FINANCIAL CONDUCT AUTHORITY

Signposting to travel insurance for consumers with medical conditions

Consultation Paper
CP19/23**

July 2019

How to respond

We are asking for comments on this Consultation Paper (CP) by **15 September 2019**.

You can send them to us using the form on our website at: www.fca.org.uk/cp19-23-response-form

Or in writing to:
Hannah Regan
Consumer Strategy & Policy
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Email:
signpostingtotravelinsurance@fca.org.uk

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Contents

1 Summary

1.1 We want to help consumers with pre-existing medical conditions (PEMCs) who can sometimes struggle to access affordable travel insurance that covers their conditions. This consultation sets out our proposals for doing this and we are asking for your views.

Why we are consulting

1.2 We propose introducing measures to help consumers better navigate the market and find firms that can offer travel insurance products that cover their PEMCs, and we would like input from our stakeholders on these proposals.

Who this applies to

1.3 This consultation will be of interest to:

- all firms that offer retail travel insurance, including insurers, Lloyd's managing agents, intermediaries, and appointed representatives[1]
- banks that offer packaged bank accounts inclusive of travel insurance
- insurance industry trade associations
- charities, in particular medical charities
- consumer organisations
- consumers, primarily those with PEMCs

The wider context of this consultation

1.4 Over the past four years we have worked on issues affecting vulnerable consumers and access to financial services. We have found that consumers with PEMCs can sometimes face problems navigating the travel insurance market and finding affordable cover for their conditions.

1.5 In June 2017, we issued a Call for Input (CfI) to gather further evidence. We focused on those consumers with, or recovering from, cancer.

1.6 In July 2018, we outlined the feedback we received to the CfI. This indicated that consumers with more serious PEMCs can struggle to identify firms that can provide affordable cover for their PEMC. Consumers often give up their search after their initial unsuccessful attempts. In some cases, this is because their application for travel insurance is declined. Others are offered a policy containing exclusions for PEMCs or at what they consider to be an unreasonably high premium.

1 In this document, we use 'firm' to refer to insurers, Lloyd's managing agents, intermediaries (including price-comparison websites and banks), and appointed representatives

1.7 This means some consumers are travelling without cover for their PEMC, cancelling trips or paying significantly more for policies than they could with alternative firms. Issues were prevalent across all PEMCs, not just cancer.

1.8 Nearly all consumers with a PEMC can get cover if they are able to find the right provider. And often, if they can, the premium may also be more affordable. We know it can be challenging to navigate the market to find more specialist providers. So we have mainly looked at helping consumers effectively navigate the market and access all providers.

1.9 We estimate there are between 12.6-14.1 million consumers with a PEMC that look to purchase travel insurance each year. Of these consumers, approximately 0.7% were declined cover, and 11% bought a policy that excluded their PEMC (see table 1 in Annex 2- Cost Benefit Analysis). A proportion of consumers who are offered a policy may benefit from shopping around to find more affordable cover with a different provider. We are unable to estimate the number of consumers in this group.

1.10 Since issuing the feedback statement, we have engaged extensively with stakeholders through bilateral meetings and larger roundtable events. This has helped us to explore the options available, test our proposals and establish a viable package that we believe addresses the harm in a proportionate and practical way. We recognise that industry and trade associations (such as BIBA and the ABI) have been engaged with this issue, but our proposals aim to bring greater consistency across the industry.

What we want to change

1.11 This consultation seeks views on the following proposed changes to our Handbook:

- A new 'signposting' rule requiring firms, in certain circumstances, to give consumers details of a directory of travel insurance firms that have the appetite and capability to cover consumers with more serious PEMCs. The content and controls around the directory will be developed by the FCA with the intention that the directory will be hosted by the Money and Pensions Service (MAPS).
- new guidance to clarify firms' obligations to travel insurance consumers with PEMCs

1.12 We are also looking to introduce a package of proposals to work together to achieve optimal outcomes for consumers. We will work with:

- MAPS to improve consumer understanding of travel insurance policies for those with PEMCs, helping consumers understand what factors affect their pricing, and reiterate the importance of insurance; and
- our stakeholders to improve the wording used in the medical screening process, aiming to make the process as easy as possible for consumers

1.13 These additional supporting remedies are discussed in more detail in 1.21 – 1.22 below.

Outcomes we are seeking

1.14 We want to improve the travel insurance market by helping consumers with PEMCs have better access to travel insurance products that cover their conditions. Our proposals aim to increase consumer confidence and trust in the travel insurance market by reducing the number of:

- consumers who feel frustrated and unable to navigate the market
- uninsured consumers, who are currently faced with a choice of not travelling or running the risk of incurring significant costs, including medical bills, abroad
- consumers with PEMCs who are over-paying significantly for travel insurance

Measuring success

1.15 If we introduce these proposals, we will evaluate their impact using a range of evidence.

1.16 We will get feedback from stakeholders, including consumer organisations, charities and consumers themselves, which will be extremely valuable in measuring the success of the proposals. However, we have limited baseline data to give us an overview of how the market is operating currently for consumers with PEMCs. This will make it difficult to measure the success of the proposals against the current position in quantitative terms.

1.17 We will work with MAPS to establish ways to collect data from the directory to show not only how many consumers use the directory, but also the outcomes after using it. We will also use information from our supervision of firms, including product governance processes. These give insight into how travel insurance products reach their target market and perform.

Next steps

Consultation

1.18 We are seeking your views on the proposals in this paper. Please send your comments to us by 15 September 2019 using the online response form or by writing to us at the address on page 2.

1.19 We will consider the feedback and publish a Policy Statement with our response to the consultation feedback along with final rules, subject to responses to this consultation.

Supporting proposals

1.20 To complement the proposals that we are consulting on in this paper, we will work with MAPS and our other stakeholders on 2 additional initiatives:

1. Consumer information

1.21 We want to ensure that consumers have access to relevant information to make better informed decisions. We will work with stakeholders to try to improve consumer understanding of the travel insurance market and will work with MAPS to produce

material for consumers with PEMCs. This will help consumers understand the implications of travelling with exclusions, and how factors such as the country of destination can affect medical costs and so affect travel insurance premiums.

2. Medical screening

1.22 Some of the wording used in the medical screening process[2] can be outdated and uncomfortable for consumers to respond to, and there may be other ways of wording questions that would still add value to the risk assessment. We are working with stakeholders to decide how to improve this. We are working collaboratively with charities and consumer organisations, as well as the medical screening companies.

Other related FCA work

1.23 The responses to our CfI highlighted some other concerns from our stakeholders in relation to pricing practices within general insurance. While our proposals do not focus on these concerns or this specific feedback, we are conducting other work on pricing practices, the outcomes of which may be relevant to the travel insurance market:

- Our Discussion paper on fair pricing in financial services launched a debate on fair pricing in the broad context of financial services and presents a framework for assessing the fairness of a given pricing practice. Our approach here will apply to all retail financial services markets, including travel insurance. We plan to publish our feedback statement later this summer.
- We are also conducting a General insurance pricing practices market study into how existing and new consumers are charged for motor and home insurance and plan to publish our findings later this year. Other general insurance products such as health, pet and travel insurance are not included in the scope of the market study. But, where possible, we will identify lessons from this study that are relevant to other markets that we regulate, including travel insurance.

2 When a consumer enquires about a travel insurance policy, they are asked a/some 'trigger questions' which will be used to determine if the consumer may have a PEMC. If the answers to this/these questions indicate that they may have a PEMC, the consumer is directed to a set of 'medical screening' questions. These questions ask more detail about the consumer's condition and are used to understand the severity of the consumer's condition and the level of risk they present.

