General Insurance Pricing Practices

In September 2020, we published the final report of our market study into the pricing of home and motor insurance. We are concerned that these markets are not working well for consumers and have set out a proposed package of remedies to address this.

In November 2020, we hosted three webinars to discuss our proposed package of remedies and answer any questions on it. Attendees had the opportunity to submit questions to us, both before and during these events. There were a large number of questions asked during the sessions, some of which we were unable to answer in the sessions due to time constraints. This document seeks to answer those questions.

We are publishing this document to help firms understand the intention of the draft rules, and to assist stakeholders with their consultation responses. However, until our consultation has closed, and we have considered all the responses, we will not be in a position to confirm the final rules. This document is not intended to give a definitive view on whether the draft rules will be made final or how any rules would apply in practice.

The proposed pricing rules

Scope

What products are included in scope of the renewal pricing rules? For example, would they apply to landlord's insurance products, or insurance for motorcycles, vans, or agricultural vehicles?

The proposed pricing rules would apply to any home or motor insurance policy sold to a consumer. A consumer is defined as any natural person acting for purposes outside their trade, business or profession. The concept of a consumer is well-established in our rules and we would expect firms already to have processes in place to determine which of their customers is a consumer.

Is there an avoidance risk if firms reclassify van customers as commercial customers?

Our current rules define the terms 'consumer' and 'commercial customer'. Where it is not clear, the rules require customers to be treated as consumers. We do not expect a firm to 're-classify' its customers in order to avoid the pricing rules.

Do the proposed pricing rules apply only to the premium paid for the core product or the complete package price (including add-ons and broker fees)?

The pricing rules would apply to home or motor insurance and additional products sold alongside. Each product would be caught by the pricing remedy. The draft rules do not explicitly refer to fees in relation to the total price. However, we acknowledge this could be an opportunity for avoidance. We welcome feedback on this as part of the consultation process.

Does 'sold alongside' mean limited to sale at the same time as the primary product? What about post-sale cross marketing?

Our proposed pricing rules apply to 'mandatory additional products' and 'optional additional products' sold with home and motor insurance. The definitions for 'mandatory additional products' and 'optional additional products' refer to "a good, service or right of any description, whether or not financial in nature, that a customer may obtain ... in connection with, or alongside, a non-investment insurance contract."

This definition does not elaborate on how firms should interpret 'alongside', and does not specifically say anything about post-sale marketing. However, this definition is already established in the current

ICOBS rules which prohibit opt-out selling of optional additional products, and we expect that firms will be familiar with it. We welcome feedback on whether further guidance on this point would be of benefit.

If an intermediary negotiates a discount with an insurer, would the intermediary be seen as 'price setting'?

The pricing rule would apply to all intermediaries involved in price-setting. The policy intent is to ensure that intermediaries do not price walk customers by increasing their portion of the premium over time. If the intermediary's only involvement in pricing is to apply a discount to a renewal gross price (the price charged to consumers excluding insurance premium tax) which is already no higher than the equivalent new business price, then there would be no breach of the rules.

How have you determined the definition of a back book and the threshold of 15%? Also, do you expect that a potential reduction in switching rates under the proposed remedies will impact your definition of a closed book?

The proposed rules for closed books are designed to prevent avoidance of the remedy and to ensure that products that do not have significant proportions of new business still offer fair value. Our data suggested 15% would be an appropriate benchmark. We welcome feedback on whether 15% is the right threshold, and whether any alternative definitions of a closed book would still enable us to meet the policy intent, taking into account the potential impact of our proposed remedies on switching levels.

Renewal pricing

It is normal for us whilst assessing the risk to price in 'uncertainty' typical of a new business customer by way of loading. This is a risk factor in itself. Is this being considered?

The proposed rules do not intend to restrict firms' ability to price new business based on risk factors. Under the proposed rules, firms would be required to ensure that the renewal price offered to a customer is no higher than the equivalent new business price.

How can the FCA ensure that there is still an incentive for the use of data for innovation in the interests of consumers in risk pricing? For example, could firms use telematics to calculate renewal prices?

The proposed rules do not intend to restrict the risk factors that firms can use in calculating the new business price or the renewal quote. If the rules as currently drafted appear to restrict the risk factors that could be used, please highlight this in your consultation response.

Can firms take into account tenure when pricing renewal offers?

Firms must ensure that they do not systematically discriminate against customers based on their tenure when determining the *equivalent new business price* (ENBP). The proposed pricing remedy requires that the renewal price is no higher than the ENBP for that customer. Therefore, firms could offer renewal prices that are lower than the ENBP based on factors such as the customer's tenure. If firms believe that length of tenure increases the risk, we welcome this input as part of the consultation.

When would the renewal price be locked in (e.g., at the point of invite or the point of the renewal date)?

Under the draft rules, the requirement is that the renewal quote offered to the customer is no higher than ENBP that would be offered to that customer. Therefore, it is at the point the offer is made not the renewal date.

If intermediaries are required to price based on the customer's channel at initial introduction, this could be a significant limit on how they may support vulnerable customers (e.g., by offering them products via a channel with a richer service offering at renewal and changing for that richer service via fair renewal pricing). Have you considered the benefits of 'up-channelling'?

