

May 2025 update:
This letter is historical.
See our [supervisory correspondence page](#)
for more information and current views

10 April 2019

Dear CEO

FCA expectations of general insurance ('GI') firms

Today we published our [thematic report](#) on the GI distribution chain. It sets out the findings of 2 pieces of work, a thematic review of Value in the GI Distribution Chain and a multi-firm review of delegated authority arrangements (following our [2015 Thematic Review](#)). We are also consulting on proposed [non-Handbook guidance](#) to clarify our expectations of firms as manufacturers and distributors of GI products.

Areas of potential harm

The report highlights areas where we identified significant potential for harm and poor outcomes for customers arising from the product development and distribution approaches in some sectors of the GI market. These harms include, for example, customers purchasing products that are not appropriate for them or customers paying increased prices due to remuneration paid to firms in the distribution chain who incur little cost or deliver little benefit. These potential harms are caused by firms not adequately considering the value of the products or services provided to customers, as well as failures in product design, weak oversight of the distribution chain, poorly designed distribution strategies and conflicts of interest caused by firms' remuneration structures.

Some progress has been made following our previous work in this area (i.e. [TR15/7](#) and [TR16/6](#)). However, many GI firms have not responded appropriately and are not sufficiently focused on customer outcomes, including the value of the products and services their customers receive. We have already taken regulatory action in these areas. This includes in the case of Liberty Mutual Insurance Europe SE (who were fined £5m for failings in their oversight of claims handling and customer outcomes), Express Gifts Limited (where a £12m redress scheme was introduced following the sale of products of limited or no value) and The Carphone Warehouse (who were fined £29m for mis-selling mobile phone insurance and failing to properly investigate and fairly consider complaints arising from the mis-selling). We will not hesitate to take further action if we encounter issues and potential failings at firms which cause harm or have potential to cause harm to customers.

Impact of the IDD and the SM&CR

The new rules introduced from 1 October 2018 following our implementation of the Insurance Distribution Directive (IDD) are directly relevant to the manufacture and distribution of GI products, the concerns we have identified and the harm they may cause. These rules include the obligation on all firms involved in the GI distribution chain to act honestly, fairly and professionally in accordance with the best interests of their customers.

Our proposed non-Handbook guidance further clarifies our expectations of firms in the GI sector following the implementation of the IDD. In addition, the Senior Managers and Certification Regime (SM&CR) enhances the obligations and individual accountability of senior managers in

regulated firms, including for customer outcomes. The SM&CR has applied to insurers since 10 December 2018, and will be applied to GI intermediaries in December 2019.

Our expectations

The report sets out our expectations for the actions firms should take to ensure that they meet their obligations to customers. Manufacturers should consider the value provided by their products through their product approval processes and their oversight of distribution arrangements. Distributors should consider the impact their distribution processes have on the value the customer receives from their products and ensure they comply with the requirement not to be remunerated in a way that conflicts with the customer's best interests.

Our expectations are reflected in the proposed non-Handbook guidance we are consulting on. They include:

- All GI firms must act fairly, honestly and professionally in accordance with the best interests of customers.
- All GI firms should consider the value customers ultimately receive from their products and services.
- All GI firms should maintain appropriate systems and controls over the remuneration they receive.
- All GI manufacturers should have sufficient knowledge of the roles and remuneration of all entities in the distribution chains they use to be able to assess the impact they have on the value customers receive.
- All GI firms must maintain appropriate systems and controls (including the production and use of appropriate management information) over their GI products and services. This includes when delegating authority to another business.
- All GI distributors should consider the impact of their distribution strategy (including the distribution method and the level of remuneration they receive) on the overall value of the product for their customers.

Next steps

We expect all firms to review the contents of this letter, our full report and proposed guidance in their entirety. Where firms identify any gaps or shortcomings, we expect them to act promptly to address them to mitigate the risk of harm to customers.

We will carry out further supervisory work in this area to assess the extent to which firms are complying with relevant rules and meeting our expectations. This includes those deriving from the regulations introduced on 1 October 2018 further to our implementation of the IDD. These new rules and the SM&CR will help us to take a more interventionist approach if we see firms failing to meet their regulatory obligations in future, using the full range of regulatory tools available to us.

We expect you to share this letter with your Board or equivalent, as we will consider these matters in any interactions with your firm.

Yours sincerely

Jonathan Davidson

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