2 The wider context

The harm we are trying to reduce/prevent

2.1 Our work has identified 2 key issues for consumers:

- **Access** – firms that specialise in covering medical conditions and/or have the capability and appetite to cover more serious PEMCs are often not on price-comparison websites, and are more difficult for consumers to find. Declining consumers travel insurance, offering policies with exclusions for PEMCs, or offering policies with high premium rates can lead to consumers believing it is not possible to get affordable insurance that covers their PEMCs.
- **Understanding** – feedback from our stakeholders has shown that consumers may find it difficult to understand insurance pricing, and how different factors affect their quoted premium. We have also seen a general lack of understanding around the impact of PEMC exclusions. This can result in consumers buying policies without understanding the extent of their cover and/or feeling unfairly treated. A broader lack of understanding of the market can also result in a lack of access to the entire range of travel insurance providers available.

How it links to our objectives

Consumer protection

2.2 Our proposals are intended to protect consumers with PEMCs by reducing the number of uninsured consumers, those with PEMC exclusions, and those who are unable to access affordable insurance that covers their conditions. We aim to protect these consumers from potentially having to pay large costs, including medical costs.

Market integrity

2.3 Our proposals aim to increase consumer confidence and trust in the travel insurance market, with more consumers better able to find appropriate insurance cover for their PEMCs.

Wider effects of this consultation

2.4 Annex 2 sets out our analysis of the associated costs and benefits to both firms and consumers from our proposals.

2.5 Our proposals may also promote competition between travel insurance firms by improving consumer access and awareness, increasing their ability and propensity to shop around.

Equality and diversity considerations

2.6 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

2.7 Consumers are classed as 'disabled' under the Equality Act 2010 if they have a physical or mental impairment that has a 'substantial' and 'long-term' adverse effect on their ability to carry out normal day to day activities.

2.8 The proposals are designed to assist consumers who have, or have had, PEMCs to access travel insurance products that cover their conditions. This will include consumers who are classed as disabled under the Equality Act, as well as many PEMCs that are not considered a disability under the Act. Our proposal to improve consumer understanding in this market also aims to assist consumers with PEMCs. These proposals are intended to equip consumers with relevant information and help them make more informed decisions, and to improve the process of buying insurance, reducing unnecessary distress throughout the journey.

2.9 Overall, we consider that the proposals will positively impact the groups with protected characteristics under the Equality Act 2010. However, we recognise that there is a risk that the directory could be overwhelming to some consumers who use it, many of whom will be vulnerable. We will work with MAPS to minimise this risk when developing the directory.

2.10 We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

3 Signposting rules and additional guidance

3.1 We are consulting on changes to our Handbook designed to make it easier for consumers with PEMCs to access affordable travel insurance that covers their conditions.

3.2 We are proposing:

1. A new rule requiring firms, in certain circumstances, to signpost consumers to a directory of firms specialising in PEMCs, particularly for more serious conditions. This directory will have the content and controls set by the FCA but the intention is that it will be hosted by the Money and Pensions Service (MAPS). There is more detail about this in paras 3.32-3.39.
2. Additional guidance to our existing rules, including on:
   a. communicating with consumers about travel insurance policies with exclusions for PEMCs and
   b. risk assessments for consumers with PEMCs and how firms communicate the results of those assessments and/or the resulting premiums to consumers.

Signposting rule

3.3 We propose requiring all firms to give details of the directory to consumers that notify, or have previously notified, a firm of a PEMC, in the following circumstances:

- **Declines:** Where a consumer is declined or otherwise not offered cover, or has their cover cancelled mid-term, due to a PEMC.
- **Exclusions:** Where a consumer is offered cover with an exlusion for a PEMC that cannot be removed.
- **Additional premiums:** Where a consumer is offered cover with an additional loading[3] to their base premium due to their PEMC.

3.4 The requirements would apply across all types of consumer journey (online, telephone, or by other means) and to all firms providing or distributing retail travel insurance to consumers in the UK[4]. If a consumer cannot access the internet, the firm must give them a hard-copy version of the directory.

Additional premiums

3.5 We want to make sure that details of the directory are given to those consumers who will most benefit from further shopping around and not those who are unlikely to benefit.

3 An additional loading is a cost built into the insurance premium to cover additional risk that the insurer will suffer losses during the period of cover.

4 Subject to any Directive restrictions.

3.6 If a consumer has been declined cover, or received a quote with a PEMC exclusion, further shopping around is clearly likely to be beneficial. But if they have a quote including cover for their condition, further shopping around will not always help. For some, shopping around could result in a significant reduction in premium, while for others, the initial provider may offer the best rates.

3.7 It is difficult to identify a trigger point for disclosing the directory information that is both proportionate for firms to implement and which maximises getting the information to those consumers most likely benefit, reducing consumer harm to the greatest extent. We are proposing that all consumers with an additional loading to their premium are notified of the directory. We considered the following options, some of which were suggested by our stakeholders, for triggering the notification:

a. **A medical screening score threshold, above which the notification is triggered.** This provides an objective test to trigger the disclosure. Also, the severity of a consumer's medical condition (and therefore their medical screening score) is likely to be a key factor in whether further shopping around will be beneficial. However, it is difficult to establish the best point at which to set the threshold to not exclude consumers who would benefit. It is difficult to express this in a consistent way across the different medical screening tools, while also avoiding creating a barrier to any new entrants to the market.
b. **A premium amount threshold, above which the notification is triggered.** Again, this provides an objective test, but there are similar difficulties to option (a) in deciding on an appropriate threshold. Some stakeholders suggested that signposting could be triggered at the price point above which only a very small percentage of consumers accept the quote. But this point will be different for every firm. If firms are providing quotes which are only accepted by a very small number of consumers, then they should consider if they are meeting their wider regulatory obligations (see 3.21 to 3.26 below). Also, the level of insurance premium will not be determined solely by the consumer's PEMC, so it risks not being a reliable proxy for severity of the medical condition and the likely benefits of shopping around.
c. **All consumers who declare a PEMC are notified.** This also provides an objective test, but would capture a large number of consumers who have no loading to their premium (approximately 12% of those medically screened go on to receive no additional loading, and a further 27% get a very low screening score and so could be less likely to benefit from the notification).
d. **All consumers who receive an additional loading to their base premium, due to a PEMC, are notified.** This objective test should be comparatively easy for firms to implement. It should also ensure that the disclosure is made to those consumers who are most likely to benefit from shopping around. We recognise that this may mean that some consumers receive the notification when they have received a minimal loading to their premium due to their PEMC and may not benefit from shopping around further. But, on balance, we believe that this is the best option.

3.8 We want to limit the risk that consumers with a minimal loading (often due to a very 'mild' condition) are deterred from their existing customer journey unnecessarily. So, we propose that when signposting the consumer to the directory, firms indicate which consumers are more likely to benefit from using it and state the potential benefits of accessing it. They can explain it is likely to be more helpful for consumers with 'more serious' medical conditions and so it may not be beneficial for the consumer's condition.

3.9 We are aware this could put some onus on the consumer to decide whether their condition might be considered 'more serious', which could be difficult. However, we believe the notification will help consumers to understand whether it may be of benefit to them to access the directory rather than remain on their existing journey.

3.10 If the firm cannot ascertain whether premiums carry an additional loading due to a PEMC it must disclose the details of the directory to consumers anyway.

Renewals and packaged bank accounts

3.11 Around 78% of policies sold are annual multi-trip policies (ABI, Mintel). Consumers can choose to purchase another annual policy with another provider but often continue with the same provider at point of renewal.

3.12 Packaged bank accounts (PBAs) are one of the most common ways of obtaining travel insurance in today's market. Travel insurance held through PBAs usually come with a blanket exclusion for all PEMCs. Consumers can go through medical screening, which could result in the exclusion being removed. This might result in an additional loading to the premium depending on the severity of the condition.

