

General Insurance Pricing Practices Market Study

Forum 3: Auto-renewal and reporting
proposals

Agenda

1. Introduction

Alex Roy

2. Pre-submitted questions

Edward Oxley, Jason Pope and Toby Stubbs

3. Live Q&A

Alex Roy, Edward Oxley, Jason Pope, Sumintra Ramoutar and Toby Stubbs

4. Next steps

Alex Roy

Introduction

- These forums follow the publication of the final market study report and consultation paper on 22 September 2020.
- Each forum is focused on a different aspect of the proposed remedy package:

Remedy proposal	Date	Time
Pricing remedy proposal	11 November	13.30-14.45
Product governance proposals	16 November	10.30-11.30
Auto-renewal and reporting proposals	23 November	10.30-11.30

- The aim of the session is to address any questions about the policy intent behind the draft rules and how we envisage they might operate in practice.
- During the 'live Q&A' we will answer follow-up questions. Please submit your questions in the Q&A box.
- We welcome your feedback on the proposed rules

Please note...

- This is part of our consultation process. We will try to answer questions, but there may be some we cannot answer now. We will take all consider all questions as part of the consultation process.
- We are discussing draft rules that are currently under consultation and giving views on how the rules might operate in practice. What we say at this stage is designed to help with the consultation dialogue. We cannot give a definitive view on:
 - whether we will implement these or similar rules, or
 - how the final set of rules will work in practice
- We cannot confirm today whether we will change the rules based on your questions because we cannot prejudge the outcome of our consultation. However, we will use all input to help us refine the final rules.
- We will circulate the slides after the session.

Auto-renewal proposals

- **Aim:** to address concerns that firms use auto-renewal in a way that discourages consumers from switching when it would be in their interest to do so
- **Proposals:** to require firms to:
 - explain at point-of-sale and at renewal whether a policy is set to auto-renew and what this means for the consumer
 - provide consumers with a range of accessible and easy options to stop their policy from auto-renewing
 - communicate these options to consumers at point-of-sale and at renewal, and
 - not impose unnecessary barriers on customers wanting to stop auto-renewal
- **Scope:** all retail general insurance

Auto-renewal

What is the FCA position with regard to protecting drivers from being uninsured in cases where auto-renewal can no longer be applied and the customer does not engage effectively with pro-active communications?

Under-insurance is a concern. This was one reason we did not propose rules that would ban auto-renewal or default customers to contracts that do not auto-renew.

We do not consider that the proposals significantly increase the risk of under-insurance. Consumers should already have the option to cancel auto-renewal. We aim to simplify the process for exercising the option, in line with existing TCF outcomes.

In practice, we also expect customers exercising the option to cancel auto-renewal to be more engaged, since they will be making an active choice.

Auto-renewal (cont)

<p>Is it necessary to obtain explicit consent from the customer for auto-renewal, or should the customer be clearly informed if their policy is set to auto-renew and be given clear options to opt-out, including at the point of purchase?</p>	<p>We recognise that some firms prefer to give customers the choice whether their policy will auto-renew. We are not proposing to require all firms to seek explicit consent from customers for auto-renewal. Instead, firms should clearly explain at point-of-sale if a product will auto-renew, what this means for the customer and set out the options to stop the contract from auto-renewing.</p>
<p>If firms ensure that a product is in the customer's best interests, can they offer an incentive to select a particular payment method, including auto-renewal?</p>	<p>Whether a firm can offer an incentive to use a particular payment method needs to be considered in relation to other rules: the customer's best interests rule, the proposed pricing rules and the proposed fair value rules for product governance. It might be possible to offer such an incentive, but it would depend on the circumstances. If it simplifies the process with no detriment for the customer, it might be reasonable. However, if the aim is to persuade customer to use premium finance that is not in their interests, it would not be reasonable.</p>

Auto-renewal (cont)

