity about how the remedy would apply, when the deferral period would start (e.g. from the point of order or the point of sale), how long the deferral period would be and what alternative product availability information would have to be provided. Where respondents objected to the proposed remedy, they often suggested ways they considered the remedy could be improved. For example, one suggestion was to start the deferral period at the point of vehicle order rather than the point of vehicle delivery. It was considered that this would both enable consumers to have time to consider alternatives and improve the ability of distributors to engage with consumers prior to vehicle delivery. Affected firms also believed that any deferral period should be kept to an absolute minimum.
- 3.7** Some respondents suggested other remedies to reducing the point of sale advantage enjoyed by GAP add-on distributors. Suggestions included:
- ensuring better quality information and explanations at the point of sale
  - disclosure of alternative options
  - commission disclosure, and
  - extended cooling off periods.
- 3.8** A number of respondents questioned whether the FCA had considered the remedies used in the extended warranties market, which they considered had improved claims ratios for these products.

#### Our response

The objective of the proposed remedy is to promote effective competition in the GAP market. We consider that we can achieve this by taking steps to reduce the point of sale advantage of add-on sellers of GAP insurance, to empower consumers to make an informed decision about whether they need GAP, and to shop around and find the best value option if they do. Our proposed remedy contained a number of elements, the key one being the introduction of a deferred opt-in.

This sort of point of sale intervention represents a new way of addressing detriment as we consider how best to take action under our competition mandate. We will do further work before we consult on how best to tackle the problems we identified in the GAP market. We have listened to respondents' concerns about the impact of the remedy and potential withdrawals from the market and agree that these are important considerations. As part of our next steps on remedy design and the CBA, we will consider both the incentives for distributors and the impact on consumer demand and behaviour. We will also look to understand the potential wider impact on consumers such as the loss of purchase convenience and ability to fund the GAP purchase under a deferred opt-in proposal.

Alternative suggestions proposed by respondents will be considered as part of the remedy development, and we will also consider further the remedies introduced in the extended warranties market.

### Banning default opt-out sales

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- 3.9** In our provisional findings report, we proposed to ban the use of opt-outs (for example, pre-ticked boxes) for the sale of general insurance add-ons because we felt they could lead to consumers not making informed decisions and thereby they undermined effective competition in add-on markets. Almost all respondents supported this remedy, with many noting that they had already moved away from opt-out selling or would now do so in response to our report. The two respondents who disagreed with our proposal felt that the ban should not apply to the travel industry.
- 3.10** Some firms raised issues about how the ban would be applied to circumstances where the consumer had already indicated that they wanted to buy a particular add-on, for example when being transferred from a PCW to a seller's website, or when a policy package that included add-ons came up for renewal. Respondents sought clarification on whether such circumstances would be caught by a ban and would mean that explicit opt-in would need to be sought again. Firms suggested that, in these situations, a continuing duty on the firm to obtain repeat consent to charge the customer for the add-on should not exist, providing the add-on had previously been selected by the consumer.
- 3.11** One consumer group also recommended that policy renewal notices should include a clear and prominent statement highlighting that the consumer can opt-out of the add-on when they renew their main insurance policy.
- 3.12** Respondents queried whether auto-renewal of general insurance policies (where this practice was common such as in home or motor markets) would be captured by the ban.
- 3.13** Respondents sought clarification on a number of different points regarding the design of this remedy, including:
- How the ban would distinguish add-on insurance products from cover options for core insurance products.
  - Whether the ban would apply to bundled insurance products and other added value accounts.
  - How the remedy would interact with the new restrictions on opt-out sales under the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 (CCRs), including whether products beyond general insurance would fall within the scope of the ban.
  - Whether there would be specific exclusions for travel packages in line with the CCRs.
- 3.14** Respondents were keen that we consider relevant requirements arising out of the Insurance Mediation Directive 2 (IMD2), for example proposed rules around bundled packages, in designing this remedy.

### Our response

In our report we stated that we do not believe that opt-out selling promotes active and informed decision-making. We are encouraged by the widespread support we have received from respondents for this remedy. The feedback we received is helpful in highlighting areas where we need to carefully design the remedy to put an end to detrimental opt-out selling practices while not unintentionally impacting on other business practices, such as policy renewals or sales through PCWs, in a way that is not in consumers' best interests.