3.13 We are proposing that, for annual policyholders and PBA consumers, if a PEMC has been declared leading to an additional premium or an exclusion (or if a blanket PEMC exclusion has been applied and cannot be removed), firms must disclose details of the directory. If an exclusion has been applied to a policy, regardless of the consumer declaring any medical conditions, then the firm should disclose to the consumer whether it can be removed from the policy, and if so, how it can be removed.

Existing industry initiatives

3.14 We are aware there are already many industry initiatives, and more still being developed, to help consumers with PEMCs. These include firms referring consumers with PEMCs to more specialist firms and other signposting.

3.15 Our proposals aim to introduce a consistent minimum standard for consumers across the whole industry. But we welcome and encourage additional arrangements to help consumers. Supplying details of the directory does not stop firms innovating to improve the process.

3.16 Whilst we welcome industry initiatives, we are reminding firms of their obligations under competition law. These include not disclosing any commercially sensitive information to competitors such as pricing or price planning, customer or market information or company strategy.

3.17 If firms refer consumers to one or more specific firms as well as providing them with information about the directory, they should ensure that they comply with Principle 7 (Communications with Clients). This is to make sure that the status and utility of the directory is made clear and consumers are not misled into believing the specific firm(s) they are referred to is the only or best option available. It is also important for firms to satisfy themselves that they are complying with Principle 8 (Conflicts of Interest) and our rules, including ICOBS 2.2.2R, ICOBS 2.3, ICOBS2.5-1R and, where applicable, SYSC 19F about the arrangements they have with any specific firms they refer consumers to. Firms should also ensure they comply with competition law requirements, in particular the sharing of non-public information.

Additional guidance

Exclusions

3.18 Some consumers may be buying policies with PEMC exclusions without being made aware it may be possible to remove the exclusion. We want to increase consumers' awareness of their options.

3.19 Our rules already require firms to disclose 'appropriate information about a policy ... so that the consumer can make an informed decision about the arrangements proposed.' ICOBS 6.1.5R. ICOBS 6 Annex 3 requires firms to disclose, within the Insurance Product Information Document, information about the main exclusions where claims cannot be made.

3.20 We propose to introduce guidance that firms selling travel insurance policies that exclude PEMCs should tell consumers whether and how PEMC exclusions can be removed. This applies to new and existing consumers. Existing consumers should get this information in their renewal notice or annual PBA eligibility statement.

High premiums

3.21 Stakeholders have suggested that consumers with PEMCs can sometimes receive very high quotes from a provider.

3.22 This can occur where the consumer falls outside the firm's risk appetite. It can also happen if the firm lacks the experience or expertise to assess the risk accurately. It may be better for consumers for firms not to offer a quote in those circumstances and explain to consumers why a quote is not being provided. We also query whether offering a quote in those circumstances is in line with firms' obligations (including Principle 2, 6, and/or 7, PROD and parts of ICOBS). Where firms decide not to provide a quote, they should provide an explanation to the consumer and details of the directory.

3.23 Consumers who receive very high premium quotations may incorrectly assume they are unable to get affordable travel insurance due to their condition. Firms should consider whether it would be fairer and more beneficial for the consumer to not offer a quote and explain why.

3.24 Under PROD 4, products must be designed for an identified target market. Manufacturers may identify groups of consumers for whose needs, characteristics and objectives the insurance product is generally not compatible (PROD 4.2.18). Furthermore, where firms distribute products that they do not manufacture they must have adequate arrangements to understand the characteristics and identified target market of each product (PROD 4.3.2).

3.25 We propose to add guidance saying that where firms offer cover to some consumers at very high premiums, they should consider to what extent this is because those consumers fall outside their target market. We expect those firms to consider whether their offer is very expensive and may mislead the consumer, deterring them from shopping around further. Alternatively, firms should consider whether their offer is very expensive due to their lack of experience or ability to assess the risk in a way that will be fair and beneficial to a consumer. The guidance will set out our expectations that:

- the firm should take all reasonable steps to consider whether its processes are sufficient to provide a relevant assessment of the risk associated with the particular medical condition. If not, quoting a very high premium is likely to conflict with FCA requirements (including Principle 2, 6, 7, and parts of ICOBS and PROD)
- where firms are quoting very high premiums due to the medical condition falling outside of their risk appetite or target market. This may also conflict with the FCA requirements referred to above

3.26 In both circumstances, firms should consider whether not offering a quote would be clearer, less misleading, and fairer – so in the consumer's better interests. And they should also explain to consumers why they are not giving a quote.

Equality Act 2010

3.27 Firms are also reminded of their obligations under the Equality Act 2010, in circumstances where the PEMC would amount to a disability under that Act.

3.28 There is an exception to certain prohibitions against disability discrimination in the Equality Act that allows insurers to differentiate prices based on the risk that different consumers present, where it is reasonable to do so. Firms are reminded that this must be based on relevant and reliable information.

Demands and needs

3.29 We are concerned that some consumers with PEMCs take out travel insurance which excludes cover for their condition.

3.30 Firms are reminded that, when proposing a contract of insurance, they must ensure it is consistent with the consumer's demands and needs (ICOBS 5.2.2BR).

3.31 Where a firm is dealing with a consumer with a PEMC and proposes a policy which excludes cover for that PEMC, the firm should consider how this meets its obligation under ICOBS 5.2.2BR to meet the consumer's demands and needs.

Directory

3.32 We propose to require firms to signpost consumers to a directory that:

- gives details of firms that have the appetite and medical screening capability to provide insurance policies for consumers with more serious PEMCs
- is verified to ensure the above
- shows enough information about each firm so that consumers can make an informed initial selection about which might meet their needs
- only lists firms that are FCA registered

3.33 We are working closely with MAPS on the development of the directory, with the intention that it will be hosted on its website.

3.34 To be featured in the directory, firms will have to answer a series of questions confirming that they have the appetite and screening capability to provide insurance policies for consumers with more serious PEMCs. The FCA and MAPS will carry out an initial joint validation process. To ensure that the information on the directory continues to be valid against the FCA's criteria for its contents, MAPS will ensure the information is kept up to date.

3.35 Consumers could also be referred to the directory by other organisations such as charities and consumer bodies.

3.36 Information displayed on the directory should be broad enough to be useful for consumers, but succinct enough to not be overwhelming. Suggestions for display are:

- name of firm and contact details
- whether the firm specialises in covering any specific medical conditions
- any specific medical conditions that the firm is not likely to cover
- any age limits
- whether the firm can discuss medical conditions with consumers either online or by phone
- whether the firm can offer cover to consumers who are currently undertaking treatment
- whether the firm can offer cover to consumers with a terminal prognosis

3.37 There will be user testing of the directory, to ensure the format is practical and user-friendly.

3.38 Firms which enter the market after the directory is in operation will be eligible for inclusion if they satisfy the validation process.

3.39 There will be an opportunity for firms to submit applications to be listed on the directory. We expect a relatively small number of firms to apply to be listed. We will publish details of how to apply following the result of our consultation.

Implementation period

3.40 We propose to give firms 3 months to implement any changes from the time the rules are made, by which time we expect the directory to be available.

Annex 1
List of questions

Q1: Do you agree with our signposting proposals?

Q2: If you disagree, what would be your proposed approach and why?

Q3: Do you agree with our proposal for the trigger points for disclosure for consumers with PEMCs?

Q4: If you disagree, what would be your proposed approach and why?

Q5: Do you agree with our proposed guidance on exclusions?

Q6: Do you agree with our proposed guidance on high premiums?

Q7: Do you agree with our proposals for the directory?

Q8: What do you think is an adequate time to implement the rule changes after we publish our final rules and policy statement, and why?

Annex 2
Cost benefit analysis

Introduction

1. FSMA requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, it requires us to publish an analysis of the costs and benefits we expect will arise if our proposed rules are made and an estimate of those costs and benefits.

2. However, FSMA also provides that if the costs or benefits cannot reasonably be estimated or it is not reasonably practicable to produce an estimate, then we need not estimate them. In the cases in this CBA where we have not estimated costs or benefits, this is due to it not being reasonably practicable to do so.