<p>Please can you confirm the proposal is to allow opt-out of auto-renewal at point-of-sale? If so, this will require significant changes to the online journey, which will take more than the proposed 4 months the FCA intend to give firms before rules come into effect.</p>	<p>The proposal is for firms to allow customers to choose not to have auto-renewal both at the time of purchase of the policy (including renewal of an existing contract) and at any time during the contract term. Firms should also allow customers to cancel auto-renewal using a range of easy and accessible methods. If changing the customer journey to enable this would take longer than 4 months, we encourage you to tell us about your concerns in feedback to the consultation.</p>
<p>If auto-renewal is cancelled by the customer, does the FCA accept this may result in auto renewal for add-ons being cancelled automatically given that in some cases add-ons are not sold separately?</p>	<p>Firms should make clear to customers if auto-renewal of add-ons would also be cancelled when a customer cancels auto-renewal of the main contract.</p> <p>Under our proposals, when a firm sells an insurance add-on, they should make clear whether it will renew automatically. Firms should also give the customer the option to cancel auto-renewal of the add-on using a range of easy and accessible methods.</p>

Auto-renewal (cont)

<p>Is the expectation that opt-out of auto-renewal would have to be at least an equivalent service offering across channels? E.g. would we need a 24/7 capability or would we need to reflect current operating SLAs from the Contact Centre?</p>	<p>The aim is for customers to have a fair range of easy and accessible options to allow them to cancel auto-renewal. So long as firms meet the minimum requirements (allowing customers to cancel auto-renewal at least by phone, post, email or online and without imposing unnecessary barriers to customers), they do not need to look to provide identical standards between the different options.</p>
<p>The auto-renewal remedy talks about 'consumers', 'customers' and 'retail general insurance' – is the intention to apply the remedy to consumers/ personal lines customers or to a wider population, including commercial customers?</p>	<p>We propose to apply the auto-renewal remedy to all retail general insurance products, so only where firms are dealing with consumers and not for firms dealing with commercial customers. We recognise that the draft rules apply more broadly. If we take them forward, we will need to update them before they are finalised, so that the scope is in line with the policy intention.</p>

Auto-renewal (cont)

The ability to cancel by telephone, post and email or online must not be precluded at any time during the sale or policy term, but would all options need to be equally prominent? As an alternative, could a single method be displayed (e.g. an on-off toggle during online purchase) with other options provided less prominently (e.g. in FAQs)?

As the question says, the rules require firms always to allow customers to cancel auto-renewal at least by phone, by post, by email or online. Depending on the circumstances, where it is in the customer's best interests, it might be possible to display one of these options more prominently.

However, firms should not impose unnecessary barriers to the exercise of the option to cancel auto-renewal. Prioritising one method over the others should not act as a disincentive to exercising the less prominent options.

So, if a customer is already looking at a firm's website, prioritising the web-based option makes sense. But we would not expect all customers to be channelled toward a single method. For example, this might disadvantage people without internet access or confidence to use the internet.

Auto-renewal (cont)

<p>Some firms prefer not to deal with customers by post. The rules would force them to offer post as one way for customers to cancel auto-renewal.</p>	<p>Firms should already have a postal address, for example for customers wanting to submit a complaint, so we did not expect this proposal to lead to significant additional costs. However, we will consider the impact of this on firms that focus on online and phone-based services as we consider responses to the consultation.</p>
<p>The proposed guidance says a 'significantly longer call waiting time' to cancel auto-renewal than purchase a policy is likely to represent an unnecessary barrier. Should 'significantly' be removed to avoid gaming?</p>	<p>We do not want to see the rules gamed by firms putting unnecessary barriers in place to dissuade customers from cancelling auto-renewal. Our expectation is for firms to ensure that the average call waiting time to cancel auto-renewal is not unreasonably longer than the waiting time to purchase a new policy. We will consider feedback on the wording of the guidance.</p>

