

General Insurance Value Measures reporting

Consultation Paper

CP19/8**

January 2019

How to respond

We are asking for comments on this Consultation Paper (CP) by **30 April 2019**.

You can send them to us using the form on our website at: www.fca.org.uk/cp19-08-response-form

Or in writing to:

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1 Summary

Why we are consulting

- 1.1** This consultation sets out our proposals to require firms to report General Insurance (GI) value measures data to the FCA for publication. We are also proposing additional requirements for firms to use the value measures data as part of the monitoring and governance of their insurance products. Our proposals are aimed at addressing poor product value and quality, and reducing the risk of unsuitable GI products being bought or sold.
- 1.2** Our GI add-ons market study identified poor product value as a key area of harm. It is caused by ineffective competition and a lack of common measures of value. We committed to collecting and publishing value measures data on GI products from firms. In publishing these data, we aim to improve market transparency and competition, and encourage firms to make product improvements, and to provide an additional tool to help us supervise firms.
- 1.3** In [DP15/04](#) we set out options for the publication of GI value measures data. In March 2016, we published a feedback statement ([FS16/01](#)) outlining our decision to run a pilot of the publication of value measures data. Our pilot tested the publication of 3 data metrics (claims frequencies, claims acceptance rates and average claims pay-outs) for 4 insurance products (home, home emergency, personal accident and key cover). We published 2 sets of pilot data in 2017 and 2018, following which we assessed the impact of the pilot. We found that it had a positive impact, improving transparency and awareness (by industry and the media) of different indicators of product value. It also allowed firms to use the data to consider product improvements. Given the success of the data publication, alongside this consultation paper we have published a third annual dataset.

Who this applies to

- 1.4** This consultation will interest firms involved in the insurance market, and trade bodies representing these firms. It will also be of interest to consumer organisations and the media.

The wider context of this consultation

- 1.5** Since launching the pilot in 2016, overall product value (in terms of suitability and performance) has become an increasing concern for the FCA. We highlighted these concerns about value in our 2018 sector view. Further examples include our thematic review of mobile phone insurance where we found that product governance was not always effective, aspects of products were not designed to meet consumer needs and there were examples of poor sales and claims handling practices. Also, the CMA, in

their investigation into private motor insurance add-ons found poor value in the form of low claims ratios for motor legal expenses, personal accident, key cover, extended foreign use, and, to a lesser extent breakdown cover.

- 1.6** The FCA has looked at the value in the 'distribution chain', and will publish our findings and next steps. We have also recently launched a market study examining pricing practices in GI. We explain more about the wider context in chapter 2.
- 1.7** In October 2018, we introduced product governance rules, as part of our implementation of the Insurance Distribution Directive (IDD). These rules set out what firms must do when designing, marketing, distributing and monitoring performance of their products. In general, we consider that product value (including product suitability and product performance) is an important aspect of product governance for firms when considering whether they are treating customers fairly.
- 1.8** The issues set out above give us concerns about product value in the GI sector. The value measures pilot and our proposals in this paper aim to deliver improvements in the market. The pilot has demonstrated that the publication of value measures data can deliver benefits for consumers by promoting competition around value and protecting consumers. We have therefore decided to consult on rules to require value measures reporting.

What we want to change

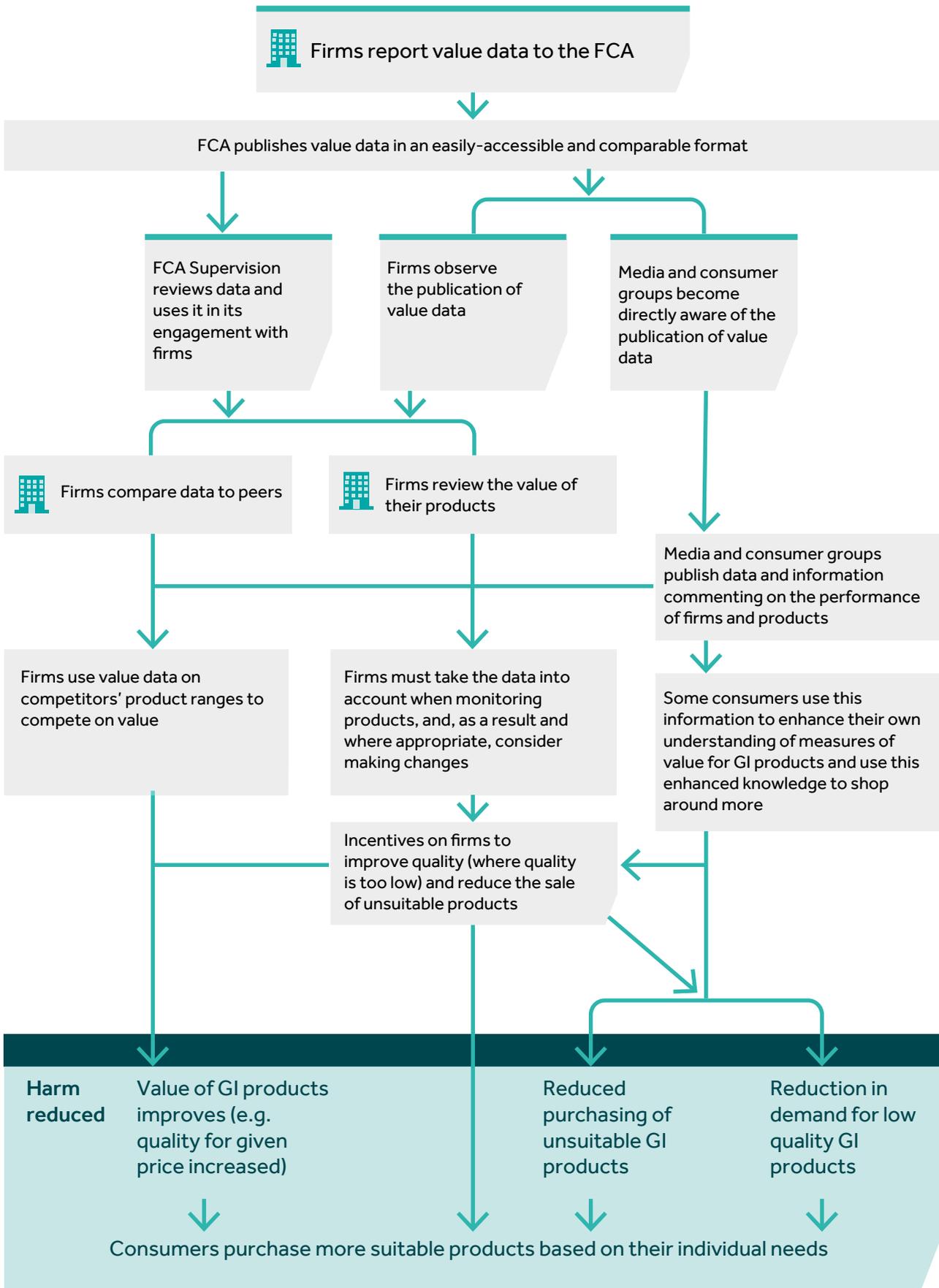
- 1.9** The key elements of our proposals are:
- **Product scope (Chapter 3):** we propose to apply the value measures reporting requirements to all GI products, except no claims bonus protection, packaged bank accounts and commercial products.
 - **Reporting responsibility (Chapter 3):** we propose that in most circumstances insurers are responsible for reporting value measures data. Exceptions to this approach include certain types of EEA business and business where there is no authorised insurer. For example, we propose to include breakdown cover, even though some types of breakdown cover are excluded from the Regulated Activities Order (RAO).¹
 - **Key elements of data reporting (Chapter 4):** we propose to retain the approach taken in our pilot of reporting by insurer and by add-on or stand-alone products. However, we also propose further splitting data reporting by the largest 5 distribution arrangements for each insurer, with a sixth category for the insurer's remaining business. In addition, we propose that the data are reported annually by calendar year. In this interim period while we consult and decide whether to introduce new rules, we expect firms which have been reporting pilot data to us to continue to use those data. We also remind product manufacturers of their current obligations under our product governance rules in PROD 4 to identify the target market for their products and ensure products are compatible with the needs, characteristics and objectives of customers in the target market.

¹ www.legislation.gov.uk/uksi/2001/544/article/12/made

- **Value measures metrics and metric definitions (Chapter 5):** we propose to retain the metrics used in our pilot – claims frequency, claims acceptance rate, average claim payout. We also propose introducing an additional metric, claims complaints as a percentage of total claims.
- **Publication of data (Chapter 6):** – we propose to publish the reported data by firm, in bands, on the FCA website.
- **Product governance (Chapter 6):** – We are proposing new provisions in our product governance rules. These will require providers to take value measures data into account when considering whether their products offer value to their customers.

Outcome we are seeking

- 1.10** Our proposals are designed to improve the way the GI market operates by:
- **Promoting competition** in product value, by creating incentives for firms to improve products and address poor product performance.
 - **Protecting consumers** by reducing the potential for harm caused by the sale or purchase of poor value or unsuitable products.
- 1.11** The following diagram sets out the causal chain of the impacts we expect to see:



Measuring success

1.12 We intend to assess the impact of our proposals in 2 main ways:

- By measuring and monitoring how the reported metrics change over time, both at a firm and product level. This will show us how consumers are using their products (claims frequencies and average claims pay-outs). It will also highlight whether the sale of unsuitable products has reduced (claims acceptance rate) and whether consumers are satisfied with their product (claims complaints as a % of claims).
- Through supervisory engagement with firms we will look at and assess what impact the remedy has had on firms, and whether improvements have been made to product value. Examples may include firms improving quality relative to price, and reducing or simplifying the number of policy exclusions. It could also be seen by firms making their claims handling process easier to navigate and improving sales processes to increase consumer understanding of products.

Next steps

1.13 We are seeking views on our proposals. We ask questions throughout this CP which are also collated in Annex 1. Please send us your comments **by 30 April 2019**. We will consider all the feedback and intend to publish a Policy Statement later this year with our response to the consultation feedback.

2 The wider context

The harm we are trying to reduce

- 2.1** Our proposals are designed to address the harms we identified in our GI add-ons market study, and the concerns set out in our GI sector view on unsuitable products and poor product performance.

GI add-ons market study

- 2.2** Our GI add-ons market study found that a lack of competition for add-ons can lead to consumers receiving poor value from many add-on products, and some stand-alone products. Alongside other remedies,² we decided to pilot the publication of value measures data to improve market transparency. Our pilot tested the publication of 3 data metrics (claims frequencies, claims acceptance rates and average claims pay-outs) for 4 insurance products (home, home emergency, personal accident and key cover).

Sector view and product value

- 2.3** Product value in the GI sector has become a significant area of focus for us. Our [2018 sector view](#) highlights concerns about product suitability and product performance. We have noted that consumers may not realise a product is poor value until they need to make a claim. This could result in claims being declined or not paid in full. The report also highlights that many consumers purchase products with little value and little prospect of making a valid claim. This potentially highlights issues in the sales process or the product literature, and the need to improve product value.
- 2.4** This consultation is one of several pieces of work we are undertaking to address product value. In addition, we are:
- Conducting a thematic review on value in the distribution chain examining how different distribution chains can affect the value of insurance products.
 - Running a market study into general insurance pricing practices, to examine whether pricing in the home and motor insurance market leads to consumer harm, and what action may be needed to improve the market.
 - Taking action where we have identified harm caused by poor value products. In 2017, Express Gifts Ltd entered into an agreement with the FCA to provide £12.5m redress to approximately 330,000 customers who were sold accidental damage and theft insurance for all products purchased from their [Ace or Studio brands](#). More recently, last year the FCA fined Liberty Mutual Insurance Europe SE

² Following the market study, we introduced a range of remedies including a deferred opt-in period for GAP insurance, and new rules and guidance to ban opt-out selling and improve information provided to add-on buyers.

£5.2m for failures in its oversight of mobile phone insurance claims and complaints handling.

- On 1 October 2018, we introduced rules as part of our implementation of the Insurance Distribution Directive (IDD). These set out the product oversight and governance responsibilities of firms in the insurance sector, which are that:
 - Product manufacturers must identify the target market for their products and ensure products are compatible with the needs, characteristics and objectives of customers in that target market. They must regularly review their products and take appropriate action if they identify any circumstances that may adversely affect the customer.
 - Product distributors/intermediaries must have adequate arrangements to understand the characteristics of each insurance product and the identified target market of each insurance product. They must also obtain sufficient, adequate and reliable information from the manufacturer³ about the insurance products to ensure that they will be distributed in accordance with the characteristics, objectives and needs of the target market.