3. This CBA presents our analysis of the expected impacts of a proposal to: create a directory of specialist[5] travel insurance firms; and to require firms to signpost to this directory in specific circumstances ('our Proposal'). Our Proposal aims to address the harm faced by some consumers with pre-existing medical conditions (PEMCs) when looking for travel insurance. We provide monetary estimates for the impacts where we believe we can reasonably estimate them and it is reasonably practicable to do so. Otherwise, where possible, we provide estimates on the potential number of consumers affected.

4. The CBA has the following sections:

- Data used and limitations
- Problem and rationale for our Proposal
- Our Proposal
- Baseline and key assumptions
- Summary of costs and benefits
- Benefits
- Costs

Data used and limitations

5. For the purposes of this CBA we have not conducted a formal data request from firms in the market. Our Proposal has a relatively small expected cost per firm and we have already obtained information (both data and qualitative information) from firms during our Call for Input and engagement with firms.[6] In these circumstances, we believe it would not have been proportionate to undertake a formal data request, with the burden of doing so falling on firms.

5 In this document we use the term 'specialist' to refer to firms who have more appetite and capability to offer cover to consumers with more serious medical conditions.

6 We received 64 responses to our Call for Input on Access to Insurance, have conducted 3 roundtables and met bilaterally with around 30 firms on this area of work.

6. However, the data we have are limited at times in terms of detail and are from a small number of firms (8). Whilst we have tried to ensure that the data used represent a range of different firms with different business models, the limited amount of data means our estimates are more indicative and sensitive to outliers than they would otherwise be. We welcome feedback on the estimates we provide.

Problem and rationale for our Proposal

The harm and drivers of harm

7. In our Feedback Statement on our Call for Input on Access to Insurance (FS18/1) we outlined how it can be difficult for some consumers who have, or have had, cancer to find affordable travel insurance with appropriate cover. Some responses to the initial Call for Input and wider feedback from stakeholders suggested that this harm is not specific to cancer, and that consumers with other PEMCs experience similar difficulties.

8. The 3 key harms we identified in FS18/1 and through further engagement with firms and consumer organisations are that some consumers with PEMCs are:

- not able to obtain insurance
- able to obtain insurance but without cover for their PEMC (i.e. with an exclusion)
- able to obtain insurance with cover for their PEMC, but at a price significantly higher than they could get elsewhere in the market

9. The main driver of these harms is that consumers with PEMCs lack awareness of specialist travel insurance firms as well as the potential to remove exclusions for PEMCs. An additional driver of harm for consumers who may be paying a significantly higher price is them finding it difficult to assess and compare the value of different products, for example prices and associated cover between mainstream and specialist firms.

Consumers cannot get cover or can only obtain cover with an exclusion for their PEMC

10. In FS18/1 we found that some consumers with PEMCs are not aware that there are alternative travel insurance firms, which are able to offer insurance to consumers with more serious PEMCs. As such, when the severity of the consumer's PEMC is beyond the risk appetite of mainstream travel insurance firms, these consumers often cannot find cover. This can be through not being offered insurance at all, by being offered insurance that excludes cover for their PEMC or because they are quoted a premium for insurance that would cover their PEMC which they deem as unreasonably high.

11. Consumers not being able to access cover results in consumer harm as they then choose between travelling without cover, and bear the financial risk associated with this, or not travelling at all. The impact of this is not necessarily mitigated by traditional shopping around, such as using a price comparison website, as most mainstream firms use a similar approach to medical screening and specialist firms are not always on price comparison websites. Other consumers may not attempt to shop around as they may consider a high premium, or a decline to provide cover from a mainstream firm, is a reflection of their ability to obtain cover more generally.

12. Additionally, it is sometimes possible for consumers to remove the exclusion on their offered policy from the mainstream firm in exchange for an increased premium. However, consumers are often unaware that this is possible. This can be the case for travel insurance that comes with packaged bank accounts, where a PEMC exclusion often comes as standard.

Consumers can obtain cover however pay significantly more than efficient costs

13. In those cases where mainstream firms are prepared to offer insurance to consumers with more serious PEMCs, feedback to our work has suggested that in some circumstances, they may charge a relatively high price, compared to more specialist firms.

14. We understand that this difference in prices offered is due to these individuals being at the edge of the mainstream firms' risk appetite or beyond. In particular, mainstream firms may have limited experience of these risks and do not price the risk as accurately as more specialist firms, or they may attempt to deter the consumer from purchasing the policy by offering a very high premium rather than declining the risk.[7] This, combined with consumers' lack of awareness of specialist firms, results in some consumers paying higher prices than they could elsewhere for similar levels of cover.

Our Proposals

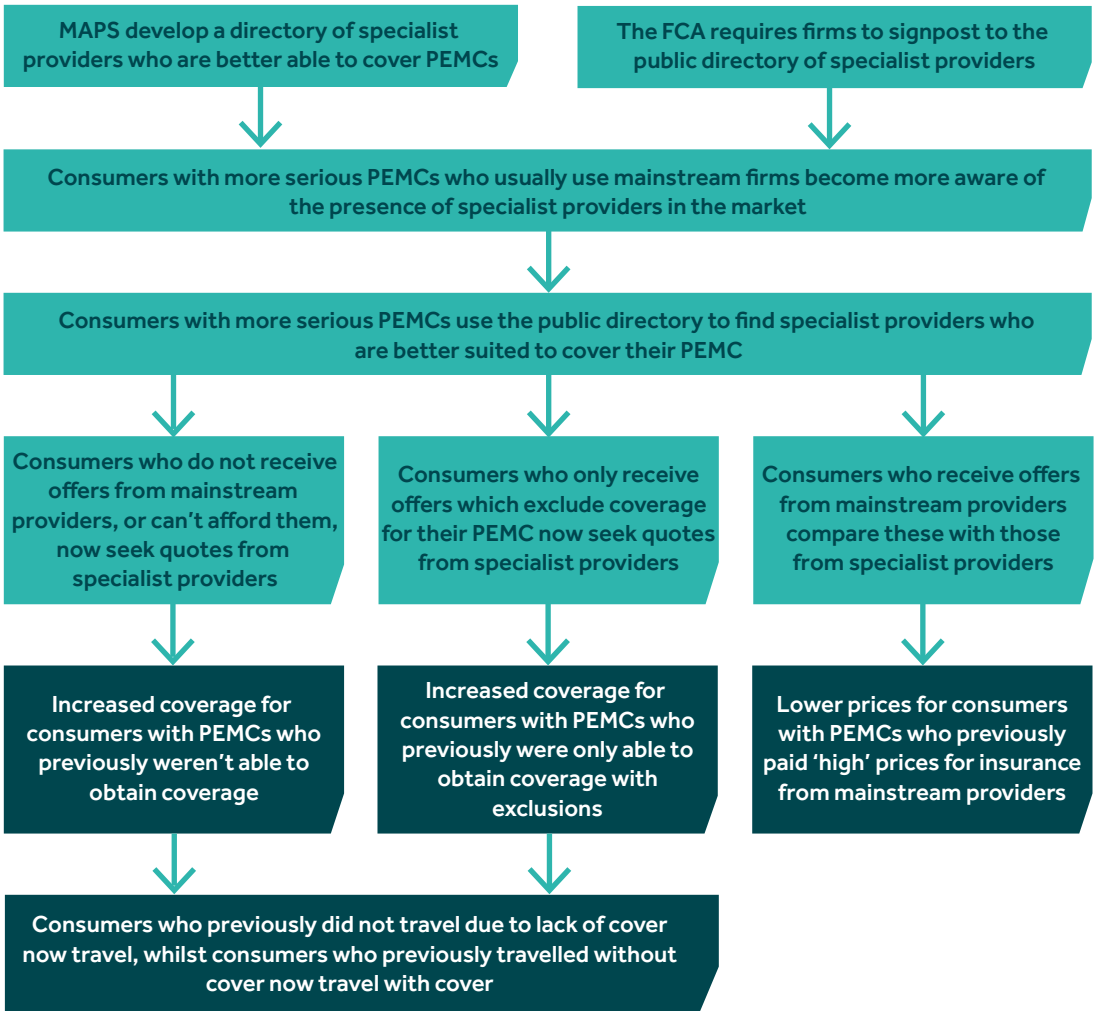
15. To address the harms identified above, we are proposing to require firms to signpost some consumers to a directory of firms who specialise in providing cover for PEMCs, particularly for more serious conditions. The signposting will be required where the consumer: is declined or not offered cover or has their cover cancelled mid-term; is offered cover with an exclusion for a PEMC; or offered a policy with additional loading applied to their base premium due to their PEMC. Firms will be required to indicate which consumers are more likely to benefit from using it and state the potential benefits of accessing it.

