

General Insurance Pricing Practices Market Study

Forum 2: Product governance
proposals

Agenda

1. Introduction

Robin Finer

2. Pre-submitted questions

Edward Oxley, Jason Pope, Joe Thompson

3. Live Q&A

Robin Finer, Edward Oxley, Jason Pope & Joe Thompson

4. Next steps

Robin Finer

Introduction

- These forums follow the publication of the final market study report and consultation paper on 22 September 2020.
- Each forum will focus 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
Reporting and auto-renewal remedy proposals	23 November	10.30-11.30

- The aim of the sessions is to address any questions about the policy intent behind the draft rules and how we envisage they might operate in practice.

The purpose of the session

In this session we will focus on the proposed rules for product oversight and governance.

We aim to address questions about the purpose of the proposed rules, and how they might work in practice.

- We will explain the key points of our proposed rules
- During the 'live Q&A' we will answer any 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 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.
 - 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.

What do we want to see?

1. **Firms compete in effective and innovative ways** to provide long term fair value for all consumers.
2. Firms do not engage in practices that limit customers' ability to make informed choices. They are **transparent** about the overall cost and quality of products from the start. They **do not impose barriers to consumers switching** to better deals.
3. **Consumers can trust that firms are offering long term fair value.** Consumers no longer need to search, switch or negotiate at every renewal to avoid price walking.
4. Differences in firms' products and in their pricing structures maintain the **incentive for consumers to search and switch** in the market. This drives competition and helps to ensure that all consumers receive fair value.

Development of PROD

Jul 2007

RPPD
introduced

- Broad guidance under the Principles
- Applicable to all firms

Oct 2018

PROD
introduced

- Rules specific to insurance
- Introduced key concepts (such as the target market)
- Applies to new products or *significant adaptations*

Oct 2019

Interim
market study
report
published

Nov 2019

GI distribution
chains
guidance
issued

- Guidance on importance of product value
- Linked product design with price, and things which influence the price (such as commission)