Proposed reporting measures

- **Aim:** to help us monitor the effectiveness of our remedies package and its impact on the market
- **Proposal:** we aim to gather sufficient data to monitor the market effectively, while not placing an unreasonable burden on firms
 - We propose to gather information for each product split by the sales channel and tenure, and further information for large and closed books
 - Metrics include average premiums and the proportion of customers paying high or very high premiums, expected claims cost, expected claims ratio and the proportion of customers with an expected claims ratio 10 and 30 percentage points below the average
 - Annual reporting (but quarterly for the first year)
- **Scope:** home and motor insurance (as well as information for products sold alongside the policy, including premium finance, and information on non-premium fees and charges)

Reporting requirements

We would like the FCA to set out how it intends to conduct a consistent supervisory approach in ensuring firms are compliant with the rules. What assessments will the FCA be making against the data being reported?

The onus will be on firms to report the data accurately to us. The data we propose to collect from firms would allow us to track changes in the market and to identify firms that continue to charge some customers disproportionately high premiums. This is only one source of information we would consider. Others include, for example, the value measures data, attestations and discussions we have with firms. We would use this information in our supervisory engagement with firms, for example as part of our discussions around how firms are delivering fair value for their customers. Where we have deeper concerns, or want to test implementation of the new rules, we may also use other supervisory tools, such as requiring that firms undertake a skilled person's review, using the approach set out in SUP 5 of the Handbook.

Reporting requirements (cont)

Consistent and clear data definitions are also required to ensure that firms do not interpret and report this data differently. To ensure a level-playing field, the FCA should clearly set out a data dictionary.

The draft rules contain guidance and definitions about the metrics we are proposing being reported. We recognise there may be scenarios where there is ambiguity in the draft rules about how firms should calculate the metrics. We also recognise the trade-off between the level of prescription and cost to firms.

We welcome feedback and suggestions on areas where firms consider more guidance is needed to improve the reliability of the reported data.

Reporting requirements (cont)

<p>Why are there different definitions for renewals for the core pricing remedy compared to the reporting? How do firms report data by tenure where the insurers or the intermediaries are changing?</p>	<p>Currently there is a narrower definition for <i>renewal</i> for the draft reporting rules compared to the draft pricing practices rules (set out ICOBS 6B). This would have an impact on how tenure is calculated and reported.</p> <p>We are considering the case for aligning these definitions to improve consistency, and will consider the need for additional guidance or changes to provide clarity on tenure where one there are changes in the insurer or intermediary.</p>
<p>Is the expectation to report premiums by the average written premium?</p>	<p>We propose to capture the average and total written premiums as well as the total number of policies sold by tenure and sales channel. This is set out in the reporting form in the CP draft instrument.</p>

Reporting requirements (cont)

If products are provided as options within the core cover and not as separate add-on products, what would be the reporting requirements? e.g. Motor insurance with key cover as an option within the core policy.

An "optional additional product" is defined as: 'a good, service or right of any description, whether or not financial in nature, that a customer may obtain (or not, as the case may be) at their election in connection with, or alongside, a non-investment insurance contract. This includes retail premium finance.'

It is not our intention that options within the core cover be treated as additional products. We will consider the need for additional guidance or changes to the rules in this area.

Reporting requirements (cont)

In section 5 of the reporting form (for price-setting intermediaries) should sales direct from the intermediary to the consumer be treated as 'direct' sales or 'intermediated' sales?

The reporting for price-setting intermediaries covers direct, intermediated (i.e. through other intermediaries), PCWs and affinity partnership. We are also looking to gather information on the difference between the net rate charged by the insurer and the gross rate.

Where the reporting rules require price-setting intermediaries to report on direct business, this means sales to customers not including another intermediary. We will consider amending the definition of direct sales for this part of the reporting form to make this clearer.

The reporting for price-setting intermediaries appears to be more relevant to insurers than intermediaries. Why are gross-rated products and direct sales included when the pricing paper indicates that an intermediary is not price setting when it sells gross-rated products, and that direct sales are only between the insurer and the customer?