16. We are working closely with MAPS around the development of the directory to provide a range of information on specialist firms, such as the types of medical conditions they cover and how they can be contacted by consumers. Firms listed on the directory would be validated jointly by the FCA and MAPS, with firms being audited periodically.

17. Figure 1 outlines how we expect the signposting requirement to improve consumer outcomes.

7 Firms may be obliged to offer cover up to a certain level of medical condition in order to be shown on a price comparison website. If the firm does not wish to take on the risk around this medical condition cut-off, one way to do so whilst not contravening their obligation is to offer a relatively high price.

Figure 1 – How we expect our Proposal to improve consumer outcomes



18. The signposting requirement will be complemented by proposed guidance to firms clarifying that, where an exclusion is applied due to a PEMC, firms should inform the consumer whether the exclusion can be removed and, if so, how this can be done. Furthermore, additional guidance is proposed setting out FCA expectations for firms that offer cover to consumers at very high premiums (and that firms should calculate medical condition premiums by reference to reliable information that is relevant to the assessment of the risk).

19. It will also be complemented by a package of other proposals, including:

- Working with MAPS to improve consumer understanding of travel insurance policies for consumers with PEMCs, helping consumers understand what factors affect their pricing, and reiterate the importance of insurance; and
- Working collaboratively with our stakeholders to improve the wording used in the medical screening process, aiming to make the journey as easy as possible for consumers.

20. Further details on the proposals can be found in Chapter 3 of the Consultation Paper.

Baseline and key assumptions

Baseline

21. The starting point for our baseline is the current level for each of the outcomes we are interested in improving, as illustrated in Figure 1. Where we hold estimates of these, we have listed them in Table 1 below. We use these estimates later in the CBA to help inform our estimates of costs and benefits.

Table 1 – Baseline for key outcomes[8]

Outcome of interest	Estimate % (and absolute amount)
Consumers who undergo medical screening due to having a PEMC	40% (12.6-14.1 million)[9] [10]
Consumers with PEMCs who have insurance that excludes cover for their PEMC	11.2% (1.4-1.6 million)[11]
Consumers declined cover due to a PEMC	0.3% (94,000-105,000)[12]
Consumers who have a high[13] medical screening score and are most likely to benefit from our Proposal	1.1% (338,000-376,000)
Average premium paid by consumers for insurance that covers their PEMC	Offered by mainstream firms to consumers with more serious PEMCs: £1,500 Offered by specialist firms to consumers with more serious PEMCs: £900[14]

Source: ABI, ONS, Mintel, firm data, FCA calculations

22. Following engagement with firms, we understand that some firms are starting to put in place arrangements to refer consumers on to more specialist firms where they are unable to offer cover themselves. This will impact on our baseline, although it is difficult to estimate by how much. The estimated costs of implementing our proposal may decrease as the number of firms that are starting to put in place signposting arrangements increases.[15] However, there will also be an associated decrease in benefits.

Key assumptions

23. In Table 2 we set out: the main assumptions used when conducting the CBA; their reasoning; and potential consequences if they do not hold.

24. In our analysis, we have assumed that the firms for which we have data are representative of the wider market. We have scaled up their data, where possible and appropriate, based on their size and market share. These firms may not be

8 Numbers presented in the table are rounded. The underlying calculations use un-rounded numbers. Therefore, using the numbers in the table to re-create estimates may result in small errors.

9 We estimate that there are around 31.6-35.2 million travel insurance customers annually. We have estimated this using two methodologies to improve the robustness of our estimates. Thus, subsequent calculations based on this number will have a range that reflects this. This estimate is based on the best information available to us and we welcome feedback on our estimates.

10 Travel Insurance: UK, February 2019, Mintel estimates that around 40% of travel insurance consumers undergo medical screening.

11 This estimate is based on data from a limited number of firms. We believe that it may not fully account for exclusions that apply on packaged bank accounts. As such, this should be taken as an estimate of the lower bound.

12 This percentage estimate is based on data from 1 large firm. This may include double counting of consumers who are rejected by more than one firm when seeking cover or who initially seek multi-trip cover but then take single trip cover. As such, it should be taken as an upper estimate.

13 There are different medical screening firms in the market, who score using different methodologies. As such, we have not listed what this score would be. However, based on the data provided to us, this captures only the most severe of conditions.

14 These estimates are sourced from only 1 larger firm, thus are highly indicative.

15 If firms are able to implement our proposals at the same time as implementing their own signposting arrangements then we would expect costs to decrease given the overlap of these two bits of implementation would decrease fixed costs.

representative of the wider market and thus we may over or under estimate the costs and benefits of our Proposal, but we consider this is a reasonable approach to take for the reasons set out in the "Data used and limitations" section.

Table 2 – Assumptions and rationale

Assumption	Rationale	Consequence of assumption not holding
The travel insurance market stays the same size	Market research companies estimate that the market has seen little growth over the past 5 years and we cannot foresee anything that might change this	We under or over-estimate the benefits and costs
The specialist market is competitive with no significant barriers to entry	No evidence was provided to us as part of our Call for Input that suggested a lack of competition in the specialist market was an issue. We also have evidence that prices in the specialist market are lower than the mainstream market[16]	Some of the estimated benefits to consumers from lower prices will be taken by firms with market power
The ability of consumers with PEMCs to access insurance will not improve in the absence of regulatory interventions	We are not aware of any market developments, or proposed comprehensive service, that will significantly increase the ability of consumers with PEMC to access insurance	We overestimate the benefits of our Proposal

Summary of costs and benefits

25. Table 3 sets out a summary of the main costs and benefits we expect as a result of our Proposal.

16 This indicates that market power is not being exploited.

Table 3 – Summary of costs and benefits

	One-off/ annual	Costs	Benefits
Firms	One-off	• Familiarisation and 'gap analysis' – £225,000 • Costs of implementing and complying with our Proposal – £12.2 million • Application to directory of specialist firms – Minimal	
	Annual	• Loss of revenue (net of transfers) – £6.8-7.5 million • Costs of implementing and complying with our Proposal – £3.8 million	• Increased sales to consumers who previously didn't purchase insurance – Not monetised, but estimated at 2,700-3,100 sales • Improved trust in the travel insurance market – Not estimated
Consumers	Annual	• Increased search costs (new consumers) – Not estimated	• Lower prices paid – £6.8-7.5 million • Improved cover of PEMCs for those who already have insurance – Not estimated (affects 41,000-46,000 consumers) • Access to cover for those who previously didn't obtain insurance – Not estimated (affects 2,700-3,100 consumers) • Decreased search costs (existing consumers) – Not estimated

Source: ABI, ONS, Mintel, firm data, FCA calculations

26. Based on the costs and benefits estimated above, as well as the number of consumers likely to be affected (for the impacts that are not monetised) we can estimate the per-consumer benefit required to offset estimated costs from our Proposal.