Impact of the value measures pilot

- 2.5** Since 2016 we have been conducting a pilot of the publication of value measures data for a sample of insurers. The first pilot dataset was published in January 2017, covering the year to 31 August 2016. The second dataset, was published in March 2018, and covered data for the year to 31 August 2017.
- 2.6** In 2018, we assessed the impact of the pilot, focusing on the take-up of the pilot data and the impact of the pilot on firms. We found that take-up by the firms was positive, with two-thirds of the firms involved in the pilot reporting that it has had some impact on their organisation. Many firms have been using the data to produce senior management information to inform internal reviews and market comparisons. Some firms have increased their focus on product value offered to consumers, with examples of firms making product improvements and improving their oversight of distribution channels.
- 2.7** As set out in chapters 1 and 2 we have identified product value issues in the GI add-ons market study, our sector views and through our supervision of the market. We consider that the collection and publication of values measures data is an important part of the solution to addressing these issues and the pilot showed its usefulness for improving consumer outcomes along with the other work we are doing. Therefore, we are now consulting on rules to require the collection and publication of value measures data across GI.

3 Firms that create, develop, design and/or underwrite contracts of insurance.

How it links to our objectives

2.8 Our proposals are designed to improve the way the GI market operates by:

- **Promoting competition** in relation to product value, by creating incentives for firms to make improvements to products and address poor product performance.
- **Protecting consumers** by reducing the potential for harm caused by the sale or purchase of poor value or unsuitable products.

Equality and diversity considerations

We have considered the equality and diversity issues that may arise from the proposals in this CP. Our proposals will help drive improvements in product value benefiting all consumers purchasing GI products, including vulnerable consumers.

3 Product scope and reporting responsibility

Introduction

- 3.1** Chapter 2 sets out the wider context and rationale for this CP. The GI add-ons market study and value measures pilot covered a limited number of products. We consider there is a strong case for applying value measures reporting to a broader scope of GI products.
- 3.2** This chapter sets out our consultation proposals covering the product scope and reporting responsibility.

Our proposals – product scope

- 3.3** In our value measures [Discussion Paper \(DP15/4\)](#) (published in June 2015) we identified the following benefits of a broad scope of value measures reporting to:
- highlight better value products as a benchmark for poorer value products, and identify poor value products even in well performing markets
 - reduce the risk that poor value will become more prominent in products outside the scope of the reporting
- 3.4** These benefits continue to be relevant in the GI sector. Given the concerns highlighted in our sector view and the impact of the value measures pilot, we consider it appropriate to broaden the scope of value measures reporting. Different products across GI may have different value parameters. Improved transparency can help identify where there are value issues or emerging value issues, and improve firms' product oversight and governance.
- 3.5** We propose including the following products in scope:

Motor
Motorcycle
Home - Home (buildings and contents)
Home (contents only)
Home (buildings only)
Travel – annual multi-trip (European travel)
Travel - annual multi-trip (Worldwide travel)
Travel - single-trip
Pet – accident only

Pet – time limited
Pet – maximum benefit
Pet – lifetime
GAP
Home emergency
Identity theft
Extended warranty – electrical goods
Extended warranty – furniture
Extended warranty – motor
Private medical
Healthcare cash plan
Dental cover
Personal accident
Gadget (including mobile phone)
Payment protection (including credit card, store cards and personal loans)
Payment protection (mortgage)
Motor legal expenses
Home legal expenses
Legal expenses (other)
Key cover
Breakdown cover (for motor)
Parts and garage cover
Excess cover (for motor insurance)
Tyre cover (for motor)

3.6 We have developed our proposed scope using the following principles:

- For some products we considered it appropriate to split the products to provide more meaningful data. For example, for pet insurance there are different types of pet insurance policies including accident only, time limited, maximum benefit and lifetime policies.
- We propose to include products (sold to UK consumers) that are provided by UK providers and EEA firms. This is to ensure we obtain appropriate coverage of the insurance products sold to consumers in the UK.
- We have excluded products where there is a higher risk of the data being misleading (for example no claims bonus protection), or because we understand the scale of the business is relatively low (for example, helmet and leathers insurance covering loss and damage of motorcycle clothing).

3.7 The key implications of our proposed approach for firms will be:

- For **breakdown cover**, some types of cover⁴ are excluded from the Regulated Activities Order (RAO) activity of 'effecting and carrying out contracts of insurance'. This means that a few large providers of breakdown cover are not authorised. We propose to create

⁴ www.legislation.gov.uk/ukxi/2001/544/article/12/made

an application provision in our rules that would apply to the authorised intermediary for products provided by firms who do not require authorisation by the FCA.

- In certain circumstances, we propose that for UK GI **business underwritten by certain EEA or Gibraltar-based firms**, the UK insurance manufacturer⁵ and distributor firms (if any) will be responsible for reporting the data. More detail on our proposals for reporting responsibility are set out in paragraphs 3.8 to 3.14.
- Products that we propose to exclude from scope are:
 - Insurance provided with packaged bank accounts – this will be part of a package of products and separating the data is likely to be complex. Publishing the data could be confusing because users will typically look at the overall product together rather than considering all the different elements on a stand-alone basis.
 - No claims bonus protection – this product is unusual as the benefits relate to the preservation of no claims discounts on future premiums, and there are no claim payouts.
 - Commercial products – these products are likely to be highly differentiated across firms, with more bespoke features and less comparable data. We have greater concerns about harm in the retail space, based on our previous work.

Q1: Do you agree with our proposals for the product scope?

Our proposals – Reporting responsibility

3.8 In our pilot, we placed reporting responsibility on insurers, based on the products they underwrite. We propose to continue with this approach. We considered that insurers were the most likely to have access to the claims data to report to us. Our product governance rules require insurance manufacturers to make available appropriate information on the insurance product and the target market.⁶ We therefore consider that insurers are best placed to report the data. However, there are a few exceptions to our proposed approach, which we have set out below.

EEA and Gibraltar firms

3.9 A sizeable proportion of UK general insurance is underwritten by EEA and Gibraltar insurers. For example, we estimated that about 20% of motor insurance policies are provided by EEA and Gibraltar insurers. Other products, such as home and pet insurance policies, are also sold to UK consumers by EEA and Gibraltar insurers. We consider it important to capture this business within the value measures reporting.

3.10 For most insurance products sold to UK consumers by EEA firms, we propose to apply the reporting requirements to those EEA firms. However, in some circumstances we consider that, for EEA business, it would be more appropriate for UK-based insurance manufacturers and distributors to report the data to us. These are:

- Where firms passport into the UK on a services only basis⁷ and there is a UK manufacturer for that product, then we propose that the UK manufacturer is responsible for reporting the value measures data to us. Manufacturers should already have access to value measures data for the product governance rules implementing the IDD. If not, we will expect them to obtain it.

⁵ Firms that create, develop, design and/or underwrite contracts of insurance.

⁶ www.handbook.fca.org.uk/handbook/PROD/4/?view=chapter

⁷ A firm authorised in an EEA state can carry on activities that it has permission for in its home state and any other EEA state by providing cross-border services. This is known as passporting on a service only basis.

- Where a firm passports into the UK and provides e-commerce services from another member state under the e-Commerce Directive (and there is no UK manufacturer) we propose to apply the reporting requirements to the UK distributor.

3.11 There is a risk that the outcome of the EU withdrawal process could change our ability to capture data relating to EEA providers. If this is the case, we will consider whether we should keep those providers in scope.

Other insurance business

3.12 Where there is no authorised provider of the products (for example, for some breakdown cover business) we propose to create an application provision in our rules. This would apply to the authorised intermediary in the arrangements. It would make the relevant authorised intermediary responsible for reporting the value measures data to us. In some cases, this intermediary may be in the same group as the provider.

3.13 Retail business underwritten by Lloyd's syndicates is within the scope of our proposals. We consider that Lloyd's managing agents should have to report on the products where they manage the underwriting capacity. This is consistent with our pilot approach.

Summary of firm reporting responsibility

3.14 We have summarised the proposed reporting responsibility arrangements in the table below:

Business	Reporting responsibility
Underwritten by UK insurer	UK Insurer
UK branch of EEA insurer	EEA Insurer
EEA Insurer passporting in on a services basis (where there is no UK manufacturer)	EEA Insurer
EEA Insurers passporting in on a services basis (where there is a UK manufacturer)	UK manufacturer
EEA insurers passporting on a services basis and providing e-commerce services under the e-Commerce Directive	UK manufacturer (or distributor where there is no UK manufacturer)
Business where there is no authorised provider	UK based intermediary
Underwritten by Lloyd's syndicates	Lloyd's managing agents

We propose introducing additional rules requiring that, where necessary, firms obtain the value measures data required to report the data, from EEA providers.

Q2: Do you agree with our proposals on reporting responsibility?

4 Key elements of data reporting

Introduction

4.1 In this chapter, we set out our proposals on:

- data granularity
- reporting period and frequency
- reporting thresholds
- data metrics
- metric definitions

Data granularity

Our proposals

4.2 There are different options for requirements on reporting the value measures data. We could ask for firms to divide data by sub-product categories (for example, products where firms classify cover levels as gold, silver and bronze). Alternatively, we could ask for data by each insurance distributor, or simply ask for reports at firm and product level. During the pilot, insurers were required to report data at product level, with a split between add-on and stand-alone sales.

4.3 The main options we have considered are:

- Retaining the data granularity used for the pilot (i.e. firm, product, stand-alone and add-on sales).
- Requiring firm data to be additionally split by sales channel for example, direct sales, intermediated sales and sales through Price Comparison Websites (PCWs).
- Requiring data to be additionally split by the largest distribution arrangements with the largest 5 arrangements reported separately and a sixth category capturing the remaining business. This could be split by distributors, the firm themselves, the brands or a combination of these.
- The treatment of add-ons and optional extras in the data

4.4 We propose to apply reporting at a more granular level than the approach we took in the pilot. We will require insurers to report the 5 largest distribution arrangements and a sixth category capturing the remaining business. We consider that this will provide the most effective coverage of insurers and distributors. It will also help firms and the FCA to monitor their distribution arrangements, and ensure that consumers are getting appropriate value from their products.

Q3: Do you agree with our proposal to require data to be split by the largest distribution arrangements?

Add-ons/ optional extras

- 4.5** In our pilot we treated insurance policies sold alongside or with a primary product as add-ons. Similarly we treated optional extras (which were not a separate policy) as part of the primary product. We consider that this approach provides an efficient way for firms to report value measures data on a consistent basis. We propose to proceed with this approach, with one exception. The main alternative approach of treating optional extras as add-ons would incur higher costs for firms and have minimal additional benefits. It could significantly increase reporting complications and the number of products that some firms would be required to report data for.
- 4.6** The one exception to our approach is for legal expenses cover. It is a very common add-on policy for motor and home insurance, but it operates differently to other products. For example, under the legal expenses claims process, firms will seek to establish whether the claim has reasonable prospects of success. This is likely to increase the proportion of claims rejected relative to other products. The benefits of this product typically take the form of providing legal helplines, legal advice and covering legal costs. For these reasons, we propose that legal expenses are reported separately from other products. This includes where they are sold as part of the core cover of a primary product such as home or motor insurance or sold as an optional extra. We also propose that average claim payout is not reported for legal expenses cover. This is one of the metrics which detailed in chapter 6. This is because the benefit to the consumer under legal expenses cover is unlikely to be claim payouts to the consumer, but rather payments to legal firms and advice provided on helplines.

Q4: Do you agree with our proposals for the treatment of add-ons and optional extras?

Reporting period and frequency

Our proposals

- 4.7** In the pilot, we collected data on an annual basis, using the years ending 31 August 2016 and 2017. We have taken the same approach for the third dataset published alongside this CP. We considered that annual reporting was appropriate as most insurance products provide cover for 12 months. It also reduces the seasonal data fluctuations associated with reporting periods under a year. For example, for home emergency there will be a higher number of claims during the winter months than the summer.
- 4.8** We propose to retain the annual reporting requirement given the impact of the pilot to date. Increasing the reporting frequency to 6 monthly or quarterly could provide more regular feedback for firms, but it could also increase data fluctuations and will increase reporting costs. Our approach does not prevent firms from taking action to address product performance, nor from collecting and analysing data more regularly. The value measures data is only one way in which we would expect firms to fulfil their product governance and oversight responsibilities. However, we propose changing the timing of the annual reporting period from 31 August to 31 December, to align better with insurers' year ends.

4.9 In the interim period between the pilot and the potential introduction of new rules we expect firms who have been reporting pilot data to us to continue to use those data, and also remind firms of their obligations under our product governance rules.

