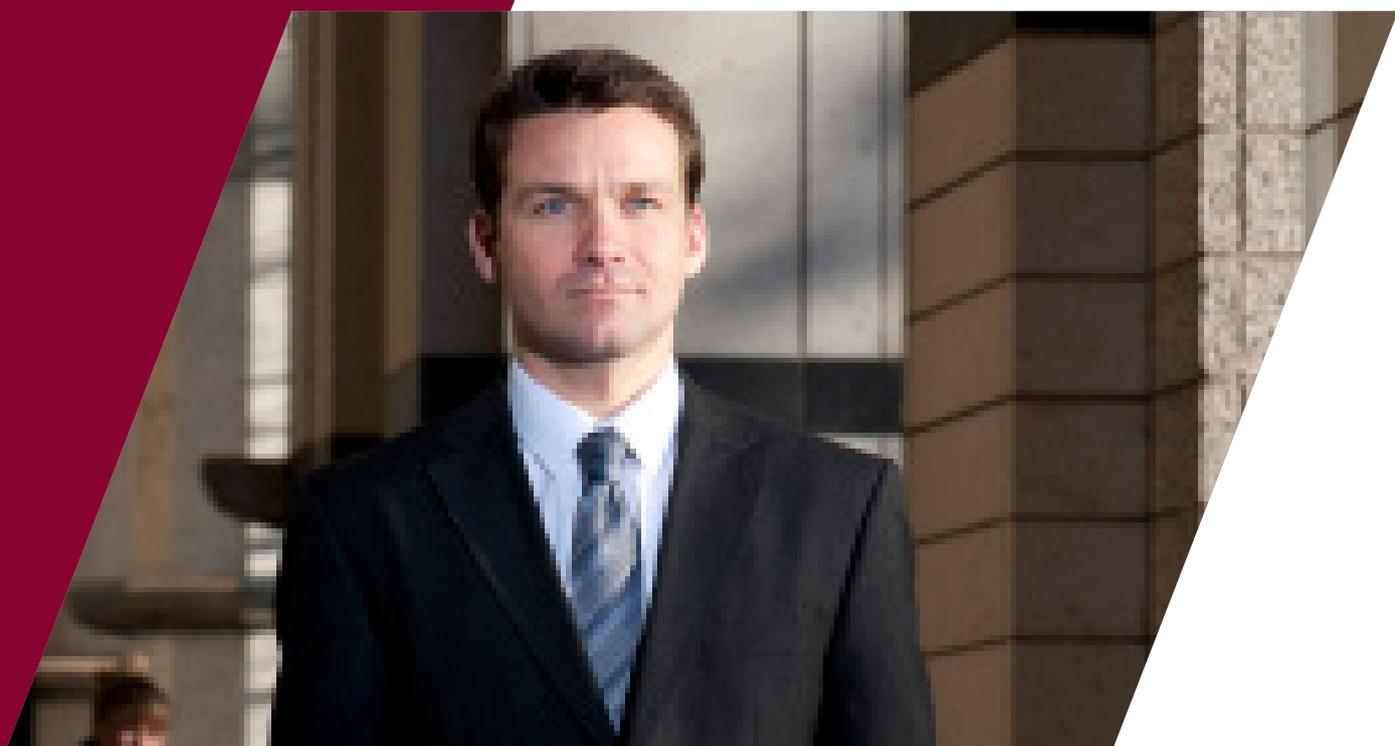


# **General Insurance Add-Ons Market Study – Remedies: banning opt-out selling across financial services and supporting informed decision-making for add-on buyers**

Including feedback on CP15/13 and final rules and guidance

September 2015





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In this Policy Statement we report on the main issues arising from Consultation Paper *General Insurance Add-ons Market Study – Proposed Remedies: Banning opt-out selling across financial services and supporting informed decision-making for add-on buyers* (CP15/13) and publish the final rules and guidance.

Please send any comments or enquiries to:

Joanne Davis  
Policy Division  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

**Telephone:** 020 7066 4976

**Email:** [cp15-13@fca.org.uk](mailto:cp15-13@fca.org.uk)

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## Abbreviations used in this paper

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<b>ABI</b>	Association of British Insurers
<b>CBA</b>	Cost benefit analysis
<b>CCR</b>	Consumer Contract (Information, Cancellation and Additional Charges) Regulations 2013
<b>CMA</b>	Competition and Markets Authority
<b>FCA</b>	Financial Conduct Authority
<b>GAP</b>	Guaranteed Asset Protection
<b>GI</b>	General insurance
<b>ICOBS</b>	Insurance Conduct of Business sourcebook
<b>Market Study</b>	The general insurance add-ons market study <sup>1</sup>
<b>MLEI</b>	Motor legal expenses insurance
<b>NCB</b>	No claims bonus
<b>PCW</b>	Price comparison website