27. This takes into account that we have already estimated some benefits for consumers from lower prices paid, which is offset by lost revenue to firms. We estimate this break-even amount using a 10-year net present value methodology.[17]

28. Our break-even analysis estimates that the average benefit per affected consumer would need to be £90-100 per year to offset the estimated costs of our Proposal over a 10-year period.

29. Additionally, we note that the consumers we aim to assist with our Proposal have a pre-existing medical condition. As such, they are more likely to be vulnerable and the benefits to them of improved cover are likely to be higher than the average consumer. We also consider the value of the transfer from firms to consumers of reduced prices to be greater for these consumers, and this would reduce the break-even estimates above (of £90-100) if we weighted benefits to reflect this.

17 This combines the one-off cost and each of the ongoing costs over the next 10 years, discounted back to their net present value. To do this we use a discount rate of 3.5%, as recommended by the HMT Green Book. It then compares this against the accumulated number of expected affected consumers over the 10-year period.

Benefits

30. Below we set out in more detail the benefits we expect to arise for firms and consumers. These are all on an ongoing basis. A summary can be found in Table 4 below.

Table 4 – Summary of benefits

	Benefit type	Benefit estimate (annual)
Firms	Increased sales to consumers who previously didn't purchase insurance	Not monetised – estimated increase in sales of 2,700-3,100
	Improved trust in the travel insurance market	Not estimated
Consumers	Lower prices paid by existing consumers	£6.8-7.5 million
	Improved cover of PEMCs for those who already purchase insurance but with exclusions for their PEMCs	Not estimated – affects 41,000-46,000 consumers
	Increased access to insurance and cover of PEMCs for those who previously couldn't purchase	Not estimated – affects 2,700-3,100 consumers
	Decreased search costs for consumers who already purchase	Not estimated

Source: ABI, ONS, Mintel, firm data, FCA calculations

Benefits to firms

31. We expect some firms (e.g. specialist firms) to benefit from increased sales as a result of our Proposal. However, this benefit will be at the expense of losses to other firms, so will net out. This is discussed under the "Costs to firms" section.

32. Additionally, we expect some consumers who previously didn't purchase insurance to now purchase insurance as a result of our proposed signposting. This will be a benefit to firms as these sales previously did not take place. We estimate the potential number of sales in the "Benefits to consumers" section below. These are estimated at an additional 2,700-3,100 sales annually.

33. An additional benefit to firms we expect due to our Proposal is improved trust in the travel insurance market. Consumers being made aware of, and using, specialist firms that provide them with appropriate cover will decrease the incidence of unexpected shocks when consumers attempt to claim. This will increase consumers trust in the travel insurance market and potentially lead to increased purchasing. We have not attempted to quantify the impact of this as we consider it not practicable to do so.

Benefits to consumers

34. We expect the benefits to consumers to all be ongoing. We group these into two main categories:

1. Lower prices for consumers with PEMCs who are already able to obtain insurance.
2. Increased cover for those who previously were not able to get cover for their PEMC.

35. The estimates we provide below will be higher if the effectiveness of signposting in getting a consumer with a PEMC to follow through and purchase from a better placed specialist firm is higher than a 2.9% increase (which is the effectiveness we use in our estimates).

36. We also expect our Proposal to lead to decreased search costs (i.e. saved time) for those consumers who would have searched for specialist firms irrespective of our Proposal. However, due to the small size of potential benefits we consider it not practicable to estimate them.

Lower prices for consumers who already obtain insurance

37. We expect consumers to benefit as those who previously would have paid a 'high price'[18] to mainstream firms now pay a lower price for the same level of cover to a specialist firm. This is a result of these consumers seeing the signposting after being offered a high price by mainstream firms, going to the directory of specialist firms and then purchasing from a specialist firm who is better placed to assess the consumer's risk.

38. To estimate this, we use data from Table 1[19] on the number of consumers who have more serious PEMCs, and thus are likely to face higher prices, and data we received from 1 firm on the impact of their own signposting.[20,21] Our data estimates that around 1.1% of consumers have a serious PEMC meaning they are likely to face a high price from mainstream firms. Data on the impact of signposting estimates that, of those who are signposted, around 2.9% go on to purchase from the specialist firm[22] at a price that is around £1,200[23] less than they were originally quoted. Thus, we estimate benefits of £6.8-7.5 million for consumers with more serious PEMCs from paying lower prices.[24] This estimate assumes that all consumers with more serious PEMCs currently purchase from mainstream firms, and is therefore likely to be an upper bound estimate of these benefits.

39. In addition to the benefits estimated above, there are potential benefits from lower prices for those with less serious PEMCs. To provide an indication of the size of this group, 5.5% of consumers (1.7-1.9 million) have a medical screening score where firms on a price comparison website are not obliged to offer cover.[25,26] However, we would expect the effectiveness of the signposting, and savings available per consumer, to decrease as the severity of the PEMC decreases. It is not practicable to estimate these potential benefits with a reasonable degree of accuracy.

18 Feedback to our work suggests that some consumers with more serious PEMCs can face relatively high prices from some mainstream firms when compared to specialist firms. This was not suggesting mainstream firms are exercising market power, rather they have different risk modelling approaches and tolerances.

19 See row 4.

20 We cannot provide further information on the firm for confidentiality reasons, however we have no reason to believe that the data provided to us is not representative of the broader market.

21 The data provided is on the effectiveness of a firm signposting to a specialist firm where the offered premium to a consumer with a PEMC is above a given threshold. This is likely to correspond with the consumer having a more serious PEMC.

22 The small proportion that go on to purchase from the specialist firm is small due to only a small number going through the medical screening process with the specialist firm (around 10% of those who see the signposting). Around 50% of those who follow the signposting and undergo medical screening are offered coverage.

23 This is based on data from 1 firm who conducts their own signposting.

24 This is calculated as: number of travel insurance consumers (31.6-35.2 million) x proportion who have a more serious PEMC (1.1%) x effectiveness of signposting (2.9%) x saving from purchasing policy from a specialist firm (£1,200)/average number of consumers per policy (1.7).

25 For a firm to sell through a price comparison website, they are usually required to offer coverage for consumers who have a medical screening score below a given level. We think that consumers with scores above this level will be more likely to benefit from our Proposal.

26 This includes those with more serious PEMCs.

Increased cover for consumers who previously did not have cover for their PEMC

40. We expect consumers to benefit from increased cover in the following ways:

a. Consumers who previously purchased insurance from a mainstream provider with an exclusion on their PEMC now purchase insurance with cover for their PEMC after being signposted to the directory of specialist providers.
b. Consumers who previously weren't offered insurance by mainstream firms, or couldn't afford the offered price (and weren't aware of specialist firms), now purchase insurance with cover for their PEMC from specialist firms.

41. We are unable to monetise these benefits due to data limitations and it not being practicable for us to do so. We do not have data on: consumers travelling with an exclusion on their PEMC; consumers choosing not to travel due to the exclusion; how many consumers were not offered cover; or how many consumers could not afford the offered cover.

42. However, we can estimate how many consumers we think will be affected by our Proposal and thus stand to benefit.

43. For a), we estimate 11.2%[27] of PEMC consumers (1.4-1.6 million) have an exclusion on their policy for their PEMC. If our proposed signposting has the same impact as it has on those who face a relatively high price (i.e. 2.9% respond), then we would expect 41,000-46,000 consumers to benefit annually from no longer having their PEMC excluded from their cover.

44. For b), we estimate around 0.7%[28] of consumers with a PEMC (94,000-105,000) are not offered cover. If our proposed signposting has the same impact as it has on those who face a relatively high price (i.e. 2.9% respond), then we would expect 2,700-3,100 consumers to benefit annually from now being able to access cover.