Q5: Do you agree with our proposals on granularity, reporting periods and frequency?

Reporting thresholds

4.10 During the pilot, we established various reporting thresholds, below which firms were not requested to report data. The pilot thresholds were based on both total retail premiums (written) and the average policies in force during the reporting period.

4.11 One of the benefits of setting thresholds was to remove the reporting burden on firms who are very small or only undertake a very low amount of business for a certain product. The reporting thresholds also reduced the risk of reporting low volume data that could be misleading or unrepresentative.

4.12 We propose to retain reporting thresholds given the consistency and robustness it provided to the pilot data. We propose that for the reporting requirements set out in this CP, the thresholds for each product per firm are:

- where total retail premiums (written) are above £400,000 in the reporting year
- where there are more than 3,000 policies in force during the reporting year

Q6: Do you agree with our proposals for reporting thresholds?

5 Value measures metrics and metric definitions

Value measures metrics

Introduction

- 5.1** This chapter sets out the metrics and definitions we propose to use for value measures data reporting.
- 5.2** Following the GI add-ons market study, we explored a range of options for metrics for the publication of value measures. These included claims ratio, claims frequencies, claims acceptance rates, average claims pay-out, customer satisfaction rates, customer retention rates, claims settlement times, and percentage of claims settled in full.⁸
- 5.3** For the value measures pilot, we decided to use the following metrics:
- claims frequency – number of claims registered by firms divided by the average number of policies in force
 - claims acceptance rate – number of claims registered less the number of claims rejected, divided by the number of claims registered
 - average claims payout – total payout for claims (including relevant claims costs incurred by firms) during the reported period divided by the number of claims where all or part of the claim has been accepted and a payout has been made and the claim is closed.

Our proposals

- 5.4** We propose retaining the pilot metrics because they provide important information about different aspects of product value: how frequently consumers are claiming, how likely claims are to be successful, and the average that is paid out on claims.
- 5.5** The average claims payout provides a metric to help users understand the potential benefit of a product. It also provides additional context for the other metrics. For example, a low average claims payout for a product that has a low claims frequency could highlight poor value to consumers. We recognise that further context about the potential severity of claims would be helpful to users alongside average claims payouts. We therefore propose to require firms to report the amount (in £) that the highest 2% and 5% of claim pay-outs (by value) are above. We would then publish industry averages for these highest claim payouts. This could show, for example, that whilst the average travel insurance claim is around £700, the top 2% of claims will run into the £1,000s.
- 5.6** In addition to the pilot metrics, we propose to introduce an additional metric - claims complaints as a % of claims. It is often only when consumers make a claim that they

8 www.fca.org.uk/publication/discussion/dp-15-4.pdf

know whether it meets their needs. Measuring complaints during the claim period can highlight where there are potential issues. These can include:

- unfairly rejecting claims
- differences between what customers thought they were getting and what they got
- claims processes that are difficult to navigate or create barriers to claiming; concerns about mis-selling
- wider concerns about the value of the product.

5.7 As claims complaints data are already captured under our DISP rules⁹ albeit at a less granular level, we expect that this metric would not be overly burdensome on firms to provide.

Q7: Do you agree with our proposals on the value measures metrics?

Metrics definitions

Introduction

5.8 During the pilot design and implementations phases we worked with industry to develop definitions for the value measures metrics (claims frequency, claims acceptance rates and average claim pay-outs). This was an iterative process to produce definitions which would enable consistent data reporting across firms. The definitions and guidance for the pilot are published on our website¹⁰.

Our proposals

5.9 We consider that the definitions and guidance used for the pilot are appropriate for value measures reporting. However, we are proposing some changes and additions to the pilot definitions. These are:

- **Additional reporting** – Changes to incorporate our proposals for reporting the 'claims complaints as a % of claims' (being complaints made to firms during the claims process) metric and the highest 2% and 5% of claims pay-outs
- **Improvements to the pilot definitions** – Changes to help make the value measures data more helpful to users. This covers changes to claims registered and the treatment of walkaways (where consumers do not pursue a claim)
- **Minor changes** – to help make the definitions clearer

Additional reporting

5.10 We propose defining the additional metric 'claims complaints as a % of claims' as the number of claims complaints divided by the number of registered claims. We propose linking claims complaints to our existing claims complaints reporting requirements in DISP¹¹, but requiring the complaints to be split by the value measures products.

⁹ www.handbook.fca.org.uk/handbook/DISP/Sch/2/2.html

¹⁰ www.fca.org.uk/data/general-insurance-value-measures-data-year-ending-31-august-2018

¹¹ www.handbook.fca.org.uk/handbook/DISP/Sch/2/2.html

Improvements to the value measures definitions

- 5.11** There are 2 main areas where we consider that the definitions we used for the pilot can be improved to make the reported data more helpful for users.
- 5.12** The first is the treatment of the initial contact from consumers to make a claim. In the pilot, where consumers made a claim and were informed at that time they were not covered or that the claim was rejected, this was treated as an enquiry rather than a registered claim. This approach was adopted to facilitate more consistent reporting of data across firms. It also recognised the voluntary nature of the pilot and the potential costs to firms. However, to give us more meaningful data and to make other metrics more robust, we consider that these incidents should be treated as rejected claims.
- 5.13** Therefore, we consider that where a consumer contacts a firm about a potentially claimable event that has taken place or loss that has occurred (i.e. the 'first notification of loss'), but the claim is rejected at that time, it should be treated as both a registered claim and a rejected claim. This is because in practice, the claim has been rejected. Recording this rejection could highlight where there are issues with consumer understanding of the product or the firm's product oversight and governance process. This change will help firms to monitor and improve claims handling, sales processes and product literature. We expect that the main impact of this change will be to increase the claims frequency (as some enquiries will be treated as claims) and reduce the claims acceptance rate (as these additional claims would be treated as rejected claims).
- 5.14** If a consumer contacts a firm to raise a hypothetical question about their policy or review their policy online then we consider this should be treated as an enquiry.
- 5.15** The second area that we consider needs to be updated is the treatment of "walkways". This is where consumers raise a claim but stop pursuing the claim with the firm during the claims process (i.e. they 'walk away' from the claim). In the pilot, we treated "walkways" as part of registered claims (impacting on claims frequencies), but did not include them as rejected or accepted claims.
- 5.16** We propose that walkaways are removed from the published data entirely (i.e. not included as registered claims). We consider this better reflects the reality that they are neither accepted nor rejected claims. They may have occurred for a range of reasons and may not be accurately captured by the firm. This may be because the firm is unaware of why the customer has stopped pursuing the claim. Examples of reasons for consumer walkaways could include consumers wishing to protect future premiums, or consumers struggling to navigate the claims process. This change is likely to lower reported claims frequencies and reduce claims acceptance rates (albeit by not as much as our proposed treatment of claims rejected at the point of the first notification of loss).
- 5.17** However, we propose to continue to collect (but not publish) data on the number of walkaways. We consider this will help with our supervision of firms as it can highlight where some firms, with relatively high proportions of walkaways, may have overly-complicated claims processes which discourage consumers from pursuing valid claims. It may also highlight products that were potentially unsuitable for the consumers' demands and needs¹².

Q8: Do you agree with our proposals on metric definitions?

¹² www.handbook.fca.org.uk/handbook/ICOBS/5/?view=chapter

6 Publication of data and product governance

- 6.1** In chapters 3 to 5 we have set out our proposals for reporting value measures data from firms to the FCA. In this chapter we set out our proposals for publishing data and introducing additional product governance requirements for value measures.

Publication of data

- 6.2** During the pilot, we published the value measures data in bands, with the bandings varying from product to product. This allows us to better capture the claims profiles of the different products.

Our proposals

- 6.3** We propose to publish, as guidance, the value measures data in bands on the FCA website. The bandings would be determined by our assessment of the claims profile of the different products.

Q9: Do you agree with our proposals for the publication of value measures data in bands?

Product governance

Introduction

- 6.4** As part of our implementation of IDD, on 1 October last year we introduced product oversight and governance requirements on insurance manufacturers and distributors. At a high level, these rules cover: the design and product approval process; how a firm identifies a target market of customers; regular review of product performance; and the sharing of appropriate information on products between manufacturers and distributors.

Our proposals

- 6.5** We consider that value measures data should be an important factor in firms' product governance processes and controls. It can help highlight a range of potential issues, such as low consumer awareness and understanding of the product, unclear sales processes, or where the volume of claims is significantly lower than estimated by the firm as part of the product design process.
- 6.6** We propose adding additional product governance rules requiring firms:
- to take into account value measures data when monitoring products generally (including existing products)
 - to consider whether their products are likely to offer sufficiently good value to customers in their target market
 - where appropriate, to inform changes in their products

6.7 We propose that the value measures data product governance rules will apply to all products, including existing products. As is currently the case, other rules in PROD¹³ 4 will continue to apply only to new products manufactured after application of the IDD, on 1 October 2018, or to significant adaptations of existing products after that date.

Q10: Do you agree with our proposal to add a specific requirement to our rules to cover the use of value measures data in the product oversight and governance process?

13 From our Production Intervention and Product Governance sourcebook.

Annex 1

Questions in this paper

- Q1:** Do you agree with our proposals for the product scope?
- Q2:** Do you agree with our proposals on reporting responsibility?
- Q3:** Do you agree with our proposal to require data to be split by the largest distribution arrangements?
- Q4:** Do you agree with our proposals for the treatment of add-ons and optional extras?
- Q5:** Do you agree with our proposals on granularity, reporting periods and frequency?
- Q6:** Do you agree with our proposals for reporting thresholds?
- Q7:** Do you agree with our proposals on the value measures metrics?
- Q8:** Do you agree with our proposals on metric definitions?
- Q9:** Do you agree with our proposals for the publication of value measures data in bands?
- Q10:** Do you agree with our proposal to add a specific requirement to our rules to cover the use of value measures data in the product oversight and governance process?
- Q11:** Do you agree with our cost benefit analysis?

Annex 2

Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
2. This CBA presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For other impacts, we provide qualitative estimates of outcomes. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement.

Our analytical approach

3. To understand the impact of our proposals on the market, this CBA considers:
 - the likely costs to firms
 - the likely benefits to consumers
 - wider impacts or unintended consequences
4. The analysis presented below has been produced using evidence from the following sources:
 - A compliance cost survey sent to firms¹⁴
 - The value measures pilot¹⁵
 - Solvency II PRA returns
 - ABI key facts 2017
 - The FCA Financial Lives survey

Problem and rationale for intervention

The harm

5. A high proportion of UK consumers own one or more general insurance policies. Our Financial Lives survey indicated that over 9m consumers have home emergency cover, over 1.5m consumers have GAP insurance and over 3m customers have personal

14 We follow the approach set out in [FCA, 2018, How we analyse the costs and benefits of our policies, p.22-27.](#)

15 www.fca.org.uk/data/general-insurance-value-measures

accident cover.¹⁶ The ABI estimated that there are over 16m households with buildings insurance, 20m customers with motor insurance and over 3m customers with pet insurance¹⁷.

6. We consider that some consumers can pay too much for some products (such as some add-on products) given their quality. They may also purchase other products that do not meet their needs when they come to make a claim. The basis for our concerns is set out below.

Add-ons and low value products

7. Our GI add-ons market study found poor value in both add-on and some stand-alone products with the amounts paid out in claims low relative to the premiums paid by consumers. For example:

- For personal accident and GAP insurance only around 10% to 15% of premiums were paid out in claims and approximately 25% to 28% of premiums were paid out on home emergency.
- For add-on products, we found that consumers often focused on the primary product leading to the purchase of add-on products they did not need or understand, reducing the pressure on firms to improve product value.

8. We concluded that the issue of poor value was exacerbated by a lack of commonly available measures to assess the value of GI products.

9. In our thematic review of mobile phone insurance¹⁸ we found that product governance was not always effective, aspects of products were not designed to meet consumer needs and there were examples of poor sales and claims handling practices.

10. The CMA, in their investigation into private motor insurance add-ons found poor value in the form of low claims ratios for motor legal expenses, personal accident, key cover, extended foreign use, and, to a lesser extent breakdown cover.¹⁹

11. There are other examples highlighting harm caused by poor value products. In 2017, Express Gifts Ltd entered into an agreement with the FCA to provide £12.5m redress to approximately 330,000 customers who were sold accidental damage and theft for all products purchased from their Ace or Studio brands²⁰. In a more recent case last year, the FCA recently fined Liberty Mutual Insurance Europe SE £5.2m for failures in its oversight of mobile phone insurance claims and complaints handling²¹.