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<sup>1</sup> FCA, General Insurance Add-ons: Final Report – confirmed findings of the market study, [www.fca.org.uk/your-fca/documents/market-studies/ms14-01-final-report](http://www.fca.org.uk/your-fca/documents/market-studies/ms14-01-final-report)



# 1. Overview

## Introduction

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- 1.1** In March 2014 our General Insurance Add-ons Market Study (the market study) found that competition in add-on markets was not effective and was not working in the best interests of customers. We proposed four remedies to address this:
- introducing a deferred opt-in for Guaranteed Asset Protection Insurance (GAP)
  - introducing value measures across the general insurance market
  - a ban on opt-out selling<sup>2</sup>
  - improving the information provided to customers buying add-ons
- 1.2** In December 2014 we consulted on rules to address issues identified in the GAP insurance market. In June 2015 we made these rules final, as well as publishing a discussion paper on potential value measures for general insurance markets.
- 1.3** For the remaining two remedies, we consulted in March 2015 on rules banning opt-out selling and improving information provided to customers buying add-ons. The ban on opt-out selling is designed to improve competition in the market around add-on sales and prevent the exploitation of customer biases, which can lead to customers purchasing products they do not need and overpaying for those products. The market study found that customers were overpaying for add-ons by as much as £108m to £200m per year. The Guidance on information provision is designed to encourage more informed and active decision-making by customers. We proposed that the rules and guidance would apply across general insurance add-on products, not just those featured in the market study. We also proposed that the ban on opt-out selling would apply across all financial services sectors, not just insurance markets.
- 1.4** We are now finalising our rules to ban opt-out selling across financial markets. We are also finalising both our Handbook, and non-Handbook, guidance to improve the information that is provided to add-on buyers in the general insurance market.
- 1.5** This policy statement sets out an overview of the consultation feedback and our response on:
- our rules banning opt-out selling; and
  - our Handbook guidance

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<sup>2</sup> Opt-out selling can occur when the customer is defaulted into a purchase by a firm. For example, when the firm pre-ticks a box indicating that the customer wishes to buy an add-on product.

- 1.6** We are also separately publishing the Finalised non-Handbook Guidance, including a Summary of feedback received, which can be found at Appendix 2 of this document.
- 1.7** The final rules and guidance do not differ significantly from those consulted on. The rules banning opt-out selling come into force on 1 April 2016. The Handbook guidance will come into force at the same time.
- 1.8** The non-Handbook guidance will be effective immediately. We recognise that firms will need time to implement any necessary changes, but we expect that firms should already be working towards delivering appropriate and timely information for add-on sales. We expect firms to have made the necessary changes to their sales journey by 30 September 2016.

### Who does this affect?

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- 1.9** This policy statement will primarily affect firms and customers in the general insurance market. The opt-out ban also extends to other financial sectors. Firms and their representatives selling all types of add-ons to regulated primary products will therefore be affected by the rules.

### Is this of interest to consumers?

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- 1.10** Consumers will no longer be defaulted into purchasing add-on products they may not require, and they will be provided with additional information to help them make choices when purchasing general insurance add-on products. The same applies to commercial customers.
- 1.11** The rules and guidance will affect how firms and their representatives interact with customers when selling add-ons. This paper may therefore be of interest to customers who have purchased add-ons, or are likely to do so in the future.
- 1.12** As a result of our rules, customers that have previously been defaulted into add-on purchases will be provided with information to help them make an informed decision about whether or not they wish to renew their add-ons.

### Context

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- 1.13** The market study found that the add-on distribution method has a real impact on consumer behaviour and affects consumer decision-making. Consumers often focus on the sale of the primary product, leading many to purchase add-on products that they do not need or understand. We also found that consumers had poor awareness of what products they had bought – with 19% being unaware that they owned the add-ons considered in the market study.<sup>3</sup>
- 1.14** The findings indicate that consumers' ability to make choices is often hindered by insufficient information being available about the quality and price of the add-ons, and by this information being presented too late in the buying process.

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<sup>3</sup> When surveyed approximately three to four months after purchase, almost 20% of consumers were not aware that they owned the product (compared to 9% for standalone purchasers). – [www.fca.org.uk/static/documents/market-studies/ms14-01.pdf](http://www.fca.org.uk/static/documents/market-studies/ms14-01.pdf) p7

- 1.15** We proposed two remedies to address these specific issues and proposed that these apply to both consumers and commercial customers:
- a ban on opt-out selling
  - improved information provision for add-on buyers.
- 1.16** Other issues identified, such as significant concerns with the GAP insurance market and a lack of competition on the value provided by general insurance products, have been addressed separately.<sup>4</sup>
- 1.17** We received 30 responses to our consultation, primarily from firms involved in the sale of insurance, either as insurers or distributors. A small number of firms from the banking sector, a number of trade bodies from the insurance and mortgage markets, price comparison websites (PCWs), a professional standards body, a consumer body and one individual also responded. The non-confidential respondents to the consultation are listed in Annex 1. We thank respondents for the feedback received.
- 1.18** Respondents were generally supportive of our proposals. The detailed feedback and our responses are provided in later chapters of this paper and appendices.