For price-setting intermediaries we are asking for information on both net-rated and gross-rated prices as, at an individual intermediary level, we want to know the amount of commission that has been added to the net-rated price to arrive at the gross-rated price.

Reporting requirements (cont)

<p>Why is van insurance not included in the reporting?</p>	<p>This is an oversight. While commercial van insurance is out of scope, consumer's insuring vans would be in scope. We will amend the reporting requirements.</p>
<p>Should the data reported be based on policies sold or policies incepted? In addition, how should cancellations within the cooling-off period be treated?</p>	<p>The data reporting is on the policies sold. We will consider the need for further guidance about how policies which are sold but not then incepted or are cancelled in the cooling-off period should be treated for reporting purposes.</p>
<p>Will insurers in Gibraltar who are manufacturers be able to report their data through UK intermediaries, or will they report separately via email and then through systems in the future?</p>	<p>The proposed reporting requirements will apply to manufacturers based in Gibraltar and doing regulated activity in the UK, whether from an establishment here or on a services basis. They would report directly to the FCA, rather than through UK intermediaries.</p> <p>Our intention is for reporting to be via standard FCA reporting systems. Where firms do not have access, we will consider an alternative for them.</p>

Reporting requirements (cont)

<p>For reporting on policies with high or very high premiums, is this computed within the population of all gross-rated products, and net-rated products separately, or compared to the total population of all products sold?</p>	<p>The intention is for reporting on high and very high premium policies through the intermediated channel to be calculated separately for net-rated products and gross-rated products. We will consider feedback on this and update the reporting requirements where necessary.</p>
<p>It is unclear why brokers are exempt from reporting on (i) large books of business; and (ii) closed books?</p>	<p>The size of books of business for intermediaries tend to be smaller compared to those of an insurer. We think the level of information we propose to request will provide enough information for us to identify if harm is occurring and allow us to investigate further. Our aim is be proportionate and not place an unnecessary burden on smaller firms. However, we would welcome feedback on this in the consultation responses.</p>

Reporting requirements (cont)

<p>Within price, does the premium reported include broker fees?</p>	<p>If a broker fee is included in the premium for the core product, then it should be reported as part of the premium. If, however, it is an additional fee charged separately, then it should be included in the aggregated pricing information for fees and charges.</p>
<p>What is the rationale for including post-contractual fees when they do not impact the price set on new business or renewal?</p>	<p>The inclusion of post-contractual fees provides oversight over the overall charges that customers typically pay. It would also help us identify changes to business models that might not be in the interests of consumers. For example, we would not want to see post-contractual fees raised unfairly to try to offset the pricing and fair value measures.</p>
<p>Will PCWs be required to submit reporting on their transactional fees?</p>	<p>We have not consulted on requiring PCWs to submit data on any fees which are charged to customers, but which are not included in the premium paid by the customer. We welcome feedback on this.</p>

Reporting requirements (cont)

<p>For reporting on policies with high or very high premiums, is this computed within the population of all gross-rated products, and net-rated products separately, or compared to the total population of all products sold?</p>	<p>The intention is for reporting on high and very high premium policies through the intermediated channel to be calculated separately for net-rated products and gross-rated products. We will consider feedback on this and update the reporting requirements where necessary.</p>
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Live Q&A

- We will now answer any follow-up questions that you have on the proposed rules.
- Please submit your questions in the Q&A box
- We will attempt to answer as many questions as possible in the time available. If time prevents us answering all the questions, we will endeavour to share a summary after the session.
- If we are unable to your question, please email us at GIPricingPractices@fca.org.uk and we will respond to you directly.

Next steps

- Thank you for all your questions and for joining us today. We will use all the input to help us refine the final rules.
- If you missed our previous sessions, we plan to publish all the slides and our responses to questions raised.
- Please remember to also respond to our consultation by **25 January 2021**.
- Consultation responses can be sent to us using the form on our website at: www.fca.org.uk/cp20-19-response-form



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