Sep 2019

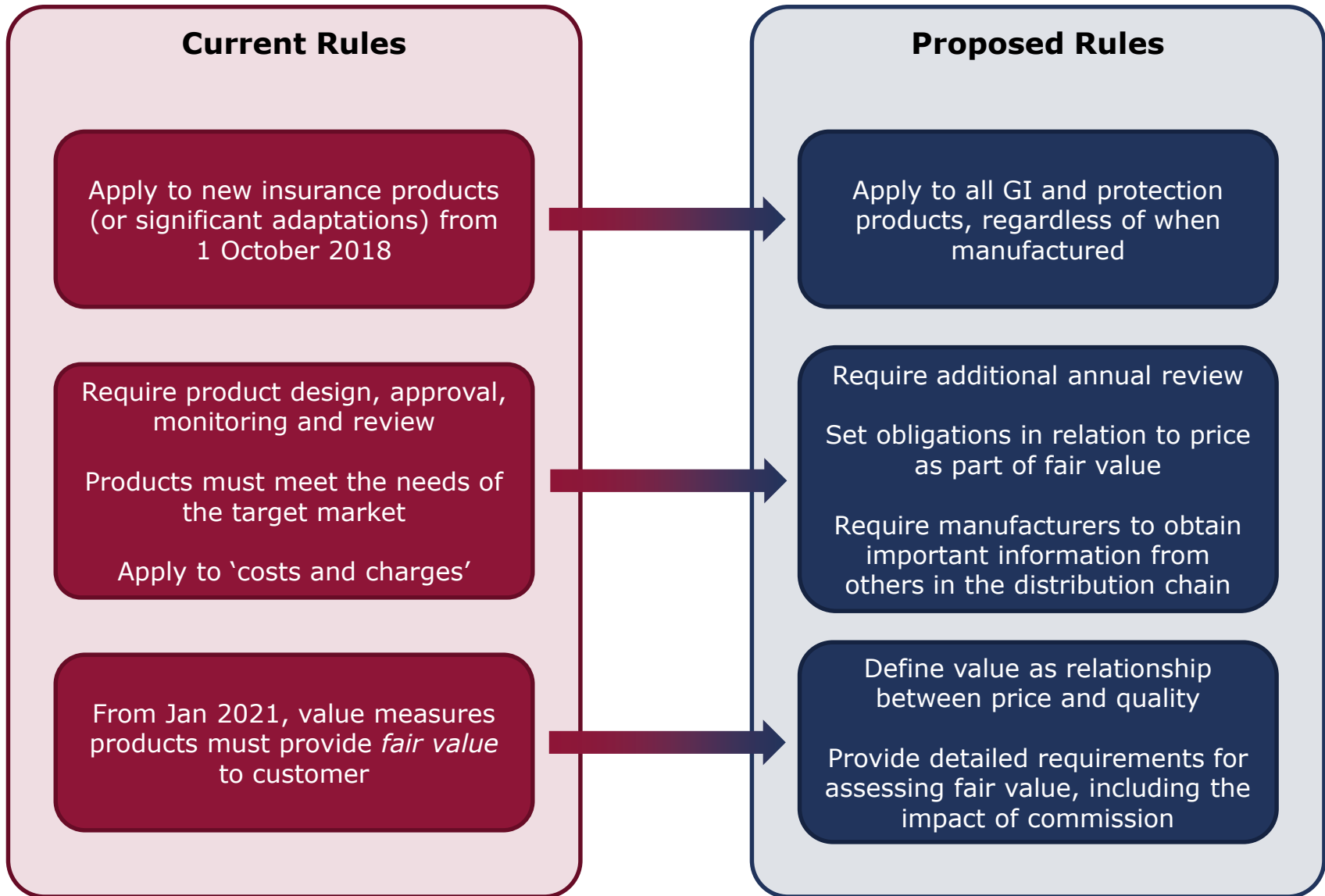
Final report
and CP20/19
published

Jan 2021

Value
measures
rules
introduced

- Publication of key value metrics
- Introduces requirement that products must offer *fair value*
- Applies to a specified range of products

Overview of the changes



Assessing fair value

The following questions relate to **the assessment of fair value**.

<p>Would the 'foreseeable future' test also be met if there were no planned price changes other than those directly in proportion to changes in risk profile, product and/or service quality?</p>	<p>The intention of the rule is that firms consider the value of the product not just when it is first sold but also if the customer chooses to renew. For example, firms may know how they are likely to price the renewal, and this should be taken into account in the fair value assessment.</p> <p>If there are no planned or anticipated changes then it is unlikely additional considerations will be required.</p> <p>Firms should consider not just price changes but also changes in benefits or quality of the product/service.</p>
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Assessing fair value

Please can you clarify how the implementation dates for the value assessment interact with the GI value measures 1 January date?

The work on value measures introduces several new requirements:

- From 1 Jan 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 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.

Assessing fair value

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 the 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.

Assessing fair value

In the event that the product governance review has not been completed by the distributor for a product within 12 months, 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.

Premium Finance

A reminder of our existing rules:

- ICOBS 6A.2 – Firms must not sell premium finance unless the customer has actively elected to take the product
- ICOBS 6A.3 – sets out the disclosure obligations when selling premium finance as part of a package with an insurance product
- ICOBS 2.5-1R - A firm must act honestly, fairly and professionally in accordance with the best interests of its customer.
- SYSC 19F.2.2R – distributors must not be remunerated in a way that conflicts with their duty to comply with the customer’s best interests rule

And we propose to require that firms ensure that:

- They give clear information about the cost of premium finance arrangements, and make clear to customers that the use of premium finance makes the contract more expensive.
- When firms give customers a choice about whether to take premium finance, they must do more than simply ask the customer to choose between paying monthly or annually.
- They are not influenced by remuneration to offer premium finance at higher rates of interest than are available elsewhere.

Premium finance

The following questions relate to how the rules will impact **premium finance**.

Can you provide more guidance on how the fair value requirements apply to premium finance?

Firms offering premium finance would need to consider the costs of that finance, including the interest and any other charges, alongside the benefits. Firms would need to ensure that the customer does not pay an overall price for the insurance product and the finance which means they will not receive fair value.

Existing rules prohibit distributors from receiving remuneration which conflicts with the customer's best interests rule. "Where the firm proposes premium finance with a higher annual percentage rate (APR) than would be available elsewhere (for example, directly from the insurer, or from another finance provider), based on the remuneration the firm will receive, this may conflict with the firm's obligations including the customers' best interests rule." (CP20/19).