### Improvements to how price comparison websites (PCWs) provide add-on options and pricing

- 3.15** In our provisional findings report, we indicated that we wanted to explore what improvements could be made to the way add-ons were sold via PCWs, while maintaining key aspects of the PCW buying process that consumers value. Although we did not make detailed remedy proposals, we indicated that we might look at options involving add-ons being offered earlier in the sales journey, better information on price and cover, and an ability to search by bundles. There was strong support for this remedy from almost all respondents. A small number expressed concerns about the potential risk of overloading consumers with too much information and the practical difficulties in retaining comparability between products due to the different levels of cover they offer.
- 3.16** One respondent, who disagreed with our proposed remedy, said that there was no specific research to support our proposal.
- 3.17** Most firms and trade bodies that responded supported the idea of PCWs enabling consumers to select add-ons during the initial question stage and making it possible for consumers to compare bundles.
- 3.18** However, firms also raised a number of concerns in response to this proposal:
- How a PCW's search results would treat insurers that do not offer the add-ons selected by the consumer, since different insurers sell different add-ons. For example, whether the PCW would return a quote highlighting the unavailability of the add-on or whether the search would return a quote at all.
  - The amount of time it would take to develop standardised summary descriptions of add-ons that can be displayed on PCWs.
  - The difficulty in providing clear and appropriate product coverage information due to varying product coverage.
  - Introducing add-ons earlier could have a negative impact given consumers are familiar with the process of focusing their initial engagement on the core product – consumers might be distracted or confused and not go on to buy the primary product.

- 3.19** One firm expressed concerns about how we would consider consumers' increasing preference for accessing PCWs on devices such as smartphones and the very practical constraints of providing additional information on these devices.
- 3.20** Another firm suggested that our remedy should also focus on the regulatory responsibilities of PCWs, particularly regarding disclosure requirements and the duty to check customer eligibility.
- 3.21** Respondents were keen that we consider the findings from our PCW thematic review and the CMA's private motor insurance market investigation when designing our final remedy.

### Our response

We are pleased that almost all respondents supported our high-level proposal to make improvements to how add-ons are sold through PCWs. The feedback provided highlights some of the challenges involved in remedy design and we will be considering it in detail as part of the next phase of our work. We will also continue to consider the extent to which a market-led solution may make it possible to come the right consumer outcomes in this area. Both the CMA's investigation into add-ons sold alongside private motor insurance<sup>6</sup> and our own thematic review into PCWs, published on 16 July<sup>7</sup>, found similar concerns in relation to add-ons. We will continue to work closely with the CMA to ensure our remedies are aligned.

### Publishing claims ratios

- 3.22** In our provisional findings report, we identified poor value as a concern across both the add-on and standalone markets we examined. We also noted that there is currently no common or consistent method for measuring the value of insurance products. We set out that we believe that the claims ratio – broadly the amount paid out in claims as a percentage of what is received in retail premiums and IPT – is a useful measure of the value of insurance products. We proposed to impose a requirement on firms to publish claims ratios, in order to strengthen transparency and comparability of insurance products, and to increase scrutiny and competitive pressures.
- 3.23** The vast majority of firms were critical of the proposed remedy, with objections relating to both points of principle and practical considerations. However, one insurer recognised that the claims ratio could be a measure of customer value for money in some circumstances, and another insurer recognised that the claims ratio may be a useful indicator of a potential competition problem. The proposal to require publication of claims ratios was supported by the consumer group respondent.

### Objections on principle

- 3.24** A large number of firms questioned whether the claims ratio would be effective in encouraging better decision-making by consumers. They also raised concerns that the claims ratio was not necessarily an accurate representation of product value.

<sup>6</sup> CMA, "Private motor insurance market investigation: Provisional decision on remedies", 12 June 2014, available at: [https://assets.digital.cabinet-office.gov.uk/media/53993df140f0b6102000000a/Provisional\\_decision\\_on\\_remedies.pdf](https://assets.digital.cabinet-office.gov.uk/media/53993df140f0b6102000000a/Provisional_decision_on_remedies.pdf)

<sup>7</sup> <http://www.fca.org.uk/news/tr14-11-price-comparison-websites-in-the-general-insurance-sector>