The proposed rules would require that the renewal price is no higher than the ENBP that would be offered to the customer if they approached the firm through the same channel. We consider this the most appropriate benchmark because it reflects the way in which the customer originally chose to purchase their policy. The rules do not make provision for 'up-channelling'. We welcome feedback on this point.

If a customer renews but then makes changes to the risk details within the cooling off period, does the insurer need to re-calculate the equivalent new business price with the re-stated renewal risk details?

The proposed pricing remedy does not apply to midterm adjustments and this would include changes made during the cooling off period.

Home insurance prices may be different based on the age of the property i.e., if it was built 200 years ago, 100 years ago, 50 years ago etc. Can the price be varied based on this?

The proposed pricing remedy would not prevent the renewal price increasing in response to a change in the risk. This would include where the customer's property moves into a different rating category at renewal.

Can firms factor in changes in inflation and cost of labour/parts when pricing renewal business?

When offering a renewal price, a firm must set the price at a level no greater than if the policyholder were presenting as a new customer. This does not mean the renewal price for a consumer could not change over time. The ENBP might increase for a number of reasons, including because the firm has applied increased margins to certain types of policy to take account of higher overall claims costs. This change in the ENBP may be reflected in the renewal offer.

Where firms improve their pricing model for new business and renewals, are firms permitted to gradually increase the renewal offer over time to protect customers from a price shock and in this current climate of potential financial difficulty?

When a firm offers a renewal price to a consumer, that renewal price should be no greater than the ENBP that the firm would offer a new customer. If a firm changes its pricing model in way that generally results in increased prices for new business customers, the firm would not have to apply the same increases to equivalent renewal customers. However, if a firm changes its pricing model in a way that generally results in reduced prices for new business customers, the firm would have to apply the same reductions to equivalent renewal customers.

When paying by premium finance, new business customers usually pay a deposit, and the remaining balance is subject to the APR. At renewal, no deposit is requested and hence the APR is applied to the total premium which will likely result in a different flat rate of interest. Is the APR included in the definition of renewal price?

The draft rules do not cover this point. We would welcome feedback on the best approach as part of the consultation response.

In relation to APR setting please can you clarify: (1) under what circumstances can personalised APRs be set at a customer or cohort level? (2) can different APRs be set at the renewal of a policy, for example as a result of additional customer insight related to their credit risk which has been gathered during the prior credit term? (3) under what circumstances can a firm charge different APRs on different products?

Premium finance sold alongside motor and home insurance is subject to the proposed pricing rules. There is nothing in the proposed pricing rules that would prevent firms from charging a different APR for different individuals, cohorts of customers or products, providing the renewal price is no higher than the equivalent new business price and firms have met the relevant product governance obligations. The pricing remedy is not intended to restrict the risk factors that firms can use in calculating the renewal quote. If the rules as currently drafted appear to restrict the risk factors that could be used, please highlight this in your consultation response.

Can you clarify your definition of a book versus a channel?

In the draft rules, a 'channel' is defined as the distribution method through which the customer purchases a policy. A book of business is not defined, but can be interpreted in several ways by firms depending on their business model but is usually composed of a group of policies with a common defining characteristic. For example, a book of business may be defined by affinity partner, brand, target market (e.g., high net worth, high performance vehicle, core market), niche MGA derived, etc. We are happy to consider whether further clarification is required in the final rules.

What is the position where the distribution 'method' changes, does that represent a different 'channel'? E.g., a customer takes out a policy online, but renewals are then handled manually – is the comparative new business figure still the online rate or an equivalent offline product?

The ENBP would be the price the firm would quote had the customer approached them through the same distribution channel and using the same payment method as when they first bought their policy. We recognise that many firms handle renewals through the post rather than online. The rules do not require the renewal to be handled in the same way as the original sale, only that the ENBP is calculated based on the channel that was used by the customer to originally purchase the policy.

If there is a chain of brokers involved in the sale of a product to a customer, who has the ultimate responsibility for ensuring that the renewal price does not exceed new business costs?

The proposed pricing remedy would apply to firms who are responsible for setting the renewal price or determining their own remuneration. This includes both the insurer and any intermediaries who are involved in price-setting. Where the insurer provides a net rate to the intermediary, both firms would be responsible for ensuring that their elements of the overall price comply with the rules. Our existing product governance rules require that co-manufacturers have a written agreement setting out their responsibilities. If the proposed rules are introduced, we would expect responsibility for compliance with the pricing remedy to be covered by this agreement.

Have you a preference as to how renewal premiums are invited? E.g., if the broker has an insurer panel some brokers may only invite the holding insurer renewal price (but the invitation says that a cheaper panel price may be available). Others may offer an alternative insurer panel price.

The rules would require the incumbent insurer to offer a renewal price that is no higher than the ENBP. There is nothing in the proposed pricing rules that would prevent the broker following its usual practice when seeking prices from other insurers (subject to any other applicable rules).

On re-broking, the customer may be placed on a product with a varying level of cover meaning the price would not be comparable. Are either the broker or the insurer(s) bound by the pricing rules?

This question presents two possible scenarios: at renewal, an intermediary offers an existing customer a quote with:

- their existing insurer, but with a different level of cover.
- a new insurer with a different level of cover compared to the existing policy.

