Financial Conduct Authority

# Regulator Assessment: Qualifying Regulatory Provisions

**Title of proposal:** Thematic Review: Provision of premium finance to retail general insurance customers (TR15/5)

**Lead regulator:** FCA

**Date of assessment:** 24 February 2017

**Commencement date:** 11 May 2015

**Origin:** Domestic

**Does this include implementation of a Cutting Red Tape review?** No

**Which areas of the UK will be affected?** Whole of UK

## Brief outline of proposed new or amended regulatory activity

The Thematic Review reports the results of a review assessing the extent to which firms ensure the information needs of their customers are met when buying general insurance using premium finance and the role played by general insurers and insurance intermediaries when arranging premium finance alongside general insurance products.

This review was intended to assess the standard of compliance of 13 general insurers and 30 general insurance intermediaries with regulatory requirements that had been in place for a considerable period of time. The review was not intended to set new standards by introduce new or additional rules, guidance or expectations on firms or provide an interpretation of existing rules or guidance.

The report is a factual translation of our basic rules and requirements, highlighting where firms within the sample population have been failing to meet these existing requirements.

## Which type of business will be affected? How many are estimated to be affected?

The firms primarily affected will be general insurers and insurance intermediaries arranging or providing premium finance for retail customers buying general insurance products, of which there are approximately 3,250

| Price base year | Implementation date | Duration of policy (years) | Business Net Present Value | Net cost to business (EANDCB) | BIT score |
|---|---|---|---|---|---|
| 2015 | 11 May 2015 | 10 | -0.16 | 0 | 0 |

**Please set out the impact to business clearly with a breakdown of costs and benefits**

Note: for all cost estimates below we have assumed the changes will be applied by experienced compliance staff at an estimated rate of £48/hour. The 2016 Robert Half salary guide estimates that a compliance manager in the risk and compliance function of a financial services company based in London earns between £70,000 and £104,000 per annum. Based on working 8 hours per day for 260 days each year our rate equates to £100,000 per annum and is therefore considered a suitably prudent figure for the purposes of our estimates.

**<u>Familiarisation costs</u>**

The report is 5,666 words long which, at a reading speed of 100 words a minute*, would take 1 hour to read.

Therefore we estimate the total familiarisation costs as 3,250 firms x £48 = £156,000.

* "EFTEC (2013), "Evaluating the cost savings to business from revised EA guidance – method paper".

**<u>Remediation costs</u>**

The thematic review identified that many firms were not compliant with FCA requirements and factually reported the results of this non-compliance.

The poor practice cited in this publication is such that no firm could reasonably have believed that the poor practice specified was compliant with our rules, with the effect that publication creates no costs for business because the expectations set out in it are wholly inherent in the existing rules and add no new obligations to those rules for any firms.

We consider this is the case because the FCA Handbook sets out the relevant rules and guidance that apply to a firm's activities where they arrange or provide premium finance to their retail customers in conjunction with arranging a contract of insurance. Relevant sections of the Handbook include PRIN and ICOBS and where firms provide credit or act as credit brokers, CONC and the Consumer Credit Act are also applicable. Key sections of the Handbook and relevant legislation were set out on page 17 of the thematic review report, as well as in the body of the report itself.

To demonstrate that these expectations are not setting new standards or providing guidance but simply reminding firms of their obligations under existing rules and guidance, detailed below are the expectations from page 15 of our published report**, and against each we have referenced the relevant regulatory requirements

** https://www.fca.org.uk/publication/thematic-reviews/tr15-05.pdf

**1) Firms should take reasonable steps to ensure retail customers are provided with sufficient information at an appropriate stage in the purchase journey to allow them to:**

a) Readily compare the cost of paying for the insurance via the options available (upfront versus instalment);
b) Understand when additional costs are associated with paying by instalments and what these costs are; and
c) Understand whether choosing to pay by instalment means that they will need to enter into a credit agreement and the implications of this.

In respect of expectation 1a) ICOBS 6.1.5 requires a firm to take reasonable steps to ensure a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed. Our guidance is that this information will include the price of the policy (ICOBS 6.1.6G). Also Principle 6 requires a firm to pay due regard to the interests of its customers and treat them fairly and Principle 7 that a firm must pay due regard to the information needs of its clients and communicate information in a way which is clear, fair and not misleading. We also previously outlined our expectation that firms should clearly display the total price of the policy as well as the monthly premium (www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2008/icobs_clarification.shtml)

In respect of expectations 1a and 1b) CONC 3.5.5 also requires that where a financial promotion indicates a rate of interest or an amount relating to the cost of credit whether expressed as a sum of money or a proportion of a specified amount, the financial promotion must also include a representative example. The representative example must include the nature/amount of any non-interest charges in the total charge for credit (e.g. Fees).

Expectation 1c – see expectation 2 below

In this context we are not providing any new rules or guidance in setting out these expectations.

**2) Where providing credit under regulated credit agreements or credit broking, firms should provide customers with the information and explanations required under CONC/CCA. In particular firms should:**

a) Provide a Standard European Consumer Credit Information (SECCI) containing all of the required information, in the appropriate format, in good time before a credit agreement is made; and
b) Provide an adequate explanation enabling the customer to assess whether the proposed agreement is adapted to their needs and financial situation, including the key risks of the credit and the principal consequences of non-payment.

Expectation 2a) is taken directly from the Consumer Credit (Disclosure of Information) Regulations 2010. Expectation 2b) is taken from the Handbook at CONC 4.2.5R and requires a firm to provide the customer with an adequate explanation of the matters referred to in 4.2.5R (2) in order to place the customer in a position to assess whether the agreement is adapted to the customer's needs and financial situation. Reminding firms that they should comply with Consumer Credit Regulations and CONC does not create any new or additional regulatory burden on firms. In this regard we are not providing any new rules or guidance in setting out expectation. We further referenced within the body of the report that where firms were failing to provide the SECCI or Adequate explanation prior to the point where the customer was required to input their payment details, that this would give rise to concern about the firms' compliance with Principles 6 and 7.

**3) Where providing credit under regulated credit agreements or credit broking, firms should make clear their role in arranging or providing premium finance, the nature of the service they are providing, the relationship with the finance provider and information regarding the fees or commissions that may be payable.**

Expectation 3 is taken directly from CONC (3.3/3.7/4.4) which set out our rules and guidance in relation to activity disclosure and relationship between parties, financial arrangements between parties and fee disclosure. It does not provide any new rules or guidance and merely sets out an expectation that firms comply with existing rules, so imposes no new standards or obligations.

As full compliance is assumed when establishing the impacts of regulatory requirements, any costs incurred by firms to bring themselves to a compliant standard are not included. Therefore we have estimated a cost to business of zero.

### Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

Link to Robert Half salary centre
https://www.roberthalf.co.uk/news-insights/salary-centre-2016