Core products

12. For core products (such as home, motor and travel) there are segments of business where there is poorer value or understanding of products resulting in unsuitable products being sold. Our 2018 sector view highlighted that many consumers focus on the headline price of products, but not other important aspects of product performance. As a result, they may not realise a product is unsuitable until the point at

16 www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults

17 www.abi.org.uk/globalassets/files/publications/public/key-facts/abi-key-facts-2017.pdf

18 www.fca.org.uk/publication/thematic-reviews/tr13-02-mobile-phone-insurance.pdf

19 www.gov.uk/government/publications/private-motor-insurance-market-investigation-order-2015

20 www.fca.org.uk/news/press-releases/express-gifts-ltd-enters-12-5m-redress-scheme

21 www.fca.org.uk/news/press-releases/liberty-mutual-insurance-europe-se-fined

which they need to make a claim.

- 13.** In some cases, there is poor understanding of travel insurance and pet products (including terminology and the extent of cover). This can result in claims being declined or not paid in full. The individual harm from a rejected claim can be high, given that the average pet insurance claim exceeds £700.²²
- 14.** Our 2018 sector view also identified that either through mis-selling and/or consumers' focus on price only, consumers may buy products with little value to them. The harm that can arise as a result includes consumers potentially duplicating cover that they already have and buying a product that they have little prospect of making a valid claim on. Some products may also have restrictions or barriers to claiming that may not be readily apparent at the point of sale (for example, particularly onerous exclusions which limit the cover and unusual definitions of insured perils which limit cover or how customers must claim).
- 15.** Even in better performing product segments of the GI sector, there are likely to be examples of potential harm from low value, or where consumers have purchased unsuitable products. For example, in H1 2018 there were over 250,000 complaints about motor and transport insurance²³.

Market failure analysis/drivers of harm

- 16.** We consider that the harm described above results from market failures²⁴ which include:
- complexity of information for users²⁵
 - behavioural distortions which affect how consumers make decisions
 - lack of competition around some products and product quality

Complexity of information for users

- 17.** GI product features can vary significantly between firms, even within the same product market. Products have differences in terms and conditions, excesses and cover inclusions and exclusions. Information about these various elements can be complex and confusing to consumers, making it difficult to assess and compare products. Our work on smarter communication highlighted how the complexity of information in insurance can impede consumer choice.²⁶
- 18.** There is a lack of clarity over value for general insurance products. For example, the value that insurance products offer depends on the level of premiums and the claims that firms pay out on, as well as other factors such as having peace of mind about being covered. Although headline premiums can be easily observed, underlying claims information is much less transparent. This can lead to consumers making decisions on headline price only, without being able to assess other metrics relevant to their needs, including how likely they are to make a successful claim and the potential claim pay-out.

22 ABI 2017 key facts (page 11) www.abi.org.uk/globalassets/files/publications/public/key-facts/abi-key-facts-2017.pdf

23 www.fca.org.uk/publication/data/complaints-data-analysis-2018-h1.pdf (page 10)

24 For further detail on market failure and market failure analysis see: FCA, March 2016, Occasional Paper 13: Economics for Effective Regulation.

25 This a specific element of the market failure of asymmetric information between firms and consumers which is discussed in Occasional Paper 13: Economics for Effective Regulation.

26 www.fca.org.uk/publication/discussion/dp15-05-smarter-consumer-communications.pdf

19. The complexity of insurance product information reduces demand-side pressures around product value, reducing incentives on firms to compete on this basis.

Behavioural distortions which impact the way consumers make decisions

20. Our GI add-ons market study found that consumers purchasing products often focused more on the primary product than the add-ons products sold alongside. This resulted in consumers making less informed decisions about which products to select, and reduced the competitive pressures for some products. Our sector view of 2018 highlighted that for some products, including core products such as motor and home, some consumers focus on the headline price rather than considering whether a product meets their needs²⁷. This has resulted in some products being hollowed out (with more exclusions from cover which may not be identified by consumers at the time of purchase).
21. Academic research shows that consumers can be subject to behavioural distortions. In GI markets, this can result in them being unable to engage with products in a way that appropriately meet their needs, and in turn reduce incentives for firms to compete on product value.²⁸ These distortions can include:
- Reference dependence and loss aversion: For example, consumers may perceive add-on insurance as cheap because it is sold together with something that has a comparatively high price, and do not consider whether the product meets their needs.
 - Framing, salience and limited attention: Consumers have limited attention and interpret information based on how it is framed and what is made most salient. As such, they may find complex or poorly-presented information difficult to understand, focusing instead just on specific elements that attract their attention. In this case, consumers may focus only on one element of value (e.g. the price) that is easy to understand, over other elements of value. This reduces incentives for firms to compete on a range of value indicators.
22. The behavioural distortions in the GI markets reduce incentives for firms to compete on product value, as consumer focus is on primary products for the sales of add-ons, and headline price on the sale of core products (for new business).

Lack of competition around some products and product quality

23. The evidence of relatively low consumer engagement, influenced by the market failures outlined above, and the lack of competition and transparency found in the GI add-ons market study, mean that providers do not always have the incentive to compete on product quality and elements of value (including price). This can result in consumers purchasing products that offer poor value or are less likely to be utilised by consumers.
24. More widely, for core products there is often a focus on price (such as for new business motor and home insurance) at the expense of product quality. This can result in products being hollowed out, with less cover for consumers, as competition is more heavily focused on price rather than quality.

27 www.fca.org.uk/publication/corporate/sector-views-2018.pdf#general-insurance – p30

28 For further discussion on behavioural biases see: FCA, April 2013, Occasional Paper 1: Applying behavioural economics at the Financial Conduct Authority.

Baseline and key assumptions

25. We consider that without our intervention, firm incentives and consumer harm/outcomes in this market would remain unchanged.
26. For the purposes of this CBA, we have made the following assumptions:
- Unless stated otherwise, all references to 'average' in this CBA are the mean.
 - All price estimates are in nominal terms.
 - We assume 100% compliance with the new policy we implement.

Our proposals and the impact we expect

27. Our proposals are set out in chapters 3 to 6 of the CP. These proposals include:
- Reporting data on most GI products for a set of metrics
 - Publication of reported value measures data in bands
 - As part of our product governance rules, requiring firms to monitor the data
28. Paragraph 1.9 of the CP sets out our causal chain for this intervention. It outlines the process through which we expect the collection and publication of GI value measures data ultimately to reduce the identified harm.
29. The reporting and publication of value measures data can help address the market failures identified above by improving incentives for firms to increase product value, and improving market transparency around a wider range of value metrics rather than just price. Information, such as the value measures metrics, helps highlight potential product value issues and creates incentives for firms to improve the value of their products, reducing the sale and purchase of poor value products.
30. We consider that a broad scope across GI products is appropriate because of the wider concerns we have highlighted in our sector view²⁹ and the positive impact of our pilot³⁰. Improved transparency across GI **can help identify where there are value issues or emerging value issues, and improve firms' product oversight and governance.**

Summary of costs and benefits

31. Overall, we consider that value measures data are already collected by a number of firms, as part of their existing product governance and management information processes. This is reflected in the responses we received for the compliance cost survey. Our estimated cost for the value measures reporting is £11.6m for one-off costs and £1.4m for annual ongoing costs (see table 3).

29 www.fca.org.uk/publication/corporate/sector-views-2018.pdf#general-insurance

30 www.fca.org.uk/news/press-releases/fca-value-measures-pilot-having-positive-impact

- 32.** We have identified several potential benefits from the collection and publication of value measures data, including improving market transparency around value and the resulting incentives to compete by improving product value and quality. While we have not quantified the benefits, we expect that they will be higher than the estimated costs.

Costs

- 33.** The proposals we are consulting on primarily impose costs on insurers underwriting GI products sold to UK consumers. Where UK GI business is underwritten by EEA firms or unauthorised providers, there may be additional costs incurred by the relevant UK manufacturers and distributors. Chapter 4 sets out our data reporting proposals including where business is underwritten by EEA firms. Finally, we expect to incur costs collecting, processing, analysing and publishing the value measures data on our website.

Costs to firms

- 34.** We estimate costs to firms as follows:
- We use our standard assumptions to estimate familiarisation and legal review costs.³¹
 - Other costs are estimated separately based on responses to a firm cost survey³². We sent a compliance cost survey to a sample of insurers (including a mixture of larger and smaller insurers) seeking their feedback on the incremental one-off and on-going costs of complying with our proposals. This included both larger and smaller insurers, and we estimate that the cost survey respondents (with retail premiums written of £10.9bn and approximately 60 million GI policies) account for around a third of the UK retail GI market estimated to be £32.9 billion³³. We estimated total costs by extrapolating the costs from our cost survey across the GI market³⁴.
- 35.** On the basis of information provided by this sample of firms, we estimate that the industry compliance costs across the market of our proposals could range from between £7.5m to £10.5m for one-off costs and £1.0m to £1.4m per year for ongoing costs.
- 36.** We expect that for a number of firms the implementation costs will be low, as some firms will already have sufficient management information capability to generate the value measures data. A number of respondents to the cost survey identified that reporting the value measures data would not result in material costs for their business. Furthermore, for small firms undertaking insurance business below the reporting

³¹ The assumptions used to estimate these costs have been derived from a research project on compliance costs that involved consultation with firms and trade bodies, discussions with vendors, a review of previous CBAs, internal FCA consultation, and desk-based research. To put a cost on time, we have sourced salary information for a range of occupations in financial services. Figures for large and medium firms are based on the 2016 Willis Towers Watson UK Financial Services Report. Small firm salaries were sourced from a systematic review of adverts on the website of Reed, cross-referenced with other publicly available sources. We add an allowance for overheads of 30% to all time costs to account for non-wage labour costs, as advocated by the HM Treasury Green Book. See FCA, How we analyse the costs and benefits of our policies, July 2018.

³² The cost survey was sent to 44 insurers in total, with 17 providing us with information.

³³ FCA estimates using PRA Returns and Lloyd's Annual Report (all EEA Branch estimated at 10%) - www.fca.org.uk/publication/corporate/sector-views-2018.pdf (page 25).

³⁴ We do this by applying the average (mean) values of the cost estimates provided by firms extrapolated up to the remaining proportion of the UK GI market not included in our survey.

thresholds they will not be required to report value measures data, and hence will not incur costs.

37. Where firms are not able to currently report the data, firms could incur a range of implementation and ongoing costs. These are likely to include one or more of the following costs:

- Familiarisation and legal review costs,
- IT system change costs (to automate the capture of the relevant data),
- Staff training costs to ensure that claims are correctly recorded on the firms' systems (including at the point of first notification of loss),
- Staff costs to process and check the data and to ensure that the value measures data (including the data published on the website) are appropriately reflected in the firms' management information and reviewed as part of the firms' ongoing monitoring of their GI products,
- Working with other firms in the distribution chain to collect and report the data.

Familiarisation and gap analysis costs

38. We expect firms affected by our intervention will read relevant changes put forward as part of the proposals in this CP and will familiarise themselves with the detailed requirements of the new rules and guidance. We have estimated the costs of this to firms based on the length of the CP (41 pages).

39. Table 1 sets out the total familiarisations costs by firm type, along with our assumptions. We estimate that the oneoff industry cost of familiarisation would be £184,000.

Table 1: Familiarisation cost staff numbers, time taken, hourly salaries assumptions and total estimates

Insurance firm category	Number of firms	Number of compliance staff required to read the document per firm	Number of hours per staff	Hourly compliance staff salary (£) ³⁵	Total familiarisation cost (£) ³⁶
Large	20	20	2.05	£57	£47,000
Medium	212	5	2.05	£61	£133,000
Small	20	2	2.05	£44	£4,000
Total industry					£184,000

Source: FCA commissioned compliance cost research project, 2016 Willis Towers Watson UK Financial Services Report

40. Following familiarisation with the proposals, we expect firms to conduct a legal review of the proposals and an accompanying gap analysis to check their current practices against expectations.

41. We have estimated this cost to firms of reading 43 pages of legal text³⁷ to review. Table 2 sets out the total legal review costs by firm type, along with the main assumptions used to estimate these costs. In total, we estimate the oneoff industry cost of legal review is £646,000.

³⁵ Hourly compliance staff salary estimates have been rounded to the nearest pound in Table 1 and Table 2.

³⁶ Costs rounded to nearest £1,000.

³⁷ The length of the draft rules and guidance in the annex of the CP.