In the first scenario, the proposed pricing rules would apply to both the insurer and the intermediary and each must ensure that their part of the premium is no higher than the ENBP for the level of cover for being offered.

In the second scenario, the insurer is new to the customer, so the customer will be treated as a new business customer and the renewal pricing rule would not apply to the insurer. However, if the intermediary is involved in setting part of the premium, then they would have to ensure that their portion is set at a level that is no higher than it would be set for a new business customer.

Discounts and incentives

Could firms negotiate reductions in price or give other cash discounts?

The proposed rules do not prevent firms from negotiating a reduction or giving some other cash discount in the renewal price. Providing the firm has set the renewal price no greater than the equivalent new business price (ENBP), any reduction in this price would be permissible.

Equally, the proposed pricing remedy is not intended to prevent firms from negotiating prices or giving cash discounts to customers at new business. However, these discounts would need to be reflected in the ENBP used when setting the renewal price. As part of the consultation, we will consider whether further guidance in needed on how firms might do this.

If an add-on is offered free at new business for a limited period, would you have to offer the same add-on free of charge for all renewals during that "promotional period" for the same channel?

The proposed rules would require firms to ensure that the renewal price is no higher than the ENBP at the time of the renewal offer. If an equivalent new business customer would be offered the product for free, then a renewing customer must be offered the product for free.

Is it possible to have a different "equivalent new business price" for 'members' and 'non-members' of any scheme run by a firm?

The proposed definition for the ENBP is the price that a firm would offer to a customer to purchase a particular policy if the customer were a new business customer. Giving discounts to particular customers (for example, because they are 'members') would not breach the proposed rules, as long as the renewal price offered to each customer is no higher than their ENBP i.e., a renewing member gets the 'member's ENBP' and the renewing non-member gets the 'non-member's ENBP'.

If a price comparison website (PCW) or a cashback site offers cashback does the insurer have to offer the discount to its renewing customers?

An insurance intermediary that is involved in setting any portion of the renewal price must ensure that the portion they set, or their contribution to that portion, is set at a level that is no higher than it would be set for a new business customer. Where an intermediary sets a renewal price, it must take into account any discount that it would offer to an equivalent new business customer.
The rules do not specifically address a situation where an intermediary, such as a PCW, is involved in the original sale but not the renewal. We will consider this as part of the consultation and aim to clarify in our final rules.

How would the rules apply to firms that give retail vouchers to new business customers?

Firms would be required to set a renewal price that is no higher than the ENBP taking into account cash discounts given to customers at new business but not non-cash discounts. As part of the consultation, we will consider how retail vouchers should be treated in the final rules. We welcome views on this as part of the consultation response.

Why are non-cash incentives (such as retail vouchers) outside the scope of the rules? What is the meaningful difference between cash and something of equivalent value?

Our proposal is to allow firms to compete using non-cash promotions to attract customers. This would, for example, help to promote competition in the market, by encouraging consumers to switch provider. Restricting the use of cash promotions can help ensure that consumers understand the price they are likely to pay for their insurance, enabling them to make better decisions about the long-term value of the product. We will consider feedback on this point as part of the consultation response.

If a firm offers 4 weeks of free cover how does this impact the new business and renewal price?

Firms would be required to set a renewal price that is no higher than the ENBP. The draft rules do not specify how firms should treat periods of free cover given at new business. As part of the consultation, we will consider how to address this in the final rules.

How would the rules apply where an intermediary or another related party pays for the new business premium either in full or in part on behalf of the policyholder? Is the ENBP the amount on the policy document or the amount paid by the policyholder?

The ENBP is the price a firm would offer to a customer to purchase a particular policy if the customer were a new business customer. The rules do not specifically address situations where another firm in the distribution chain pays some or all of the insurance premium. As part of the consultation, we will consider whether the final rules should make provision for this.

General

Will the senior manager attestation be a prescribed template/format and via what media is it expected to be made?

Yes, we are planning to require the attestation in a prescribed format. We aim to include this format in the final rules.

Rule 6.B.2.26(4) talks about having appropriate independent oversight of the assessments and controls in (1), (2) and (3). Is the reference to independent a requirement for external review or is a line 2 review sufficiently independent?

The proposed rules do not specify the nature of the independent oversight required. Firms should consider this in line with the broader Systems and Controls requirements. We welcome views on whether this part of the rules requires further clarification.

For how many years are firms required to retain documentation that evidences compliance with the pricing remedy?

The proposed rules do not specify the period for which the records must be retained. Firms should consider this in light of their broader requirement to maintain records under the Systems and Controls rules. The general principle is that records should be retained for as long as is relevant for the purposes for which they are made.

Please confirm the definition of 'systematically' and how this will be measured, with respect of the draft 6B.2.20 E

This is not defined in the proposed rules. We would expect a plain language interpretation. However, we welcome feedback on this point and will consider providing a definition or guidance on this.

The proposed product governance rules

General

> **Please can you clarify how the implementation dates for the value assessment interact with the GI value measures 31st January date?**

Our new rules on value measures introduce several new requirements:

- From 1 January 2021, firms must ensure value measures products provide fair value;
- Collection of value measures data begins on 1 July 2021;
- Reporting of this data begins in February 2022.