Costs

45. Below we set out the costs we expect to arise for firms, consumers and the Money and Pensions Service (MAPS) on a one-off and ongoing basis. A summary can be found in Table 5 below.

27 This is estimated using data from 2 firms who provided information on sales and exclusions. Based on feedback to our work in this area, we expect this percentage to be higher given the number of packaged bank accounts and the fact that they normally come with an exclusion for PEMC coverage as standard.

28 This is estimated using data from 1 firm. This firm has a significant market presence. Additionally, we have benchmarked this piece of data against ad hoc data provided by smaller firms in the market.

Table 5 – Summary of costs

	One-off/ ongoing	Cost type	Cost estimate
Firms	One-off	Familiarisation and 'gap analysis'	£225,000
		Rule implementation costs (i.e. IT changes, training, governance)	£12 million
		Application to directory of specialist firms	Minimal
	Ongoing	Rule implementation costs (i.e. IT changes, training, governance)	£4 million
		Loss of revenue (net of transfers)	£6.8-7.5 million
Consumers	Ongoing	Increased search costs	Not estimated
MAPS	One-off	Development of directory	Within existing resources
	One-off	Initial validation of firms that apply to be on the directory	Within existing resources
	Ongoing	Periodic re-validation of firms on the directory and validation of new entrants	Within existing resources

Source: ABI, ONS, Mintel, firm data, FCA calculations

Costs to firms

46. We consider both one-off and ongoing costs to firms. For our cost estimates, we have received data from 4 firms to estimate the impact on larger firms, whilst information from a trade body suggests the costs faced by smaller firms will be minimal.

47. Using our understanding of the market, and information received as part of our Call for Input, we estimate there to be around 130 larger firms in the market.

One off costs

48. There will be costs to firms to familiarise themselves with the new rules and conduct 'gap analysis' on what, if anything, they need to do. We use our standardised cost estimator tool to estimate these for all firms in the market (both large and small). We estimate these at £225,000.

49. We also expect firms to incur IT, staff training, sales process and documentation change costs to update their systems and documents to be compliant with our new rules, and ensure their frontline and phone staff are appropriately implementing them. Applying the average of cost estimates provided by 4 firms to the 130 firms, we expect these to be around £12.2 million.[29]

50. For specialist firms specifically, we expect there to be a time cost associated with applying to be admitted to the directory. However, we expect this cost to be minimal when considered in the context of their broader compliance and governance processes.

Ongoing costs

51. We expect firms to incur ongoing staff training, longer documentation and increased frontline staff costs associated with our Proposal. Applying the average of cost estimates provided by 4 firms to the 130 firms, we expect these to be around £4 million annually.

29 The average estimated one-off cost for a large firm is £94,000. This will vary by firm type, size and business model.

52. We expect some firms (mainstream firms who do not specialist in PEMCs) will lose revenue as result of our Proposal. However, some of this will be a transfer to other firms (those who specialise in PEMCs) whilst the remainder of this will be a transfer to consumers in the form of lower prices.

53. We estimate the net cost to firms. This is the lost revenue, once adjusting for gains to some firms. As discussed in the "Benefits to consumers" section, we expect our proposed signposting requirement to lead to some consumers who previously purchased from mainstream firms to now purchase from more specialist firms. As specialist firms offer a given level of cover for a lower price for those with more serious PEMCs, this will lead to an overall decrease in the revenue of firms.

54. This decrease in net revenue for firms will be equal in magnitude to the benefit to consumers from lower prices estimated above. To estimate this, we use our estimate from the "Benefits to consumers" section on the benefits to consumers from lower prices. We estimate this as a loss of £6.8-7.5 million of revenue for firms. As discussed in that section, the true cost to firms could be lower if a large number of consumers with serious PEMCs already purchase from specialist firms whilst it could be higher if consumers with less serious PEMCs also take advantage of the signposting.

55. Additionally, we expect that the signposting to the directory of specialist firms will lead to some consumers who previously would have purchased cover with an exclusion for their PEMC from a mainstream firm to now purchase cover without an exclusion from a specialist firm.

56. It is difficult to estimate the impact this will have on overall firm revenues as consumers may pay more but for a higher level of cover or less for a similar level of cover. As such, it is not practicable to estimate the impact of this.

Costs to consumers

57. We expect there will be ongoing costs to consumers but no one-off costs.

58. Consumers who previously didn't go on to specialist firms, but now do, will now have to spend more time shopping around, discussing their medical condition and needs, and comparing cover. We have not estimated this as the additional time will be specific to the consumer's needs, and will vary dependent on their needs. They may also be offset by savings in consumers' search time discussed under benefits.

Costs to MAPS

59. We expect there to be some one-off resource costs for MAPS in developing the directory and in validating firms who want to be on the directory. We expect there to be ongoing resource required to validate new entrants to the market and periodically audit those already on the directory.

60. We expect these costs to be met by MAPS from within their current budget. The FCA will assist MAPS with this process, with this also met from within our current resourcing.

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, including 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 (LRRA) 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 LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of consumer protection. They are also relevant to the FCA's market integrity objectives.

8. Our proposals are designed to improve the way the travel insurance market operates by:

- Protecting consumers with PEMCs – by providing information about the availability of travel insurance for consumers with PEMCs this will improve access to travel insurance, reducing the number of uninsured consumers and consumers travelling with exclusions for PEMCs
- Increasing market integrity – by enabling more consumers with PEMCs to access appropriate travel insurance consumer confidence and trust in the market.

9. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because our proposals will improve access to travel insurance for consumers with PEMCs. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

10. 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 economic way

11. We have worked closely with a range of stakeholders to identify a solution to improve access to travel insurance for consumers with PEMCs. We are working closely with MAPS around the development of the directory of providers and consider this to be the most efficient and economic way for the directory to be set up.

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

12. By working closely with stakeholders, we have sought to ensure, as far as possible, that the burden to firms is proportionate to the benefits. However, in some cases we have not estimated costs of benefits where we consider it is not reasonably practicable to do so.

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

13. We do not consider that the proposals are inconsistent with this principle, and they are expected to increase the number of consumers with PEMCs who purchase appropriate travel insurance.

The general principle that consumers should take responsibility for their decisions

14. Our proposals are consistent with the principle that consumers should take responsibility for their decisions, but rather provide affected consumers with more information to make more informed decisions about choosing travel insurance.

The responsibilities of senior management

15. Our proposals do not impact on the responsibilities of senior management.

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

16. We do not believe that our proposals discriminate against any particular business model or approach in the travel insurance market. There is wide support across different businesses to take action to improve access to travel insurance.

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

17. We believe that by consulting on our proposals we are acting in accordance with this principle.

18. 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

19. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. We have worked with mutual societies through our engagement with stakeholders to develop and refine our proposals.

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

20. 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. We expect that by signposting consumers with PEMCs to a directory of more specialist providers, competition for some consumers with PEMCs may increase.

21. We expect this as, under our proposal, consumers with PEMCs will be directed to a directory where they can find, and subsequently compare offers from, a larger range of firms.

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 [2.9] of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

24. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that our proposal is:

- Transparent: We are consulting on our proposed rules and guidance
- Accountable: By consulting we are seeking feedback on our proposed approach
- Proportionate: We consider that our proposals are proportionate and have sought to minimise costs to achieve the outcomes we are seeking
- Consistent: Our proposed approach is intended to apply consistently to firms that offer travel insurance
- Targeted only at cases in which action is needed: Our proposed signposting targets the circumstances when consumers with PEMCs are more likely to benefit from improved access to insurance.

25. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily, in a manner that leads to improved outcomes for consumers and addresses the issues identified in this market.