Table 2: Legal review cost staff numbers, time taken, hourly salaries assumptions and total cost estimates

Insurance provider category	Number of firms	Number of legal staff required to perform the review per firm	Number of hours per firm ³⁸	Hourly compliance staff salary (£)	Total legal review cost (£)
Large	20	4	96	£67	£129,000
Medium	212	2	36	£67	£511,000
Small	20	1	6	£53	£6,000
Total industry					£646,000

Source: FCA commissioned compliance cost research project; 2016 Willis Towers Watson UK Financial Services Report

Other one-off costs

- 42.** In total, we estimate that the one-off industry cost of our value measures reporting intervention would be between £7.5m and £10.5m. Survey responses indicate that the direct one-off costs to firms from our intervention come from, primarily, IT costs to develop the automated production of value measures data, with individual firm cost estimates ranging between £0 to £0.3m³⁹ (although one firm identified potential one-off IT system costs of between £1m and £2m). Other costs, including staff training, management information team costs, governance, engagement with third parties, increase in work due to queries from brokers and customers, were reported to be lower than the IT costs. In most cases, the scale of the cost estimates between respondents appeared to be proportionate to the business they undertook.
- 43.** Some of the smaller firms highlighted that they were more likely to operate a more manual process, whilst larger firms were more likely to implement system checks to automate the generation of the value measures data. However, firms with legacy IT systems may look to incorporate both automated and manual processes, as it may be more economical for firms to use manual processes for older systems where no new policies are being added. As the reporting of value measures data is proposed to be subject to minimum reporting thresholds⁴⁰, there will be no costs for the smallest firms and other firms with business below the thresholds.
- ### Ongoing costs
- 44.** In total, we estimate that the ongoing industry cost could range between £1.0m and £1.4m per annum. The individual firms in the cost survey identified annual ongoing costs ranging from £0 to £0.2m.⁴¹ The responses to our cost survey indicated that IT costs would be the largest annual ongoing cost to firms from our proposed intervention (51% of ongoing costs). Other costs identified included training and other staff costs, governance costs and manual collation and data checking costs.
- 45.** A number of firms reported zero or minimal ongoing costs of implementation, identifying that ongoing reporting would be captured in their 'business as usual' costs.

38 We assume that it takes each staff member 28 (large), 21 (medium) and 7 (small) hours to review 50 pages of legal text. The figures in this column multiply the number of legal staff required by the hours per page and the number of pages.

39 The average one-off IT cost for these firms (i.e. excluding the firm with estimated IT costs of up to £2m) was approximately £0.1m.

40 Namely total retail premiums (written) in excess of £400,000 and average number of policies in force during the relevant period of above 3,000.

41 The average annual ongoing cost per firm in our sample was below £0.1m.

Costs to the FCA

46. As well as the industry costs set out above, we will also incur costs updating our systems to receive the reported value measures data, and to process, analyse and publish the data on our website. We estimate these costs to be in the region of £300,000 for one-off costs. We expect that supervision of the additional rules will be undertaken using existing resources.

Summary of costs

47. The following table summarises the expected costs from our proposed intervention:

Table 3: Summary of costs from our intervention

Firm/ organisation	One-off costs £'m	Ongoing costs £'m
UK GI business underwritten by UK/EEA firms	7.5 - 10.5	1.0 - 1.4
Familiarisation and legal review	0.8	-
FCA	0.3	-
Total	8.6 - 11.6	1.0 - 1.4

Source: FCA

Benefits

48. There are several potential benefits from our proposals, which we expect will reduce the harm identified by limiting the impact of the drivers of harm. At a high level, we expect that our value measures proposals will, by providing more transparent information around product value, improving competition, and leading to:
- firms selling better value products experiencing increased sales, and
 - firms selling poor value products experiencing a fall in sales.
49. This, in turn, will create incentives for firms to improve product value (where there are issues of poor value) and to improve product quality (where products are unsuitable or do not meet the needs of the target market).
50. More specifically, we expect these benefits to arise through:
- firms using the data to help assess the value of their products (including by comparing to their peers in the market), and consider where improvements need to be made to improve consumer outcomes.
 - the data providing a supervisory tool to help us assess whether firms are meeting their product governance requirements, inform discussions with firms about product value, and help identify potentially poor value or unsuitable products.
 - firms using this information to promote their products, where the value measures data highlights that firms have good value products.
 - media and consumer organisations using the data to challenge firms where there may be issues of poor value and to highlight to consumers where there may be concerns about certain products or firms. This can create reputational pressure for industry and can incentivise firms to compete by focussing more on value.
 - a reduction in the number of complaints as firms focus more on value (including by making improvements to sales and claims processes to improve consumer

understanding). In CP14/30, firms' estimates for complaints handling costs ranged from £20 to £330 per complaint.⁴²

51. During the pilot, undertaken between 2016 and 2018, we identified that some of these benefits materialised. These were as follows:

- The publication of the first pilot dataset in January 2017 attracted significant media attention focused both on product value and firm performance. While the take-up of the data for the second pilot was lower, we consider that, with the improvements to the value measures reporting that we are proposing, take-up of the data by media and consumer organisations should increase.
- We have also seen a number of pilot firms using the data to compare to peers, improve their value MI and make product improvements (including reducing price relative to a given quality, improving sales processes and claims processes to improve consumer understanding of their products and provide more efficient claims processes).
- In addition, we have seen an increased number of firms focus on claims acceptance rates as part of their marketing activity.

52. We do not consider that it is reasonably practicable to quantify the benefits of our proposed intervention. By their nature, the benefits will take time to be realised. Attempting to quantify the benefits is likely to produce an estimate that could not be relied upon to provide any reliable insight. We also recognise that proportionally, the benefits are likely to be higher for products where poor value is more prevalent. However, the evidence in the value measures' pilot data collection and the low compliance costs identified by a number of firms means that we expect the benefits of the intervention will outweigh the costs.

53. The following table sets out the level of benefits required for the remedy to be net beneficial, which we express as an average saving per GI policy and as a percentage of UK Retail GI market (estimated to be £32.9 billion):

Table 4: Table setting out the benefit required for the proposals to be net beneficial

	£'m	
Estimated cost	8.4 - 11.4 one-off 1.0 - 1.4 ongoing	
Annual benefit required for remedy to be net beneficial	2.0 - 2.8 ⁴³	This equates to a 1.1p to 1.5p saving per GI policy on average ⁴⁴ ; and 0.01% of the estimated UK Retail GI market (written premiums)

Source: FCA analysis

Q11: Do you agree with our cost benefit analysis?

⁴² CP14/30 Improving complaints handling December 2014 Annex 1 (paragraph 11) www.fca.org.uk/publication/consultation/cp14-30.pdf

⁴³ We calculated the break-even point using a discount rate of 3.5% spreading the benefits required evenly over an assessment period of 10 years to cover both the estimated one-off and ongoing costs.

⁴⁴ Calculated based on the annual benefit required attributable to the firms that responded to the cost survey divided by the number of policies underwritten by those firms (i.e. £1.98m or £2.73m divided by 3 – our survey responses captured a third of the market – and then divided by 60m policies, which is the number of policies of those firms in our survey responses).

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation. This includes an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B (4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. Our proposals are designed to improve the way the GI market operates by:
- **Promoting competition** in relation to product value, by creating incentives for firms to make improvements to products and address poor product performance.
 - **Protecting consumers** by reducing the potential for harm caused by the sale or purchase of poor value or unsuitable products.
8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because a market where poor value products are allowed to persist is not a well performing market, as it suggests that providers and customers are generally not in competitively optimal relationships. Also, the proposals are aimed at providing appropriate protection for customers, and promoting competition between firms. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by s. 1F FSMA.
9. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economical way

10. For the proposals in this CP, we have had regard to the burden on us in assessing how best to implement the value measures remedy. We have considered whether the FCA publishing value measures data is a good use of FCA resources as opposed to say requiring firms to publish. We have concluded that the benefits in the FCA publishing data is the most efficient and economical way to achieve our policy objectives. We have conducted a pilot to ensure we have a sound basis for efficient further intervention.

The principle that a burden or restriction should be proportionate to the benefits

11. We have carried out a cost benefit analysis, and are satisfied that the benefits of implementing the value measures reporting remedy are likely to be significant and proportionate to the potential cost.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

12. We do not consider that the proposals are inconsistent with this principle. We consider that greater faith in the financial services system – served by improving value in products, is likely to improve consumer confidence which could have a benefit to UK growth.

The general principle that consumers should take responsibility for their decisions

13. Our proposals will incentivise firms to conduct annual product review to ensure poor value products do not enter the market. This will enhance competition and promote consumer protection, improving consumer outcomes.

The responsibilities of senior management

14. Our proposals will lead to review of product value by senior managers. This will improve senior management overview and monitoring of product value, and where appropriate encourage them to make improvements.

The desirability of recognising differences in the nature and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

15. We do not believe that our proposals discriminate against any particular business model or approach. We have applied the value measures reporting requirement to most GI products, which will achieve improved transparency where there are value issues or emerging value issues across the GI market.
16. We have also proposed reporting thresholds so that firms who only undertake a low amount of GI retail insurance business will not be required to report data to us.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

17. The proposals are an illustration of how desirable it can be to publish information relating to authorised persons as it enables them to improve product quality, drives competition and allows firms to better comply with FCA rules.

The principle that we should exercise of our functions as transparently as possible

18. We believe that by consulting on our proposals we are acting in accordance with this principle.
19. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Expected effect on mutual societies

20. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. We have engaged with mutual societies throughout the value measures pilot process.

Compatibility with the duty to promote effective competition in the interests of consumers

21. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. One of the main aims of the policy is to drive positive competition in the interests of consumers who will receive better service and value products.

Equality and diversity

- 22.** We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.
- 23.** As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.8 of Chapter 2 of this CP.

Legislative and Regulatory Reform Act 2006 (LRRRA)

- 24.** We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily. We consider that this will lead to improved outcomes for consumers and addresses the issue identified in the market. We also believe the proposals are proportionate and will result in an appropriate level of consumer protection when balanced with impacts on firms and competition.
- 25.** We have had regard to the relevant parts of the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals support authorised firms and enable them to grow by improving confidence in them from their customers. This consultation is a way for firms to let us know their views of our proposals. We have identified the potential risks of not taking action by articulating potential harms and how firms behaviour could cause those harms. The CP and instrument will allow firms to understand the requirements of them. This will be informed by firms already taking part in pilots which will inform how they may comply with rules of the same description. We are also setting out transparently what our policy aims are so that firms can take those into account.

Annex 4

Abbreviations used in this paper

ABI	Association of British Insurers
CBA	Cost benefit analysis
CMA	Competition and Markets Authority
CP	Consultation Paper
DISP	Dispute Resolution Sourcebook
DP	Discussion Paper
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
FS	Feedback Statement
FSMA	Financial Services and Markets Act 2000
GI	General Insurance
IDD	Insurance Distribution Directive
LRRA	Legislative and Regulatory Reform Act 2006
PCW	Price Comparison Websites
PRA	Prudential Regulatory Authority
PROD	Product Intervention and Product Governance Sourcebook
RAO	Regulated Activities Order

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1

Draft Handbook text

**VALUE MEASURES REPORTING AND MONITORING INSTRUMENT
[2019]**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers);
 - (c) section 139A (Power of the FCA to give guidance); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*.

Amendments to the Handbook

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Supervision manual (SUP)	Annex B
Product Intervention and Product Governance sourcebook (PROD)	Annex C

Citation

- E. This instrument may be cited as the Value Measures Reporting and Monitoring Instrument [2019].

By order of the Board
[date]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text.

commercial customer (in *ICOBS* and *SUP 16*) a *customer* who is not a *consumer*.

Annex B

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

13A Application of the Handbook to incoming EEA firms
Annex
1G

...

(1) Module of the Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of a firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
<i>SUP</i>
	SUP 16 (Reporting Requirements)	SUP 16 (Reporting Requirements)
	... arrange safeguarding and administration of assets. <u>(h) an insurer with permission to carry out general insurance contracts.</u>	... arrange safeguarding and administration of assets. <u>(h) an insurer with permission to carry out general insurance contracts.</u>

...		

...

16 Reporting requirements

16.1 Application

...

16.1.2 G The only categories of *firm* to which no section of this chapter applies are:

...

- (2) an *incoming EEA firm* or *incoming Treaty firm*, unless it is:
- (a) a *firm* of a type listed in SUP 16.1.3R as a type of *firm* to which SUP 16.6, SUP 16.7A, SUP 16.9, SUP 16.12, SUP 16.14, ~~or~~ SUP 16.23A, or SUP 16.26 applies; or

...

...