If the proposals in CP20/19 are introduced, they will expand on these and other rules in several ways. This includes applying the PROD rules (including the new proposals) to all GI and pure protection products; giving further details on how fair value is assessed (including the types of data firms should consider alongside the value measures data), and; requiring that product reviews are completed at least every 12 months.

> **Will the FCA require distributors to provide value-related MI to manufacturers for all products, or should they only target products where the product and distribution arrangements are assessed as higher risk?**

The existing PROD rules require distributors to provide relevant sales information where this is requested by the manufacturer. This applies to all products the firm distributes. The proposed rules would extend this requirement to information about their remuneration and the ancillary products they distribute, which could impact the fair value of the insurance product.

Distributors must also inform the manufacturer if they identify that the product is not meeting the needs of the target market. The proposed rules extend this to situations where the distributor identifies that the product, or package of products, is not providing fair value. These rules would apply to all in-scope products and not just those that might be deemed higher risk.

Scope

> **Could you please explain the application of the proposed product governance rules to closed books? For example, the target market of a closed book of pure protection cover will not change so a 12-monthly assessment may not be proportionate.**

We would expect that the annual review would consider the product as a whole and not just whether the target market remains correct. Even if the target market has not changed, firms would need to review products to ensure they remain consistent with the needs of the target market and are providing the intended fair value. For example, firms would need to monitor data (such as claims data) to ensure the product is performing in line with customers' needs and determine whether remedial action may be required.

> **The proposed rules say that product manufacturers should review their products every 12 months. Is the FCA proposing that intermediaries distributing the products that other firms manufacture also review products for fair value every 12 months? If so, is this for every insurance product, or can this be done on a targeted basis.**

Intermediaries who distribute products that they do not manufacture would not need to review these products. However, they would need to provide some information to the manufacturer (for example, about their remuneration and details of ancillary products). Intermediaries would be required to review their distribution arrangements at least every 12 months and take action if they find that customers are not being provided with fair value (for example, due to remuneration arrangements).

The proposals anticipate that all distribution processes for insurance products, and packages, would be reviewed at least annually. However, the rules are not intended to create an unnecessary burden and we will consider any concerns raised on this as part of the consultation responses.

Please clarify whether Protected No Claims Discount (PNCD) is considered in the scope of this guidance?

We understand that PNCD is typically included as an extension to the core product. This would need to be considered within the fair value assessment of the core product.

Please clarify that the new product governance rules apply to insurance products that fall outside of the standard 12-month policy cycle, such as monthly subscription services or 3 year fixed deals?

The rules would apply to all general insurance and pure protection products irrespective of term length.

In the event that the product governance review has not been completed by the distributor for a product within this timescale, is it a requirement that distribution of that product ceases until the review is completed?

If introduced, the rules would require intermediaries to review their distribution arrangements at least annually. The annual review would be a clear obligation on firms who are actively distributing products. Our rules do not generally set out what firms should do if they fail to comply, although regularly reviewing the distribution process (at least every 12 months) would be a clear requirement for being able to continue distributing products. We may introduce this as an explicit requirement. Failure to follow our rules could result in enforcement action.

Do your intermediary/distributor requirements apply to PCWs?

Yes, the proposed rules would apply to PCWs.

Under the proposed product governance rules, would firms have to conduct a separate review for every specific device covered?

In the product governance rules, the word 'product' refers to the product for distribution to customers generally and is not intended to refer to each individual contract of insurance (unless the context indicates otherwise). Our proposed rules would apply in the same way.

Do the product governance requirements apply to all products or just new products?

The proposed rules would apply to all GI and pure protection products irrespective of term length or when they were first written. However, firms should note that the word 'product' refers to the product for distribution to customers generally and is not intended to refer to each individual contract of insurance (unless the context indicates otherwise). Firms would not need to review each individual contract of insurance.

Must all product distribution reviews be completed within 12 months of the implementation date of the final rules, and on a 12-monthly basis thereafter?

Yes, the proposed rules would require reviews to be completed within 12 months of the implementation date.

For Insurers or manufacturers with a large number of products is there an allowance to group products with the same or similar characteristics together for efficiency purposes, in order to meet the annual review requirement?

The current rules require firms to review regularly the insurance products they offer or market taking into account any event that could materially affect the potential risk to the identified target market. The proposed rules would require this be done every twelve months or more frequently where the potential risk associated with the product makes it appropriate to do so. The intention of the rules is for firms to assess, on an ongoing basis, whether the product remains consistent with the needs of the target market and the assessment of fair value.

The proposed rules do not set out specific processes which firms would need to follow in conducting their reviews. Firms would need to ensure their processes are appropriate and sufficient to meet the requirements and deliver the intended outcomes. As part of the consultation process, we welcome views on whether further clarification is required.

Fair value

What do the FCA define as 'long term value'?

The proposed rules define value as the relationship between the overall price to the customer and the quality of the product(s) and/or services provided. In assessing whether the product offers fair value, firms would need to consider various things including the current pricing and performance of the product, and also the impact of any anticipated changes to the price on renewal or the quality of the product. For example, where firms know how the product would be priced on renewal this should be taken into account in the assessment and whether any increases would continue to offer fair value.

How does commission work in relation to fair value?