- 3.25** A significant number of respondents considered that the publication of a claims ratio would not improve consumer decision-making when trying to decide between insurance products at the point of actually making their purchase, and providing this information could confuse consumers.
- 3.26** Some firms feared that publishing a claims ratio might have unintended consequences. For example, they cautioned that consumers might not purchase insurance they need because they misunderstand what the claims ratio represents, draw conclusions based on looking at the claims ratio alone without adequate contextualisation, or because they are driven by ‘alarmist’ headlines in the press. It was also noted that firms might bundle together more products to avoid having to report on claims ratios for add-ons separately or to improve ratios by blending ratios, and that this could lead to greater homogenisation of products and less choice for consumers.
- 3.27** Some firms questioned whether the claims ratio was an appropriate measure of product value, because of the exclusion from the ratio of relevant costs such as claims management costs, and distribution and marketing costs.
- 3.28** Furthermore, a high number of firms emphasised the importance of factors not captured by the claims ratio that they stress contribute to the value offered by products. These include:
- peace of mind for consumers
  - the experience of making a claim, including service received and ultimate outcome
  - overall customer service, and
  - convenience for consumers buying add-on products.
- 3.29** Finally, firms also questioned whether the requirement to publish could result in what they consider to be commercial information being brought in to the public domain.
- Practical considerations**
- 3.30** Several respondents questioned the justification of applying the potential remedy to all general insurance products. They felt the case to do so had not been made and noted that there were also practical issues. For example, it might not be appropriate to use the claims ratio for niche or specialist products, or those insuring against catastrophe risk, without appropriate contextualisation.
- 3.31** Respondents also noted that the expected benefits would be lower were the remedy to be applied more widely, for example because of differing levels of consumer product awareness and value presented by core products such as home and motor. Respondents felt that a more natural fit in terms of scope would be to focus on add-on products or on the market study sample products.
- 3.32** Several respondents highlighted that any product value measure (such as the claims ratio) would need to be clear and robust, enabling reporting firms to produce reliable data without imposing excessive burdens on firms. Some respondents questioned whether such a reliable claims ratio measure was achievable, given the many practical complications identified.
- 3.33** Respondents raised a number of practical issues with the claims ratio proposal that they felt could prove problematic. These included:

- Identifying which firms should be responsible for calculating and publishing of claims ratios.
- Potential issues with responsible firms not having access to all necessary data to produce the claims ratio.
- Difficulties in ensuring that firms calculate the claims ratio in a reliable and consistent way.
- Determining the appropriate level of granularity – at what level would it be appropriate, practical and proportionate to publish claims ratios (e.g. by individual scheme, by product, by product groups).
- Dealing with new products, and with existing products with changing terms and prices (for example, products with teaser rates).
- Dealing with products where the claims ratio may not adequately capture the product value and ratios could vary significantly over time, for example products with low frequency, high impact claim events.
- Products may have other non-claim value-adding services (such as telephone legal helplines), which would not be captured by the claims ratio.
- The disproportionate impact of distribution and administration costs on the claims ratio for low-cost products

**3.34** A number of respondents considered that including IPT in a product value measure would not be appropriate, given it is not part of the income earned by firms underwriting and distributing the product.

#### **Alternatives to the claim ratio**

**3.35** A number of respondents suggested alternative or additional measures that they felt would give a better representation of product value or might be more easily delivered because they had fewer practical challenges associated with them. Measures suggested included publication of:

- Claims frequency – proportion of claims to policies sold.
- Declined claims rates – proportion of claims rejected to claims submitted by customers.
- Average claims settlement times – average time between claim submission and claim settlement.
- Product cover comparisons.
- Combinations of different measures to provide a combined value rating.

#### **Our response**

We see increased transparency and an increased focus on value as a key mechanism of delivering more effective competition and securing better outcomes for consumers in general insurance markets. The remedy is not only aimed at consumers. We share respondents' concerns about the limits on consumers taking on an extra piece of information at point of sale. However, we see increased transparency as a sunlight remedy and we anticipate that

this measure would be used by consumer groups, financial journalists, financial journalists, and other interested stakeholders to draw attention to poor value products. We will also consider how the FCA will use this measure in its supervision of firms. We plan to work with relevant stakeholders going forward to identify what measure of product value would be most helpful.

As we learnt from the experience of requiring complaints data publication, such sunlight remedies can work in sharpening the focus on an area and improving performance. In this instance, we are targeting the poor value that some consumers can get when buying general insurance products, and the lack of transparency and comparability of general insurance products.

We recognise the difficulties associated with this proposal, and as we noted in the provisional findings report, there are a number of practical challenges to overcome. We are considering the feedback received to assess how best to design a measure that shines a light on product value, and how best to present this information and to whom. The feedback we received shows that a remedy that shines a light on poor value will be challenging to design and deliver. However, we remain keen to pursue this proposal.

Respondents suggested a number of alternative ways in which value could be captured and published. Where these suggestions meet our overarching objective of shining a light on poor value, we will consider them alongside the claims ratio proposal. While the claims ratio remains our preferred measure, we are considering alternatives suggested by respondents.

We will work closely with industry over the coming months on the detail of our proposals, including through a series of workshops. We will also seek the detailed views of those who might use a measure of value to understand what measure might best meet their needs and how this information should be presented. We believe that by working closely with industry and others it will be possible to develop a measure of product value, and deliver against our shared objective of delivering good value products to consumers that meet their needs.