16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16, SUP 16.17, and SUP 16.22 and SUP 16.26)

(1) Sections	(2) Categories of firm to which applies	(3) Applicable rule and guidance
...		
SUP 16.25	...	
<u>SUP 16.26</u>	<u>A firm which, in respect of general insurance contracts, is:</u>	Entire section
...	(a) <u>an insurer;</u>	
	(b) <u>an incoming firm falling within (a), including those providing cross border services;</u>	
	(c) <u>a managing agent;</u> <u>or</u>	
	(d) <u>an insurance intermediary,</u>	
	<u>to the extent that the firm and its business falls within the scope of SUP 16.26.7R.</u>	
...		

...

16.2 Purpose

- 16.2.1 G (1) ...
- ...
- (4) The purpose of SUP 16.26 is to provide the FCA with general insurance value measures data that it can use to publish guidance (and the FCA's monitoring of firms' compliance with PROD 4.5). The purpose of that publication is to:
- (a) promote competition in relation to product value, by creating incentives for firms to make improvements to products and address poor product performance; and
- (b) protect consumers by reducing the potential for harm caused by the sale or purchase of poor value products.

...

16.3 General provisions on reporting

Application

- 16.3.1 G The effect of SUP 16.1.1R is that this section applies to every *firm* except:
- ...
- (2) an *incoming EEA firm* or *incoming Treaty firm*, which is not:
- (a) a *firm* of a type listed in SUP 16.1.3R as a *firm* to which section SUP 16.6, ~~or~~ SUP 16.12 or SUP 16.26 applies;

...

...

Structure of the chapter

- 16.3.2 G This chapter has been split into the following sections, covering:
- ...
- (19) retirement income data reporting (SUP 16.24); ~~and~~
- (20) claims management reporting (SUP 16.25); and
- (21) value measures data reporting (SUP 16.26).

...

Confidentiality and sharing of information

- 16.3.23 G When the *FCA* receives a report which contains confidential information and whose submission is required under this chapter, it is obliged under Part 23 of the Act (Public Record, Disclosure of Information and Co-operation) to treat that information as confidential. (See see SUP 2.2.4G).
- 16.3.24 G *SUP 2.3.12AG* states that the *FCA* may pass to other regulators information which it has in its possession. Such information includes information contained in reports submitted under this chapter. The *FCA*'s disclosure of information to other regulators is subject to *SUP 2.2.4G* (Confidentiality of information). Also, some value measures data in SUP 16.26 is used by the FCA to create published guidance. This public disclosure is to assist the FCA to discharge its public functions.

Insert the following new section after SUP 16.25 (Claims management reporting). The text is not underlined.

16.26 General insurance value measures reporting

Application

Who?

- 16.26.1 R The effect of *SUP 16.1.1R* is that this section applies to every *firm* of a type listed in column 1 of the table in *SUP 16.26.8R*.
- 16.26.2 R The *rules* in this section do not apply to:
- (1) an *incoming firm* in respect of that part of its business that was carried on as an *electronic commerce activity* from another *EEA State*; or
 - (2) an *incoming firm* where the *state of the risk* is an *EEA State* to the extent that the *EEA State* in question imposes measures of like effect.

What?

- 16.26.3 R This section applies to a *firm* which has carried on the business described in column 2 of the table in *SUP 16.26.8R* in relation to *general insurance contracts*:
- (1) which are of a product type set out in *SUP 16 Annex 46R*;
 - (2) excluding contracts set out in *SUP 16.26.4R*; and

- (3) excluding contracts entered into where the *customer* was habitually resident outside the *UK* at the time.

16.26.4 R This section does not apply in relation to the following types of *general insurance contracts*:

- (1) no claims bonus protection;
- (2) contracts provided with a *packaged bank account*;
- (3) contracts entered into by a *commercial customer*; or
- (4) *group policies*.

Purpose

16.26.5 G The purpose of this section is to require *firms* to submit information on certain value measures *general insurance contracts* in a standard format to the *FCA*. This information enables the publication of the value measures data in the pursuance of the *FCA*'s effective competition and consumer protection objectives.

Definitions

16.26.6 R In this section and *SUP 16 Annex 46R*, *SUP 16 Annex 46AR* and *SUP 16 Annex 46 BG*:

“add-on <i>policy</i> ” means	a <i>policy</i> that is sold in connection with, or alongside, another product.
“average claims pay-out” means	total claims pay-out cost divided by the number of claims where all or part of the claim has been accepted and a pay-out has been made and/or benefits provided and the claim is closed at the end of the reporting period.
“average number of <i>policies</i> in force” means	the average number of <i>policies</i> in force during the relevant reporting period, calculated by adding up the total <i>policies</i> in force at the end of each <i>month</i> in the reporting period and dividing by 12.

<p>“claim” means</p>	<p>any claim made by a potential beneficiary, including queries in respect of a potentially claimable event or loss (which has taken place).</p>
<p>“claims acceptance rate” means</p>	<p>(a) the number of claims registered; less</p> <p>(b) the number of claims rejected; divided by</p> <p>(c) the number of claims registered.</p>
<p>“claims accepted” means</p>	<p>claims where all or part of the claim has been accepted and a pay-out has been made and/or benefit provided, and the claim is closed or settled during the reporting period.</p>
<p>“claims complaints” means</p>	<p>complaints of a type that are reported in column O of the <i>DISP</i> 1 Annex 1R Table 4 or would have been reported if the threshold of 500 opened complaints was disregarded.</p>
<p>“claims complaints as a percentage of claims” means</p>	<p>the percentage calculated using the formula:</p> $A/B \times 100$ <p>where:</p> <p>(a) A = claims complaints</p> <p>(b) B = claims registered</p>
<p>“claims frequency” means</p>	<p>the number of claims registered divided by the average number of <i>policies</i> in force.</p>
<p>“claims pay-out cost” means</p>	<p>the total costs of providing benefits to <i>policy</i> beneficiaries in relation to claims accepted during the reporting period including:</p> <p>(a) the total monetary value (£) of claim pay-outs;</p>

	<p>(b) the total cost incurred by the provider firm in providing non-monetary benefits; and</p> <p>(c) specific claims costs incurred by the provider firm in handling individual claims including claims investigation costs.</p>
“claims registered” means	<p>all claims during the reporting period less:</p> <p>(a) the number of claims walkaways; and</p> <p>(b) the number of claims in respect of which the potential beneficiary reports an event or loss giving rise to the claim but does not wish to make a claim.</p>
“claims rejected” means	<p>claims by potential beneficiaries of the <i>policy</i>, declined or rejected in the reporting period, regardless of:</p> <p>(a) when the claim was registered;</p> <p>(b) whether or not the claim is rejected at the first notification of loss;</p> <p>(c) whether the claim is rejected for breach of a <i>policy</i> condition, pursuant to an applicable <i>policy</i> exclusion, due to the application of an excess or otherwise,</p> <p>but excluding claims rejected for insurance fraud.</p>
“claims walkaways” means	<p>claims closed during the reporting period due to the potential beneficiary not pursuing the claim.</p>
“distribution arrangement” means	<p>in relation to the relevant product, each distribution arrangement through which the product is sold, as</p>

	identified by the consumer facing firm or brand.
“no claims bonus protection” means	a <i>contract of insurance</i> which will, in the event of a claim, within certain limits, protect the purchaser’s number of years during which a person is deemed not to have made a claim for the purposes of calculating the no claims bonus discount incorporated by a provider into the price of a motor insurance product.
“ <i>policy sales</i> ” means	<i>policies</i> sold in the reporting period, including renewals, and regardless of the period covered by the contracts.
“reporting period” means	the 12-month period beginning on 1 January and ending on 31 December.
“stand-alone <i>policy</i> ” means	a <i>policy</i> that is not sold in connection with, or alongside, another product.
“total gross retail premiums (written)” means	the total amount of gross written premium, based on the premiums charged to the end consumer (excluding insurance premium tax) in relation to policies sold during the reporting period.
“value measures data” means	the data required to be included in a value measures report and set out in <i>SUP</i> 16.26.9R to 16.26.10R.
“value measures report” means	the report referred to in <i>SUP</i> 16.26.7R.

Requirement to submit a value measures report

- 16.26.7 R Where a *firm* of a type set out in column 1 of the table in *SUP* 16.26.8R has carried on the business in column 2 of the same row in relation to the products set out in *SUP* 16 Annex 46R, it must:
- (a) submit to the *FCA* a report containing the value measures data in relation to that business; and
 - (c) submit the report in accordance with *SUP* 16.26.12R to *SUP* 16.26.17R.

16.26.8 R This is the table referred to in SUP 16.26.7R.
1

(1) Type of firm	(2) Nature of business
<i>An insurer other than an incoming firm</i>	all <i>contracts of insurance effected by the insurer.</i>
<i>An incoming firm</i>	all <i>contracts of insurance effected by the incoming firm from an establishment of the firm (or its appointed representative) in the UK.</i>
<i>An incoming firm</i>	all <i>contracts of insurance effected by the firm:</i> (a) on a <i>cross border services</i> basis; and (b) which were not <i>manufactured</i> by a <i>firm</i> operating from an establishment in the <i>UK.</i>
<i>A firm manufacturing from an establishment in the UK</i>	all <i>contracts of insurance effected by an incoming firm on a cross border services</i> basis.
<i>A firm which, from an establishment in the UK, either:</i> (1) <i>manufactures</i> ; or, if not, (2) <i>advises on or proposes contracts of insurance which it does not manufacture.</i>	all <i>contracts of insurance effected by an incoming firm on a cross border services</i> basis in respect of that part of its business that was carried on as an <i>electronic commerce activity</i> from another <i>EEA State.</i>
<i>An insurance intermediary</i>	<i>contracts of insurance</i> in relation to which: (a) the <i>insurance intermediary</i> carried on or was responsible for <i>insurance distribution activities</i> ; (b) the provider entering into the contract as principal is not an <i>authorised person.</i> References

¹ See Appendix to this instrument which contains possible alternative drafting to this provision assuming the UK leaves the EEA and passporting ceases.

	to <i>firms</i> in SUP 16 include references to these unauthorised providers, where the context requires.
A <i>managing agent</i>	<i>any contracts of insurance</i> written at Lloyd's.

19.26.9 R *Firms* must comply with the following in relation to the table in SUP 19.26.8R:

- (1) where different *insurers* underwrite different elements of the cover that form part of the same *policy*, then the *insurer* underwriting the main part of the cover (and in the event of any doubt, the first part of the cover recorded in the *policy*) must report the value measures data for all elements of the cover (including optional extras and cover extensions);
- (2) the exception to (1) is in relation to *policies* which include a legal expenses product element (as described in SUP 16 Annex 46R), where the *insurer* of the legal expenses element must separately report the value measures data for the legal expenses element; and
- (3) references to *manufacturing* are to *manufacturing* in whole or in part. Where there is more than one *firm* referred to in column 1 that *manufactures a contract of insurance*, then only one must report the value measures data and each *firm* must agree in writing with the others which *firm* is responsible.

Content of the report and value measures data

16.26.10 R A value measures report must contain value measures data set out in SUP 16.26.11R as follows:

- (1) the data must be completed in respect of each of the products set out in SUP 16 Annex 46R;
- (2) the data must only be included in relation to each product within the scope of SUP 16.26 where both of the following criteria have been met in respect of that product in the relevant reporting period:
 - (a) total gross retail premiums (written) exceed £400,000; and
 - (b) more than 3,000 *policies* involving the *firm* in the manner set out in column 2 of SUP 16.26.8R are in force; and

- (3) the value measures data for each product must be broken down to show the figures for each of the five largest distribution arrangements through which the products are sold as shown in *SUP 16 Annex 46AR*.

16.26.11 R The value measures data is:

- (1) the number of policy sales;
- (2) total gross retail premiums (written);
- (3) the number of claims registered;
- (4) average number of policies in force;
- (5) claims frequency;
- (6) the number of claims accepted;
- (7) the number of claims rejected;
- (8) claims acceptance rate;
- (9) total claims pay-out cost;
- (10) average claims pay-out;
- (11) the amount that the top 2% of claim pay-outs are above;
- (12) the amount that the top 5% of claim pay-outs are above;
- (13) the number of claims walkaways;
- (14) the number of claims complaints; and
- (15) claims complaints as a percentage of claims.

Annual submission date and reporting period

- 16.26.12 R The value measures report must be submitted annually on or before 28 February and contain information in relation to the reporting period for the immediately preceding calendar year.