Commission impacts the price the customer pays, and so the proposed rules would require both manufacturers and distributors to consider the impact that commission has on the value of insurance products. The draft rules set out extensive factors and examples of the types of things that firms would need to consider (see PROD 4.2.14ER, 4.2.14FG and 4.2.14JE). There are also existing rules relating to commission, such as the requirement that firms are not remunerated in a way that conflicts with their duty to act in the customer's best interests. We have previously said that remuneration which bears no reasonable relationship to the costs of the benefits/services that the firm provides, could breach this requirement.

Add-ons and premium finance

If an add-on product is offered by a different firm to the main motor insurance product, does the manufacturer of the add-on need to complete a product value review separate to the main motor insurance policy?

Our existing rules require manufacturers of add-ons that are separate from the core product to conduct their own product approval process. The proposed rules would require a fair value assessment as part of that process. The manufacturer of the add-on is responsible for this. However, firms who are offering add-ons would also need to consider whether the package of products they are offering provides fair value. For example, there may be some duplication of benefits between the core product and the add-ons, which could decrease the overall benefit to the customer relative to the price.

How should the credit risk associated with providing premium finance been considered in assessing fair value?

The rules would not prevent the assessment of credit risk, and pricing in response to risk. Where premium finance is being offered, both the manufacturer and the distributor would need to ensure that it does not detrimentally impact the fair value offered by the insurance contract. The additional price the customer pays would need to have a fair relationship to the costs of providing the finance and the benefits the customer receives from it. Firms will need to consider whether the non-risk elements that go in to determining the price of the credit (such as commission) are consistent with providing fair value. Firms must not be remunerated in a way that conflicts with their duty to act in the customer's best interests.

What additional questions need to be asked around premium finance in order to show the customer has made an active election?

Our rules already require firms to ensure that customers actively elect to purchase optional additional products. Firms should already have processes in place to ensure that they ask the right questions and provide the right information for the customer to make an active choice. It is up to firms how they ask these questions, as it may vary depending on their sales process. The proposed guidance makes clear that premium finance is an additional product. The draft rules also specify information which must be communicated to the customer in a clear way to support their active choice.

Other than making clear the difference in overall cost, what else does the FCA deem appropriate information to disclose prior to asking a consumer to choose between paying full and premium finance?

The proposed rules on premium finance would require firms to provide the customer with:

- The price of the policy with and without premium finance, and the difference between the two (including the annual price)
- A statement that using premium finance will be more expensive
- Any difference between the duration of the policy and that of the premium finance.

Firms must also comply with the existing rules in our Handbook – such as in ICOBS 2, ICOBS 6-6A, CONC 2-4 (where they apply) and Principles 6-7. Where the firm is the lender under the premium finance agreement it must comply with the pre-contractual and contractual information requirements set out in regulations made under the Consumer Credit Act 1974.

Most intermediaries only have access to one Premium Finance provider. How can brokers comply with the rules in relation to offering fair value relative to other sources of finance? What other sources of finance should brokers be comparing with?

The proposed rules would require firms offering premium finance to ensure that the cost of that finance does not result in customers paying an overall price for the package (insurance plus finance) which is not fair value. Comparing with other credit products available to the customer may form part of the fair value assessment. In particular, it could highlight that the price the firm is charging does not have a fair relationship to the benefits it is providing. However, alignment with other products does not necessarily mean the package is providing fair value; especially where there are limited direct comparators available. These rules would apply regardless of whether the firm has arrangements with a single finance provider or with multiple providers. The proposed rules say that firms may need to renegotiate the terms of the current arrangements relating to the additional products, or select alternative providers or distributors of them, in order to provide for a fair outcome

Can a brand with two GI product (gold and silver) offerings make available different APR levels according to the higher or lower level of insurance product selected by the customer, and where the premium finance is provided by the same and sole premium finance provider?

Where a firm is providing a package of an insurance product together with premium finance, they would need to ensure the finance does not result in the package ceasing to offer fair value. This could include considering whether customers paying a higher price (APR) than others is justified based on the value the customer is receiving from the premium finance. Proposing a premium finance product with a higher annual percentage rate (APR) than would be available elsewhere (including from the same firm), based on the remuneration the firm will receive, may conflict with the firm’s existing obligation to act in the customer's best interests.

FINANCIAL CONDUCT AUTHORITY

The proposed auto-renewal rules

> **The proposed rules require firms to ensure that a range of options are available to customers to cancel auto-renewal, but the rules do not provide guidance on how prominently or proactively these options should be presented to customers. Does the FCA have any guidance on how firms should present a cancellation option or options?**

The draft rules at ICOBS 6A.6.3R would require that the information must be communicated in a way that is accessible and which draws the consumer’s attention to it as key information. Existing rules (like Principle 7 and the customer's best interests rule) will also be relevant. If firms feel that more guidance would be helpful, please let us know in feedback to the consultation, highlighting any aspects they think need greater clarity.

> **The proposed options for customers to opt-out of auto-renewal must include but are not limited to: (1) telephone; (2) post; and (3) email or online. How would the FCA view Webchat and would this be considered an online solution?**

Webchat would be an acceptable online option to for consumers to cancel auto-renewal.