Premium finance

Is the primary purpose of the assessment of premium finance is to ensure that it offers value relative to other sources of finance reasonably available to customers?

Value means the relationship between the overall price to the customer and the quality of the product(s) and/or services provided. Comparing premium finance to other credit products is one way in which a firm could seek to assess whether the premium finance they offer is impacting the value to the customer.

Our draft rules also make it clear that a firm's remuneration arrangements should not provide an incentive to offer retail premium finance having greater costs to the customer (including a higher APR) where another retail premium finance arrangement, better aligned with the customer's interests, is available to the firm in the market.

Charging a higher rate than is available elsewhere may indicate a risk that the product or package is not providing fair value.

However, this is not the only consideration when assessing fair value and the draft rules provide more detail on how to identify fair value. Where premium finance will impact the total price the customer pays for the insurance package. Even if the insurance premium is fair value, the premium finance could impact this. For example, the additional cost of the finance could bear no reasonable relationship to the costs of providing the finance, or the benefit it adds to the package of products.

Premium finance

<p>What are the appropriate finance products for Premium Finance comparison in terms of interest rates given that there is a great deal of variation between credit card and overdraft / loan rates and other forms of credit?</p>	<p>As noted above, comparing premium finance to other credit products could be part of the fair value assessment. The draft rules do not specify which other products firms could use as a point of comparison. However, we welcome feedback on whether such guidance would be helpful.</p>
<p>Would a benchmarking assessment to compare premium finance with peers suffice? Should we benchmark credit card and overdraft/loan rates and other forms of credit?</p>	<p>Alignment with peers or other forms of credit does not mean the cost will result in a product or package that is providing fair value. This is especially the case for premium finance where peers may be using the same finance provider.</p>

Premium finance

It is not clear what additional questions need to be asked around premium finance in order to show the customer has made an active election. Could you please clarify?

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 rules also specify information which must be communicated to the customer in a clear way to support their active choice.

Pure protection products

The following question relates to the **rules applying to pure protection products**.

<p>Could you please explain the application of the proposed 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?</p>	<p>The annual review is to consider the product as a whole; 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. Remedial action may be required. This is relevant to closed books.</p> <p>Firms would need to conduct these reviews at least every 12 months. Some of the considerations set out in the proposed rules may not be relevant (for example, the impact of distribution arrangements on the product's value). This is likely to depend on the nature of the firm's business.</p>
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Scope of the rules

The following questions relate to the **application of the product governance rules to add-ons.**

<p>In respect of add-on products that are included as standard within a policy (e.g. breakdown cover), would a standard value and utility calculation apply?</p>	<p>The proposed rules would require firms to ensure there is a fair relationship between the price and the quality of the product. Where features such as breakdown cover are included as part of an insurance product, they would need to be considered within that fair value assessment. Where features of the product do not provide fair value, this could mean that the product is not providing fair value overall.</p>
<p>Please clarify whether Protected No Claims Discount (PNCD) is considered in the scope of this guidance?</p>	<p>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 product.</p>

Scope of the rules

The following questions relate to the **application of the product governance rules to add-ons**.

Where products can be sold with multiple add-ons, is there an expectation that every single permutation is assessed, or can firms select representative examples for assessing the value of a package?

If an add-on is a separate insurance contract, the manufacturer would need to ensure it provides fair value (i.e. a fair relationship between price and product quality).

Firms offering packages of products (e.g. a motor policy with add-ons) would need to consider any the value of each product. Firms may also need to consider whether being sold together could impact the value of the package overall (for example, where two or more add-ons provide overlapping or duplicate cover).

The proposed rules do not specify exactly how these assessments must be done, as it will likely depend on the nature of the products and distribution arrangements.

Scope of the rules (cont.)

The following question relates to the **application of the rules**.

<p>Please clarify that the new 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 in order to ensure fairness and create a level playing field?</p>	<p>The rules would apply to all general insurance and pure protection products irrespective of term length.</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.
- We look forward to welcoming you to our last virtual forum:

Remedy proposal	Date	Time
Pricing remedy proposal	11 November	13.30-14.45
Product governance proposals	16 November	10.30-11.00
Reporting and auto-renewal remedy proposals	23 November	10.30-11.00

- 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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