Annex 4
Abbreviations used in this paper

CBA	Cost Benefit Analysis
CfI	Call for Input
CP	Consultation Paper
FS	Feedback Statement
LRRA	Legislative and Regulatory Reform Act 2006
MAPS	Money and Pensions Service
PBA	Packaged Bank Accounts
PEMCs	Pre-existing medical conditions

Appendix 1
Draft Handbook text

INSURANCE: CONDUCT OF BUSINESS SOURCEBOOK (ACCESS TO TRAVEL INSURANCE) INSTRUMENT 2019

Powers exercised

A. The Financial Conduct Authority ("the FCA") 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 Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Insurance: Conduct of Business sourcebook (ICOBS) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Insurance: Conduct of Business Sourcebook (Access to Travel Insurance) Instrument 2019.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical positions. The text is not underlined.

medical condition exclusion	an exclusion in respect of one or more medical conditions.
medical condition premium	any amount of premium relating to the risk associated with one or more specific medical conditions.
medical cover firm directory	a publicly available directory: (a) that lists *firms* that provide or arrange *travel insurance policies* that cover more serious medical conditions; (b) that does not prevent *firms* from being listed based on any membership of any association; (c) that provides detailed information about each listed *firm*, including: (i) the name and contact details of the *firm*; (ii) whether it specialises in covering any specific medical conditions; (iii) any specific medical conditions that the *firm* is likely not to cover; (iv) any age limits; (v) whether the *firm* can discuss medical conditions with *consumers* either online or by phone; (vi) whether the *firm* can offer cover to *consumers* who are currently undergoing treatment; (vii) whether the *firm* can offer cover to *consumers* with a terminal prognosis; (d) where the operator verifies the information in (a) and (c) and keeps the information up-to-date.
travel insurance policy	(in *ICOBS* 6.1.7-AG, *ICOBS* 6.5.1AG and *ICOBS* 6A.4 (Travel insurance and medical conditions)) a *non-investment insurance*

contract which covers risks connected with travelling or the making of travel arrangements, including *connected travel insurance contracts*.

Annex B

Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

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

1 Annex 1 Application (see ICOBS 1.1.2R)

…

Part 2: What?

Modifications to the general application rule according to type of firm			
…			
5	Travel insurance contracts		
5.1	R	The provisions in *ICOBS* 6.1.7-AG, *ICOBS* 6.5.1AG and *ICOBS* 6A.4 apply to all *incoming firms* (including those providing *cross border services*) other than:	
		(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.

…

5 Identifying client needs and advising

5.1 General

…

Eligibility to claim benefits: policies arranged as part of a packaged bank account

…

5.1.3 C R …

(3) The statement (provided under *ICOBS* 5.1.3CR(1)) must not:

(a) include any information other than that required under this *rule*, *ICOBS* 6.1.7-AG and *ICOBS* 6A.4.3R; or

…

…

6 Product Information

6.1 Providing product information to customers: general

…

Appropriate information regarding medical condition exclusions in travel insurance policies

6.1.7-A G When a *firm* provides a *consumer* with:

(1) a quotation for a *travel insurance policy*; or

(2) a statement (provided under *ICOBS* 5.1.3CR (1)) in respect of a *travel insurance policy* included in a *packaged bank account,*

then the *firm* should disclose to the *consumer* whether any *medical condition exclusion* can be removed from the *policy* (in whole or in part) and, if so, how, and the terms on which, it can be removed. *Firms* are also reminded of their obligations in *ICOBS* 5.2.2BR to ensure the *policy* is consistent with the *consumer's* insurance demands and needs.

Appropriate information for commercial customers

6.1.7A G …

…

6.5 Renewals

Renewals

6.5.1 R …

6.5.1A G Where a *firm* proposes to a *consumer* the renewal of a *travel insurance policy*, the *firm* should provide the *consumer* with information about whether any *medical condition exclusion* can be removed from the *policy* (in whole or in part) and, if so, how, and the terms on which, it can be removed. Where one of the circumstances in *ICOBS* 6A.4.4R applies, the *firm* should also provide the *consumer* with the additional information specified in *ICOBS* 6A.4.3R. *Firms* are also reminded of their obligations in *ICOBS* 5.2.2BR to ensure the policy proposed is consistent with the *consumer's* insurance demands and needs.

…

Insert the following new section, *ICOBS* 6A.4, after *ICOBS* 6A.3 (Cross-selling). The text is not underlined.

6A.4 Travel insurance and medical conditions

Application

6A.4.1 R This section applies in relation to a *travel insurance policy*, which is not:

(1) a *group policy*; or

(2) a *policy* entered into by a *commercial customer*.

Purpose

6A.4.2 G The purpose of this section is to improve access for *consumers* to *travel insurance policies* that include cover for medical conditions.

Additional pre-contract information for the consumer

6A.4.3 R Where one or more circumstances in *ICOBS* 6A.4.4R applies, a *firm* must communicate in a clear and accurate manner and on paper or another *durable medium* in accordance with *ICOBS* 4.1A:

(1) the details of the *medical cover firm directory*; and

(2) the potential benefits of accessing the *medical cover firm directory* and which *consumers* are more likely to benefit from using it to search for an alternate *travel insurance policy*.

6A.4.4 R The circumstances in *ICOBS* 6A.4.3R are where a *consumer* notifies (or has previously notified) a *firm* of a medical condition and a *firm*:

(1) declines or otherwise does not offer the *consumer* a quotation, due (wholly or partly) to the medical condition;

(2) cancels the *consumer's policy* due (wholly or partly) to the medical condition;

(3) offers a *policy* with a *medical condition exclusion* which cannot be removed from the *policy*;

(4) offers a *policy* with a *medical condition premium*;

(5) is the *insurance intermediary* responsible for communicating any of the above to the *consumer*; and/or

(6) is not able to ascertain whether any amount of premium is a *medical condition premium*.

6A.4.5 G The *FCA* considers that [website link TBC] is a *medical cover firm directory*.

6A.4.6 G For the purposes of *ICOBS* 6A.4.3R(2), an example is that a *consumer* is likely to benefit from searching the *medical cover firm directory* where the medical condition is serious or falls within a *medical condition exclusion* in the *policy*.

Responsibility for producing and providing additional information as between insurers and insurance intermediaries

6A.4.7 G The obligations in this section apply to *intermediaries* and *insurers* and the language of relevant provisions should be construed accordingly. *Firms* should still comply with the other rules in *ICOBS* such as the production and provision of product information (see *ICOBS* 6.-1) relevant to the information requirements in *ICOBS* 6A.4.3R. Where an *insurer* is an *incoming firm* (see *ICOBS* 1 Annex 1 (Part 2) 5.1R).

Assessment of medical condition risk

6A.4.8 G (1) *Firms* should assess the risk associated with medical conditions and calculate *medical condition premiums* by reference to reliable information that is relevant to the assessment of the risk. *Firms* which do not do this may therefore communicate unclear, unfair or misleading price information to *consumers* and so risk breaching *Principles* 2, 6 and/or 7, and *ICOBS* 2.2.2R and/or *ICOBS* 2.5-1R. *Firms* also need to consider their obligations under the Equality Act 2010.

(2) *Firms* are also reminded of their obligations in *PROD* 4.2 or 4.3 to identify and distribute *travel insurance policies* to the target market.

(3) Prior to a *firm* offering a *policy* with a very high *medical condition premium*, the *firm* should take all reasonable steps to consider whether:

(a) the nature of the *firm's* medical screening or assessment process is insufficient to provide a relevant assessment of the risk, based on reliable information, associated with the particular medical condition; or

(b) the high premium is intended to indicate an unwillingness to accept the risk by the *firm*; or

(c) the high premium is due to the medical condition falling outside of the *firm's* risk appetite or target market.

(4) Where this is the case, offering a quote may mislead the *consumer* and/or result in them not being treated honestly, fairly and professionally in their best interests. *Firms* should consider instead whether it would be more appropriate not to offer a quote for the risk, explain the reason/s why not to the *consumer* and provide them with the details of the *medical cover firm directory* under *ICOBS* 6A.4.3R.

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