> **Can firms price products that auto-renew and products that do not-auto-renew differently?**

The proposed PROD 4.2.14JE outlines considerations for whether a contract offers fair value. It notes that, if firms increase prices based on whether the policy is set to auto-renew, this will not be providing fair value unless the firm has an objective and reasonable basis for making the change. Firms might also need to consider whether any pricing differences met the proposed pricing provision in ICOBS 6B.2.24E(1), which says, 'A firm should not communicate with a customer of longer tenure in a manner which is objectively likely to discourage a customer of longer tenure from shopping around for an alternative policy offered by another firm.' We would also not expect any pricing difference to act as a barrier to the exercise of the option to cancel auto-renewal. Firms are free to offer discounts at renewal if they wish.

> **Does the FCA expect that the option to opt out is provided before the sale is concluded or whether it is acceptable to provide the option immediately post conclusion?**

The proposed rule ICOBS 6A.5.6R(1) says 'A firm must allow the customer to exercise their right to cancel the automatic renewal feature at the time the customer purchases the policy and at any time during the duration of the policy'. Our intention was to allow customers to opt out of auto-renewal during the initial purchase of the contract. We will consider feedback on this point, and whether to include guidance or further clarity in the rules.

> **Can we provide a notice about the risks of not auto-renewing for products where switching may not be in the interest of the customer e.g. health insurance where they may then have pre-existing conditions excluded if they moved insurers?**

We propose that the disclosure of auto-renewal options needs to provide customers with an explanation of the effect of auto-renewal. This should be factual and can explain, for example, the benefits of auto-renewal, such as continuity of cover, peace of mind, as well as explaining the benefits of shopping around. The information should also comply with our rules for clear, fair and not misleading communications, so we would expect it to be balanced. We also note that, under the proposed ICOBS 6B.2.24E(1), firms should not communicate with a customer of longer tenure in a manner which is objectively likely to discourage a customer of longer tenure from shopping around for an alternative policy offered by another firm.

We would like clarification on asking the customer the reason for cancelling, so that we can understand how best to service our customers' needs when the contract ends. Would be considered an unnecessary question or not?

Mandatory requests for further information before a customer can cancel auto-renewal could be an unnecessary barrier to exercise of the option. Instead, under the proposed rules, firms could proceed with the cancellation but ask for voluntary feedback, in a way that does not interfere with the process.

Could you clarify if auto-renewal remedies apply to all payment types, including Direct Debits?

The proposals apply to products using all payment types.

For a closed book where correspondence is by post and sometimes phone, a requirement to create an email or online method of cancelling auto renewal could be burdensome, as we do not hold verified email addresses. Would you consider auto-renewal communication routes that are consistent with how companies communicate on the respective core product?

The intention is for customers to have a range of easy and accessible options for cancellation. We are interested in hearing more from firms if they believe that our proposals create disproportionate levels of cost in certain circumstances.

What do you define as "retail"?

When we say 'retail' we are referring to policies sold to 'consumers', defined in the Glossary as, 'any natural person acting for purposes outside their trade, business or profession'. See also ICOBS 2.1 for further guidance on client classification, including examples of when a customer should be treated as a consumer.

Where there is an intermediary, who should provide the auto-renewal cancellation ability?

With regard to information on the right to cancel auto-renewal, we would expect intermediary and insurer responsibility to follow the standard approach for producing and providing information, as set out in ICOBS 6.-1. The proposed rules on cancellation of auto-renewal in ICOBS 6A.5 apply to both insurers and intermediaries, but do not distinguish between them. We welcome feedback on whether further clarity is needed in the rules.

Will auto-renewal rules for core products follow the same requirements as for add-ons (i.e. substantially the same terms), or will insurers be able to notify (as currently) changes to T&Cs but still auto-renew if permission has previously been granted?

If customers have agreed to a policy auto-renewing then firms could continue to auto-renew those policies in the same way that they do currently (subject to any applicable rules).

Would the auto-renewal requirements apply when adding an additional risk to a multi-product offering?

Whether the rule applies depends on whether the addition of a risk results in the conclusion of a new contract. We will consider updating the rules to add clarity on this point.

The proposed reporting rules

High-level reporting questions

Why are you collecting claims ratio data? How does this relate to the pricing remedy?

We propose to collect data to help us monitor the effectiveness of our remedies package and its impact on the market. This includes both our pricing remedy and the other remedies, including product governance. The data we propose to collect from firms will allow us to track changes in the market, including how firms are complying with the pricing remedy and to help identify where there may be pockets of harm to consumers. We consider that claims ratio data provides a good indicator of the value that products provide customers. Monitoring how these metrics change over time can give insights into firms' pricing practices and the value of products.

What questions do the FCA intend to ask of the data and what thresholds will you be setting which would trigger more investigation – will these be subjective or objective?

The data we propose to collect from firms will allow us to track changes in the market, including indicators of how firms are complying with the pricing remedy and to help identify where there may be pockets of harm to consumers. This is only one source of information we will consider. Others include, for example, the value measures data, attestations and discussions we have with firms. We will use this information to inform our supervisory focus and 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.