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### **Alternative or additional remedies**

- 3.36** Some respondents questioned the appropriateness of both the claims ratio remedy and the GAP deferred opt-in remedy, and a number of these identified alternative remedies to deal with the ineffective competition in some add-on markets and poor consumer outcomes. Paragraph 3.35 of this report sets out alternative product value measures suggested by respondents, which included providing consumers with a product value rating incorporating a variety of different product performance metrics.
- 3.37** Some respondents recommended remedies to tackle the point of sale advantage held by some add-on distributors. Suggestions included informing consumers of alternatives at the point of sale, which could include PCWs for key add-ons. Some said this would make consumers more aware of alternatives and enable consumers to make the trade-off between purchase convenience and price.
- 3.38** In addition respondents said the FCA should do more to improve consumer-facing documentation and clearer information during the sales process, such as more transparent add-on pricing information (including when add-on products are being renewed), commission disclosure and conflict of interest disclosure.

- 3.39** One firm suggested that a consumer education campaign could be implemented to help consumers make an informed choice.
- 3.40** For GAP insurance, some firms recommended an extended cooling-off period beyond the current Insurance conduct of business sourcebook (ICOBS) requirements, to give customers more opportunity to reflect on their add-on purchase.
- 3.41** Other remedies included price and commission caps on add-ons, setting minimum levels of cover for products, requiring distributors to source products from more than one insurer, improved sales quality assurance monitoring, and banning opt-outs for add-on renewals.
- 3.42** A consumer group felt that the treatment of add-ons at renewal was a particular area of concern that should be considered in more detail.
- 3.43** Some firms were concerned that for some insurance products firms benefit from exemptions from regulation, with lower associated protection for consumers, and suggested the FCA extends the regulatory perimeter to remove the connected contracts exemption.

### Our response

In our provisional findings report, we stated two objectives that were driving our thinking about remedy design. First, we said that we want to improve the add-on mechanism to help consumers make better decisions when buying add-ons; and second that we want to put pressure on firms to improve the value and or quality of products sold both as add-ons and standalone. We also indicated what other factors we would take into account in deciding what remedies we would explore in more detail.

Where alternative remedy proposals are in line with these objectives, we are exploring them in more depth as part of our remedy work and will respond as part of our consultation. Some proposals may fit with the findings of the CMA's work on private motor insurance and our own thematic review of PCWs. We will therefore consider the comments as part of our work in following up these two pieces of work.

More generally, we have a number of relevant workstreams underway that will inform our thinking on remedies, and in relation to disclosure in particular.

We are undertaking randomised controlled trials with a small number of firms in the general insurance space to establish what information is most helpful to consumers in the renewal letters they receive. The results of these trials will provide a strong evidence base on how to make disclosure at renewal most effective, and where insights are relevant these will inform our thinking on add-ons too.

We are also currently investigating across a number of sectors how disclosure can be made to work best for consumers and whether we could do more to encourage smart, effective disclosure. We are working with a wide range of stakeholders on this, and we will be publishing our initial findings in the autumn.

In respect of the connected contracts exemption, as we noted in the provisional findings report, we accept that this is an important issue. We note that the Government is responsible for determining the FCA's regulatory perimeter.

# Annex 1:

## List of non-confidential respondents

ABTA – The Travel Association

Aioi Nissay Dowa Insurance Company Europe Limited

Allianz Global Assistance

ANV Syndicates

ARAG Plc

Association of British Insurers

Association of Travel Insurance Intermediaries

Automotive Compliance

AXA UK

Banque PSA Finance UK

Bettersafe Products Limited

BLG Group

Bridge Insurance Brokers Limited

British Insurance Brokers' Association

Car Care Plan

Citymain Administrators Limited

Create Solutions Limited

DAS Legal Expenses

Doble Motorcycles

Drive Motor Retail Limited

Epoq Group

Ericsson

eSure

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Finance and Leasing Association (FLA)  
Financial Reporting Council  
Global Insurance Management  
Grafise Limited  
Hiscox  
Homeserve  
Institute and Faculty of Actuaries  
International Underwriting Association  
Jackson Lee Underwriting  
Lloyds  
Lloyds Market Association  
MAPFRE  
MPI Brokers  
National Express UK Coach  
Protect Association  
RSA Group  
Society of Motor Manufacturers and Traders Limited  
Swinton Insurance  
The Warranty Group  
UK General Insurance Group  
Which?  
Brian Howe  
FJ Wakefield  
Ian Sadler  
Kevin Milliken  
Malcolm Padgett  
R J Farthing  
Ron Forbes

Financial Conduct Authority



**PUB REF: 004916**

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