Format and method of submission and format

- 16.26.13 R A value measures report must be completed using the form and format set out in SUP 16 Annex 46AR, using the notes for completion in SUP 16 Annex 46BG.
- 16.26.14 R The report must be submitted online through the appropriate systems accessible from the FCA's website.
- 16.26.15 R A value measures report will not be considered as submitted to the FCA unless all the mandatory reporting fields set out in SUP 16 Annex 46AR have been completed correctly and the report has been accepted by the relevant FCA reporting system.
- 16.26.16 G If the FCA's information technology systems fail and online submission is unavailable for 24 hours or more, the FCA will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in SUP 16.3.9R (method of submission of reports) should be used.

Value measures disclosure

- 16.26.17 R Any *firm* that submits a value measures report to the FCA must include a statement that:
- (1) it understands that the FCA produces and publishes *guidance* that contains the value measures data that the *firm* submitted to the FCA; and/or
 - (2) it has informed any other *firm* to whom the relevant value measures data relate that the FCA publishes the *guidance* referred to in (1).

Publication of value measures data by the FCA

- 16.26.18 G The FCA publishes *guidance* that contains the value measures data for the following purposes:
- (a) to promote competition in relation to product value, by creating incentives for firms to make improvements to products and address poor product performance; and
 - (b) to protect consumers by reducing the potential for harm caused by the sale or purchase of poor value products.
- 16.26.19 G The FCA publishes firm-level value measures data in bands. The FCA will only publish firm-level value measures data in bands for claims frequency,

claims acceptance rate, average claims pay-outs and claims complaints as a percentage of claims where the value measures report shows that, in respect of the relevant product, both of the criteria in 16.26.10R(2)(a) and (b) have been met.

Insert the following new annexes SUP 16 Annex 46R, 16 Annex 46AR and 16 Annex 46BG after SUP 16 Annex 45BG (Guidance notes for completion of the Annual Claims Management Report form). The text is not underlined.

16 **Products covered by the reporting requirement in SUP 16.26.7R**
Annex
46R

Product	Product definition
Breakdown insurance	<i>contracts of insurance</i> under which benefits are provided in the event of an accident to or breakdown of a vehicle including those where the effecting and carrying out is excluded from article 10(1) or (2) of the <i>Regulated Activities Order</i> by article 12(1), but excluding parts and garage cover <i>contracts of insurance</i> .
Dental cover	<i>contracts of insurance</i> providing benefits in the nature of indemnity, with or without limit, or fixed pecuniary benefits (or a combination of both) against risks of loss to the persons insured attributable to their incurring the cost of dental work.
Excess protection (for motor insurance)	<i>contracts of insurance</i> to cover the risks of incurring an excess in the event of a motor insurance claim.
Extended warranty - furniture	<i>contracts of insurance</i> against the risks of loss attributable to damage to furniture and having the effect as if the manufacturer's or vendor's warranty on the furniture is extended for a period of time or is extended in scope.
Extended warranty – electrical goods	<i>contracts of insurance</i> against the risks of loss attributable to failure of an electrical product (excluding motor vehicles and personal gadgets) and having the effect as if the manufacturer's or vendor's warranty on the product is extended for a period of time or is extended in scope.
Extended warranty – motor	<i>contracts of insurance</i> against the risks of loss to the persons insured attributable to failure of a motor vehicle and having the effect as if the manufacturer's or vendor's warranty on the motor vehicle is extended for a period of time or is extended in scope.
Gadget (including	<i>contracts of insurance</i> against the risks of loss attributable to loss, breakdown or failure of a personal electronic gadget (including

mobile phone)	mobile phones).
<i>GAP contracts</i>	see <i>Glossary</i> definition.
Healthcare cash plan	<i>contracts of insurance</i> providing fixed pecuniary benefits against risks of the persons insured requiring health care for sickness, infirmity or injuries sustained.
Home – buildings	<i>contracts of insurance</i> against loss of or damage to the structure of (but not the contents of) domestic properties.
Home – buildings and contents	<i>contracts of insurance</i> against loss or damage to either the structure or contents of domestic properties and including cover against risks of incurring liabilities to third parties arising out of injuries sustained within the boundary of a domestic property.
Home – contents	<i>contracts of insurance</i> against loss of or damage to the contents of (but not the structure of) domestic properties.
Home emergency	<i>contracts of insurance</i> providing assistance in the event of home emergencies.
Identity theft	<i>contracts of insurance</i> relating to assistance in the event of identity theft.
Key cover	<i>contracts of insurance</i> to cover the risks of loss arising from lost, stolen and/or broken keys.
Legal expenses	<i>contracts of insurance</i> (or cover within a <i>policy</i>) against the risks of loss to the persons insured attributable to their incurring legal expenses including costs of litigation.
Mortgage payment protection	<i>payment protection contracts</i> enabling a <i>policyholder</i> to protect their ability to continue to make payments due to third parties in respect of mortgages.
Motor	<p><i>motor vehicle liability</i>, where the <i>vehicle</i> has more than two wheels and is not a motorcycle with side-car and:</p> <p>(a) the primary purpose of each <i>vehicle</i> insured on the contract is to transport nine or fewer non-fare paying persons and each <i>vehicle</i> insured on the contract is individually rated;</p> <p>(b) the primary purpose of each <i>vehicle</i> insured on the contracts is to transport nine or fewer non-fare paying persons the persons insured are not a body corporate or partnership, and the number of <i>vehicles</i> insured on the contract is three or less; or</p> <p>(c) the primary purpose of each <i>vehicle</i> insured on the contracts is to transport ten or more non-fare paying persons, the persons insured are</p>

	not a body corporate or partnership and each <i>vehicle</i> insured on the contract is individually rated.
Motorcycle	<i>motor vehicle liability</i> in respect of two-wheeled <i>vehicles</i> or motorcycles with a side car.
Parts and garage cover	<i>contracts of insurance</i> to cover the risks of incurring parts and garage repair costs in the event of a motor vehicle breakdown, but excluding breakdown insurance.
Payment protection (including credit card, store cards and personal loans)	<i>payment protection contracts</i> enabling a <i>policyholder</i> to protect their ability to continue to make payments due to third parties other than in respect of mortgages.
Personal accident	<i>contracts of insurance</i> providing fixed pecuniary benefits and/or benefits in the nature of indemnity against the risks of a beneficiary: <ul style="list-style-type: none"> (a) sustaining injury as a result of an accident; or (b) dying as a result of an accident; or (c) becoming incapacitated in consequence of disease, but excluding healthcare cash plans and private medical products.
Pet – accident only policies	<i>contracts of insurance</i> against the risk of loss to the person insured attributable to accidents to domestic pets, providing for each accidental injury.
Pet – lifetime policies	<i>contracts of insurance</i> against risk of loss to the person insured attributable to new illness or injury to domestic pets, providing a set amount of cover each year the <i>policy</i> remains in force.
Pet – maximum benefit policies	<i>contracts of insurance</i> against risk of loss to the person insured attributable to sickness of or accidents to domestic pets providing a fixed maximum benefit for each illness or injury.
Pet – time-limited policies	<i>contracts of insurance</i> against risk of loss to the person insured attributable to sickness of or accidents to domestic pets to cover the treatment of each illness or injury and a set time period for which treatment of each illness or injury will be covered.
Private medical	<i>contracts of insurance</i> providing benefits in the nature of indemnity, with or without limit, or fixed pecuniary benefits (or a combination of both) against risks of loss to the persons insured attributable to their incurring the cost of medical treatment for sickness or infirmity or injuries sustained.
Single trip – travel	<i>contracts of insurance</i> against a risk of loss to the persons insured attributable to a travelling on single-trip or to their making of travel

	arrangements for a single trip.
Travel (annual) – EU	<i>contracts of insurance</i> against a risk of loss to the persons insured attributable to their travelling or to their making of travel arrangements, covering the <i>UK</i> and/or the <i>EU</i> for a year.
Travel (annual) – worldwide	<i>contracts of insurance</i> against a risk of loss to the persons insured attributable to their travelling or to their making of travel arrangements, covering worldwide travel (excluding European-only travel insurance) for a year.
Tyre insurance	<i>contracts of insurance</i> to cover the risks of loss arising from the need to repair or replace motor vehicle tyres.

16 Annex 46AR Value measures report form [(REPXXX)]

REPXXX - Value measures report

- 1 Reporting period covered by this report
- 2 Is this the first report or restatement?

Year ended 31/12/XXXX

- 3 Reporting Firm

FRN Number

- 4 Please confirm that the reporting firm understands that the FCA produces and publishes guidance that contains the value measures data information that the firm submitted to the FCA

- 5 Please confirm that the reporting firm has informed any other firm to whom the relevant value measures information data relate that the FCA publishes the guidance

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Product category	Add-on or stand-alone or all	Distribution arrangement	Number of policy sales to UK consumers	Total retail premiums (written)	Number of claims registered	Average number of policies in force	Claims frequency	Number of claims where all or part of the claim has been accepted and a pay-out has been made (and the claim is closed at the year-end)	Number of claims that have been rejected in the year	Claims acceptance rate	Total claims pay-out cost (for claims where all or part of the claim has been accepted and a pay-out has been made and the claim is closed at the year-end)	Average claims pay-out	The amount that the top 2% of claim pay-outs are above	The amount that the top 5% of claim pay-outs are above	Number of claim walkaways	Number of claims complaints	Claims complaints as a % of claims
			Number	£'000	Number	Number	%	Number	Number	%	£'000	£	£	£	Number	Number	%
Dental cover	All	Name of largest distribution arrangement															
Dental cover	All	Name of 2nd largest distribution arrangement															
Dental cover	All	Name of 3rd largest distribution arrangement															
Dental cover	All	Name of 4th largest distribution arrangement															
Dental cover	All	Name of 5th largest distribution arrangement															
Dental cover	All	Other distribution															

warranty - motor	alone																	
Gadget (including mobile phone)	Add-on	Name of largest distribution arrangement																
Gadget (including mobile phone)	Add-on	Name of 2nd largest distribution arrangement																
Gadget (including mobile phone)	Add-on	Name of 3rd largest distribution arrangement																
Gadget (including mobile phone)	Add-on	Name of 4th largest distribution arrangement																
Gadget (including mobile phone)	Add-on	Name of 5th largest distribution arrangement																
Gadget (including mobile phone)	Add-on	Other distribution arrangements																
Gadget (including mobile phone)	Add-on	Total																
Gadget (including mobile phone)	Stand-alone	Name of largest distribution arrangement																
Gadget (including mobile phone)	Stand-alone	Name of 2nd largest distribution arrangement																
Gadget (including mobile phone)	Stand-alone	Name of 3rd largest distribution arrangement																
Gadget (including mobile phone)	Stand-alone	Name of 4th largest distribution arrangement																
Gadget (including mobile phone)	Stand-alone	Name of 5th largest distribution arrangement																
Gadget (including mobile phone)	Stand-alone	Other distribution arrangements																
Gadget (including mobile phone)	Stand-alone	Total																
GAP insurance	Add-on	Name of largest distribution arrangement																
GAP insurance	Add-on	Name of 2nd largest distribution arrangement																
GAP insurance	Add-on	Name of 3rd largest distribution arrangement																
GAP insurance	Add-on	Name of 4th largest																

		distribution arrangement																
Tyre Cover	All	Name of 3rd largest distribution arrangement																
Tyre Cover	All	Name of 4th largest distribution arrangement																
Tyre Cover	All	Name of 5th largest distribution arrangement																
Tyre Cover	All	Other distribution arrangements																
Tyre Cover	All	Total																
Vehicle breakdown	Add-on	Name of largest distribution arrangement																
Vehicle breakdown	Add-on	Name of 2nd largest distribution arrangement																
Vehicle breakdown	Add-on	Name of 3rd largest distribution arrangement																
Vehicle breakdown	Add-on	Name of 4th largest distribution arrangement																
Vehicle breakdown	Add-on	Name of 5th largest distribution arrangement																
Vehicle breakdown	Add-on	Other distribution arrangements																
Vehicle breakdown	Add-on	Total																
Vehicle breakdown	Stand-alone	Name of largest distribution arrangement																
Vehicle breakdown	Stand-alone	Name of 2nd largest distribution arrangement																
Vehicle breakdown	Stand-alone	Name of 3rd largest distribution arrangement																
Vehicle breakdown	Stand-alone	Name of 4th largest distribution arrangement																
Vehicle breakdown	Stand-alone	Name of 5th largest distribution arrangement																
Vehicle breakdown	Stand-alone	Other distribution arrangements																
Vehicle breakdown	Stand-alone	Total																