A number of the metrics required are open to interpretation, will you be accounting for the differences or will you be providing further definitions to encourage consistency and will you offer discussions with individual firms to discuss in detail? We would like to further understand what the FCA is looking to measure and achieve through the required reporting metrics and, in relation to the proposed metrics, we would highlight:
· the Expected Claims Cost –How will you allow for the fact that every insurer will have a different calculation, with different assumptions and risk-appetite, for calculating "expected claims cost"?
· Loss Ratio – this is a forward looking metric, which is subjective and approached differently by different players e.g., different conservatism in reserving use of data at renewal.

We would welcome feedback from firms about the metrics where you consider there could be fundamental differences in how firms calculate and report the data to us, as well as suggestions about what further guidance would help improve reporting consistency. The data that we propose to collect does not only provide us with data to compare between firms but also provides us with a series of data points for each firm over a period of time. We recognise there will be differences between firms and will consider this as part of our assessment of the data and as we engage with firms about their data. The reported data is intended to provide us with initial indicators where there may be issues and further engagement with firms may be needed.

We recognise firms will calculate expected claims cost differently with different assumptions. We are also collecting information about the actual claims experience (gross incurred claims ratio) both in this remedy and in the value measures reporting which will provide some comfort around whether certain firms may be adopting a more prudent approach in reporting their expected costs. We expect that firms, from an internal MI perspective, will be incentivised to have as reliable expected claims cost data as possible.

The loss ratio information – whilst forward looking and potentially reflecting different approaches to reserving – will be supported by additional information on reserve releasing. Again, this will help provide insight about whether firms are accurately forecasting the expected claims ratio.

Claims and claims ratio reporting

If we are reporting claims settled in a given year, and premiums collected in the same year, then does the FCA recognise that the ratio of the two is not particularly meaningful given that a large proportion of motor claims do not happen and/or settle in the same year as the premium for the policy was collected?

We are not proposing to collect data on claims settled in a given year. For the actual claims costs, we are proposing to capture gross incurred claims ratio data (which will capture actual claims which have been paid as well as estimates of the claims costs for claims which have been incurred but not yet paid out). We are also looking to collect additional information about how these incurred claims ratio percentages have developed over time for previous reporting periods. This will, over time, provide more accurate claim cost information.

Do the rules refer to individual claim level reserve releases, or overall account level reserve releases, and how these could be linked to the issues that the Data Request is aiming to monitor?

The reserve releases and reserve strengthening are not referring to individual claim level releases, but rather aggregated to the relevant reporting box in the reporting form. Claims releases provide information to help us understand the impact of the prior year reserve adjustments on the current year incurred claims ratio.

We welcome consultation feedback on difficulties reporting this and other metrics at the proposed level of granularity, as well as input on alternative ways to capture data relevant to evaluating proposed remedies.

Can firms include all reasonable operational and strategic costs when they are providing information against the claims ratio reporting requirement noted in paragraph 6.14.

We would expect firms to include only those that they would normally include when calculating their claims ratio and should align with the method used to calculate the claims ratios in their annual accounts.

Why are you collecting claims ratio data? How does this relate to the pricing remedy?

We propose to collect data to help us monitor the effectiveness of our remedies package and its impact on the market. This includes both our pricing remedy and the other remedies, including product governance. The data we propose to collect from firms will allow us to track changes in the market, including indicators of how firms are complying with the pricing remedy and to help identify where there may be pockets of harm to consumers. We consider that claims ratio data provides a good indicator of the value that products provide customers. Monitoring how these metrics change over time can give insights into firms' pricing practices and the value of products

Scope of products and firm reporting

The draft Pricing Information Report Form only requires information on Cars, Motor Homes, Motor Cycles and Tricycles sold to consumers. Why is Van Insurance not included within the reporting?

This is an oversight. While commercial van insurance is out of scope, consumers insuring vans would be in scope. We will amend the reporting requirements.

It is unclear why brokers are exempt from reporting on (i) large books of business; and (ii) closed books?

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 to be proportionate and not place an unnecessary burden on smaller firms. However, we would welcome feedback on this in the consultation responses.

Will PCWs be required to submit reporting on their transactional fees?

We have not consulted on requiring PCWs to submit data on any fees which are not charged to customers. We welcome feedback on this.

For our submission as an intermediary, tenure will be the time a customer has held the policy with that brand. For insurers who distribute via an intermediary, should they use the same definition or should it be the number of years the customer has been with that insurer?

Currently there is a narrower definition for renewal 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. 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 there are changes in the insurer or intermediary.

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?

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. 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.

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.' 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

Within the draft Pricing Information Report Form, which must be completed by price setting intermediaries, it is noted that data must be reported by channel. One of the channels included within the report template is 'direct'. Within Annex A of the consultation paper, a direct channel is defined as 'direct sales where the consumer and insurer communicate directly without a third party present' and that there is a separate channel for intermediation. It is the case that price setting intermediaries will sell direct to consumers – in this context, is it the expectation that such sales are classed as 'direct' as opposed to via an 'intermediated channel'?

The proposed reporting for price-setting intermediaries covers direct, intermediated (i.e. through other intermediaries), PCWs and affinity partnership. We are also looking to get 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 Pricing-setting intermediaries reporting contained in section 5 of the Pricing Information Report form in the draft instrument 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?

For price setting intermediaries, we are proposing to ask 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.