16 Notes on completing the value measures report form [(REPXXX)]
Annex
46BG

Proforma column	Proforma	Guidance
C	Add-on policies and stand-alone policies sales	<p>Where cover is included within the main <i>policy</i> or sold as an optional extra or a cover extension of the <i>policy</i> (A) and not a separate <i>policy</i> then that cover should be reported as part of the reporting for policy (A). The only exception to this approach is the reporting of legal expenses cover which should be reported separately in any event.</p>
G	Number of claims registered	<p>Examples of how the number of claims registered should be reported are set out below:</p> <p>Scenarios</p> <p>Where an event covers multiple claim components this should be reported as a single claim. This could include multiple treatments for a single condition for pet insurance, which would be treated as a single claim.</p> <p>Where a person contacts the <i>firm</i> to report an event as required under their insurance <i>policy</i> but does not wish to make a claim, this should not be reported as a claim registered.</p> <p>Where a customer initially calls, or contacts the <i>firm</i>, to make a claim and is advised at that time that the loss is not covered or the claim is below the policy excess and decides not to pursue a potential claim further then this should be reported as a claim registered and a rejected claim.</p> <p>Where a person rings the <i>firm</i> to ask a general or hypothetical question about their <i>policy</i> or the cover, or checks their <i>policy</i> coverage online then this should not be reported as a claim registered.</p> <p>Where a claim is registered but not subsequently pursued (including where the customer does not contact the <i>firm</i> again) and the <i>firm</i> closes the claim within a reasonable period then the claim should be removed from claims registered (in the period that the claim is closed) and</p>

Proforma column	Proforma	Guidance
		treated as a claims walkaway in that period.
J	Number of claims accepted	<p>Examples of how the number of claims accepted should be reported are set out below:</p> <p>Scenarios</p> <p>If a <i>firm</i> pays out on one element of a claim, but is still investigating another element of the claim at the end of the relevant reporting period (i.e. the claim is still open) then this claim should only be reported as a claim accepted in the reporting period in which:</p> <ul style="list-style-type: none"> (a) the final pay-out has been made; or (b) the claim is otherwise closed. <p>[If a <i>firm</i> pays out on one or more elements of a claim, but rejects other elements of the claim (and the claim is now closed by the end of the reporting period) then this claim acceptance should be reported in this data field.]</p> <p>If a <i>firm</i> pays out on one or more elements of a claim and there are no outstanding elements of the claim at the year end and it is closed, these claims should be included. If in the subsequent period, the claim is reopened then this subsequent element of the claim should not be included in this data field.</p>
K	Claims rejected	<p>For the purposes of the report <i>firms</i> may use the description of insurance fraud in the Insurance Fraud Register (see http://www.theifr.org.uk/en/faqs/#1175).</p> <p>An example of a claim rejected because of breach of condition of the policy is where a claimant failed to notify the provider within an appropriate time period after an event that was likely to result in a claim.</p> <p>An example of a claim rejected because there is no cover is where the claim falls within an exclusion under the terms and conditions.</p> <p><i>Firms</i> should include claims rejected at the first notification of loss.</p> <p><i>Firms</i> should include claims whether or not they were registered in the same reporting period as they were rejected.</p>

Proforma column	Proforma	Guidance
		<p>Examples of how <i>firms</i> should report rejected claims are set out below:</p> <p>Scenarios</p> <p>Where a <i>firm</i> rejects one element of the claim but other element(s) of the claim are still being investigated and are outstanding then this partial rejection should not be included in this data field for this reporting year. However, if in the following year the remaining elements of the claim are rejected then the claim rejection should then be included in this data field for that later year.</p> <p>Where a <i>firm</i> accepts one element of the claim but rejects another element of the claim, this should not be treated as a rejected claim.</p> <p>Where a claim has been rejected because the <i>policy</i> has been voided, this should not be treated as a rejected claim.</p> <p>Where a customer has contacted the wrong <i>insurer</i> or provider to make a claim – this should not be included in the registered and rejected claims data.</p> <p>Where a person contacts the <i>firm</i> to enquire whether they are covered for a claim (relating to an event that has taken place or loss that has occurred) and are informed that they are not covered, then this should be included in both claims rejected and claims registered.</p> <p>Where an <i>insurer</i> or provider is part of a panel and the panel provider may not record which <i>insurer</i>/providers on the panel rejected the claim – <i>firms</i> may estimate their number of rejected claims by calculating a proportion of rejected claims in line with the <i>insurer</i>/provider’s share of the business.</p> <p>Where a claim is closed and the only cost incurred is an investigation fee or cost (e.g. a call-out charge) and the claim is rejected then this should be treated as a rejected claim. However, if following the investigation the customer walks away from the claim then claim should not be treated as a rejected claim.</p> <p>Where a claim is registered and some elements of the claim have been rejected, but the customer has walked away from the remaining elements of the claim then this</p>

Proforma column	Proforma	Guidance
		should be treated as a rejected claim.
M	Total claims pay-out cost	<p>These costs could include both internal and external outsourced costs, where relevant. For example, loss assessment activities performed in-house could be included, including both the direct cost and an appropriate apportionment of overheads.</p> <p>Excluded costs are:</p> <ul style="list-style-type: none"> • expenses including costs associated with the general handling of claims; • other non-claims costs; and • costs of providing a regular service element such as a helpline or a boiler service for home emergency. <p>Scenarios</p> <p>Where part of the claim was paid-out in the previous reporting period and part in the current reporting period, then the claim pay-out that took place in the previous period should be included in the calculation for the total pay-out in the current reporting period.</p> <p>Where a claim has been closed/settled in the previous period but the claim has been reopened in the current reporting period year, any additional claim pay-out should be included in this field.</p> <p>Where firms subsequently receive recoveries from other firms these recoveries should be netted off against the relevant claim pay-outs.</p> <p>Where a claim is settled, but the settlement includes a regular payment element then the settlement value as it is reported on the <i>firm's</i> system should be included in the cost.</p>
P	Top 2%/5% of claims	<p><i>Firms</i> should report the amount that the top 2% and 5% of claim pay-outs are above in the reporting period.</p> <p>For example, if you have 100 claims then the 2% column would be the total claim pay-out cost for the claim accepted with the 2nd highest claim and for the 5% column this would be the total claim pay-out cost for the</p>

Proforma column	Proforma	Guidance
		claim accepted with the 5 th highest value claim.
S	Claims complaints as a % of claims	This may be calculated as the number of claims complaints divided by the number claims registered.

Amend the following as shown.

TP 1 Transitional provisions

...

TP 1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
19	...				
<u>20</u>	<u>SUP 16.26</u>	<u>R</u>	<u>This section applies to any activities upon which the value measures data in SUP 16.26.11R is based and which are carried out after [commencement date of the instrument], regardless of the effective date of any particular general insurance contract.</u>	<u>From the commencement of SUP 16.26</u>	<u>[commencement date of instrument]</u>
<u>21</u>	<u>SUP 16.26.12</u>	<u>R</u>	<u>Firms must only submit the first value measures report by 28 February 2021, in relation to the reporting period 1 January 2020 – 31 December 2020.</u>	<u>From the commencement of SUP 16.26</u>	<u>[commencement date of instrument]</u>

...

Annex C

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

In this Annex underlining indicates new text, unless otherwise stated.

1 Product Intervention and Product Governance Sourcebook (PROD)

...

1.4 Application of PROD 4

...

- 1.4.1** R *PROD 4.5 (Additional expectations for manufacturers and distributors in relation to value measures data) also applies to existing products, regardless of when that product was first manufactured.*
A

Insert the following new section PROD 4.5 after PROD 4.4 (Additional expectations for manufacturers and distributors of insurance products). The text is not underlined.

4.5 Additional expectations for manufacturers and distributors in relation to value measures data

Application and definitions

- 4.5.1 R *PROD 4.5 applies to a firm which manufactures or distributes a general insurance contract product which is the subject of a reporting requirements within SUP 16.26 (General insurance value measures reporting).*
- 4.5.2 R In this section:

“value measures product” means	a product which is the subject of a reporting requirement within SUP 16.26, regardless of when that product was first <i>manufactured</i> .
“value measures information” means	both the individual value measures data reported to the <i>FCA</i> by a <i>firm</i> as well as the value measures data relating to other <i>firms</i> published by the <i>FCA</i> , including that based on value measures data reported to it under SUP 16.26.

Manufacturers of value measures products

- 4.5.3 R A *firm* which *manufactures* (in whole or in part) a value measures product must comply with the requirements in *PROD* 4.5.4R.
- 4.5.4 R The requirements on *manufacturers* referred to in *PROD* 4.5.3R are:
- (1) that in relation to existing value measures products the *firm* has *manufactured*, that the *firm* has effective procedures in place to ensure that, on a continuing basis, the product offers sufficiently good value to *customers* in the target market, taking into account, among other things:
 - (a) the needs of the target market;
 - (b) the *firm's* reasonable assessment of the value expectations of *customers* in the target market;
 - (c) the value measures information, within a reasonable period of its publication;
 - (d) any particular features of the product or the terms and conditions that may give rise to concerns about poor value;
 - (e) appropriate product testing including scenario analysis and testing on *consumers*; and
 - (f) the charging structure of the product including examination of whether the costs and charges are compatible with how useful the product is to *consumers* and the transparency of costs and charges.
 - (2) that in relation to new products and significant adaptations to existing products, the *firm's* product approval process in *PROD* 4.2.1R, considerations in *PROD* 4.2.25R, product approval process in *PROD* 4.2.22EU and the review of products in *PROD* 4.3.34R also incorporate the procedures and considerations in (1) above.
 - (3) *manufacturers* that identify any aspects of a product that may mean the product does not offer sufficiently good value, must:
 - (a) take appropriate action to mitigate the situation and/or prevent further occurrences of any possible detriment to customers;
 - (b) inform any relevant distributors promptly about remedial action being taken; and
 - (c) where relevant, not bring new products to market or make any proposed changes.

- (4) *manufacturers* must regularly review the products it offers or markets to ensure they continue to offer sufficiently good value taking into account any event that could materially affect whether this remains the case.
- (5) where the *firm* is required to submit a value measures report by SUP 16.26.7R, that the *firm* takes all reasonable steps to set up arrangements with firms entering into *contracts of insurance* as principal in relation to those products, to enable it to obtain the value measures data required to be included in the value measures report.
- (6) where there is more than one *manufacturer* they must all outline in writing their mutual responsibilities arising under PROD 4.5.3R and 4.5.4R.

4.5.5 G PROD 4.5.4R(1)(f) does not affect the *manufacturers'* freedom to set premiums.

Distributors of value measures products

4.5.6 R Where a *firm distributes* a value measures product that it does not *manufacture* it must comply with the requirements in PROD 4.5.7R.

4.5.7 R The requirements on *distributors* referred to in PROD 4.5.6R are:

- (1) that in relation to existing products it distributes, and any new products it proposes to distribute, the *firm* has procedures in place to consider, on a continuing basis, whether the product offers sufficiently good value to *customers* in the target market, taking into account the factors in PROD 4.5.4R(1)(a) to (f);
- (2) where the *firm* is required to submit a value measures report by SUP 16.26.7R, that the *firm* takes all reasonable steps to have arrangements with the manufacturer of the value measures products and/or firms or persons entering into *contracts of insurance* as principal in relation to those products, to enable it to obtain the value measures data required to be included in the value measures report;
- (3) *distributors* that identify any aspects of a product that may mean the product does not offer sufficiently good value, must:
 - (a) take appropriate action to mitigate the situation and/or prevent further occurrences of any possible detriment to *customers*, including, where appropriate, amending their distribution strategy for that product; and
 - (b) inform any relevant *manufacturers* promptly about any concerns they have and any action the *distributor* is taking.

Appendix to Annex B

Alternative draft of SUP 16.26.8R if the UK leaves the EU and passporting is discontinued

In this Appendix, underlining indicates new text.

16.26.8 R This is the table referred to in SUP 16.26.7R.

(1) Type of firm	(2) Nature of business
<u>An insurer</u>	<u>all contracts of insurance effected by the insurer.</u>
<u>A firm which, from an establishment in the UK, either:</u> (1) <u>manufactures; or, if not,</u> (2) <u>advises on or proposes contracts of insurance which it does not manufacture.</u>	<u>all contracts of insurance effected by a firm from outside the UK without carrying on a regulated activity in the UK.</u>
<u>An insurance intermediary</u>	<u>contracts of insurance in relation to which:</u> (a) <u>the insurance intermediary carried on or was responsible for insurance distribution activities;</u> (b) <u>the provider entering into the contract as principal is not an authorised person. References to firms in SUP 16 include references to these unauthorised providers, where the context requires.</u>
<u>A managing agent</u>	<u>any contracts of insurance written at Lloyd's.</u>