It is unclear whether the data reported within the Pricing Information Report should report on Policies Sold within the reporting period, or Policies Incepted within the reported period. Additionally, if a policy was sold within the reporting period but not incepted, and the customer opted to Not Take Up (NTU) the policy prior to inception should that be included?

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 should be treated for reporting purposes.

Should policies sold/ incepted within the reporting period but cancelled within the cooling off period be included within the report?

The data reporting is on the policies sold. We will consider the need for further guidance about how policies which are cancelled in the cooling-off period should be treated for reporting purposes.

With regards to reporting on policies with a High or Very High Price, 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?

The reporting on high and very high premium policies through the intermediated channel is proposed to be calculated separately for net-rated products and gross-rated products. We will update the reporting requirements to clarify our expectations. For certain reporting forms (such as insurer reporting on intermediated channel (net rate)), where the average gross price and net-rated prices are both reported, we will clarify whether the reporting of the proportion of customers paying a high and very high premium should be calculated by reference to the average gross price or the average net-rated price.

Is tenure calculated by the number of continuous years that a customer has had a policy, i.e. a customer who holds a policy with Firm A for 2 years, then switches to Firm B for 1 year, and then returns to Firm A in the reporting year would be deemed to be a New Business Customer as opposed to a customer with 3 years tenure.

The tenure of a customer will be impacted by how renewals are defined. We are considering the renewal definitions for the reporting proposals and whether they should be aligned with how renewals are defined for the pricing rules set out in ICOBS 6B in the draft instrument. We will consider whether additional guidance is needed to help firms report the data correctly where there has been a change in insurer or intermediary.

Within price, does the premium reported include broker fee?

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.

What is the rationale for including post contractual fees when they do not impact the price set on new business or renewal?

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.

What is the purpose for each of the data requests in paragraphs 6.14 and 6.15 of the CP?

The rationale for collecting the different metrics is set out in the relevant paragraphs in the CP. In paragraph 6.14 the metrics focus on pricing information, information about the number of customers as well as cost and margin information. The cost information is the expected claims cost and the expected claims ratio metric provides an indication of the margin that is being earnt on products and how this might vary by tenure or distribution channel. Paragraph 6.15 sets out metrics to help us identify where there may be pockets of harm. These metrics include the proportion of customers with expected claims ratios more than 10%/30% points lower than the average for a reporting category. The incurred claims will provide helpful information about the actual claims experience of firms and prior year reserves information should provide some insight in subsequent periods about whether amounts reserved for claims (which would be included in incurred claims) were too high or too low. The high premium information provides data about whether there is a potential risk that some customers are being charged disproportionately high premiums.

Please can the FCA provide clarity on the reporting requirements specifically if these are required by 'individual' price comparison website/insurance intermediary/affinity partner.

The proposed reporting is aggregated by type of channel rather than each arrangement being reported individually. So, for example insurers would report all PCW business together, not for each site individually. This is confirmed in the draft rule SUP 16.28.10 (4) and (6). We will consider whether we need to amend the draft rules, guidance or reporting form to clarify this.

What simplifications are acceptable if there aren't pricing estimates or reserving information available at the level of granularity required for the disclosures (i.e. product x channel x tenure)?

In addition to the feedback on our estimated costs of the reporting and other remedies we would also welcome feedback on alternative options which may be more proportionate way to achieve our reporting objectives.

In the CP paragraph 6.15 you set out that "Gross incurred claims ratio at an aggregated level. This information would help us understand the actual claims experience of firms. It shows the ratio of claims settled against the premiums collected in a year. Higher ratios indicate that more money is being paid out in claims, so this is an indication that the product could represent better value to customers." Reviewing premiums versus claims paid in one year does not reflect the fact that claims will take many years to pay out and/or claims will be paid from previous years reserves. We wonder whether parts of the reporting requirements are more reflective of underwriting footprint rather than

a true value measure. A prior year reserve release is business specific and not necessarily related to pricing or customer outcomes. Does the FCA have any thoughts on this?

Our policy intent is to capture gross incurred claims ratio data (which would capture actual claims which have been paid as well as estimates of the claims costs for claims which have been incurred but not yet paid out). We shall consider whether any changes to the definition of gross incurred claims ratio or additional guidance are needed to achieve the policy intent. We are also proposing to request information on reserves adjustments to understand the impact on this on the gross incurred claims ratio for the current year reporting period.

Can you expand on the potential to publish the data you collect? What do you think the extent of this could be? If aggregating, how will you approach this where firms have differing definitions per metric?

At this stage, we have no intention to publish any firm specific data or summary data. However, it is possible that we would publish high level (non-firm specific) aggregated data as part of updates to our GIPP webpages or commentary about changes in the market. Furthermore, it is likely we would publish aggregated data as part of an evaluation of our intervention.

Please set out what the attestation process will look like and when further clarity on what is expected will be published.

We expect to include the attestation as part of the regular reporting form, using the same system. We expect it to cover:

- that the firm has been, and remains, compliant with the pricing remedy rules during the reporting period.
- the firm is satisfied that the pricing of its home and motor insurance and related sales practices are consistent with the objectives of those rules and does not discriminate against customers of longer tenure.
- the name and role of the senior manager making this attestation.