### Next steps

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- 1.19** The rules and Handbook guidance set out in Appendix 1 will come into force on 1 April 2016 and firms will be expected to comply from that date.
- 1.20** The finalised information provision non-Handbook guidance is included in Appendix 2 and has immediate effect. We recognise that firms will need time to implement any necessary changes, but we expect that firms should already be working towards delivering appropriate and timely information for add-on sales. We expect firms to have made the necessary changes to their sales journey by 30 September 2016.

### Value measures

- 1.21** Many respondents commented on our work on introducing a measure of value to general insurance markets. The market study highlighted the lack of transparency around the value provided by these products, as well as providing information on a number of poor value products in the market place.
- 1.22** We published a discussion paper on this topic in June 2015. The paper set out a number of options for introducing a value measure to the market:
- the claims ratio<sup>5</sup> as a standalone measure
  - claims ratios and claims acceptance rates
  - claims acceptance rates, claims frequency rates and average claims pay-outs
- 1.23** The feedback period for this paper has now closed. We will consider all of the feedback received on this topic and consult on our preferred measure(s) later this year.

<sup>4</sup> [www.fca.org.uk/news/firms/ps15-13-guaranteed-asset-protection-insurance-competition-remedy](http://www.fca.org.uk/news/firms/ps15-13-guaranteed-asset-protection-insurance-competition-remedy) and <https://www.fca.org.uk/news/dp15-04-general-insurance-add-ons>

<sup>5</sup> The claims ratio provides an indication of what percentage of the retail premium paid by customers is paid out in claims

## 2. Banning opt-out selling

- 2.1** This chapter covers feedback on the general proposals for the ban on opt-out selling. This includes views on our definition of an optional additional product, the scope of the remedy, the application of the remedy at renewal, and implementation timing. It also covers feedback relating to the proposed exclusions from the ban.
- 2.2** Feedback on the market failure analysis and cost benefit analysis is discussed in the next chapter.

### The definition of an optional additional product

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- 2.3** A number of respondents queried the definition of an optional additional product in the proposed rules, saying that the drafting was too wide and could be open to interpretation. In particular, respondents expressed concern that the drafting could be read as applying to both cover extensions, such as accidental damage and baggage cover, and customer options, such as the right to set an excess or sum insured.
- 2.4** Many stated that we should not capture cover extensions or customer options, as these are not add-on products. Respondents suggested that the definition should be altered to reflect this view. Alternative suggestions included adding further guidance to the rule to explain what the FCA considers to be ‘a product’.

#### Our response

The ban on opt-out selling is aimed at preventing firms defaulting customers into products for which they may or will be charged. We want to encourage customers’ informed and active decision-making, as well as ensuring customers are aware of the products they have purchased.

The definition of an optional additional product includes any type of good, service or right obtained in connection with, or alongside, a primary product – whether it is financial in nature or not. It is our view that “optional extras”, such as separate baggage cover on a travel policy, or accidental damage on a home insurance policy are optional additional products – these are insurance products purchased in connection with the primary product and customers can be defaulted into the purchase without their knowledge. As such, there is potential for harm to occur. The definition does not include setting an excess or sum-insured – these are not additional products that the customer may obtain in connection to the primary product.

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### Application of the ban to renewable add-ons

**2.5** In CP15/13 we set out proposals for how add-ons should be treated at renewal. The proposals applied to two scenarios:

- the renewal of add-ons that had been sold on an opt-out basis prior to rule implementation
- the renewal of add-ons sold after rule implementation

### Renewal of add-ons sold on an opt-out basis prior to rule implementation

**2.6** In CP15/13 we proposed that firms take reasonable steps to obtain consent to the renewal of add-ons from customers previously defaulted into the purchase. We used the example of contacting customers at renewal, to let them know that they owned these add-ons and that the add-on could be removed on request, as an example of how firms might satisfy the requirement.

**2.7** Respondents agreed with our example, and saw this as a proportionate approach. However, a number of comments and suggestions were also put forward, including:

- Concerns that the proposed rules and policy intention were not consistent, because the rules required an active election at renewal, but this was not expressed in the consultation paper.
- A query over whether it would be the seller of the product that would need to contact customers.
- A query over whether firms would be required to make these customers aware of their add-ons at every renewal, or just the renewal immediately following the opt-out ban coming into force.
- A suggestion that the requirement to contact these customers be limited to those who purchased add-ons within the last two years.
- A concern that it would be difficult for firms to identify these customers.
- A suggestion that firms should not be required to contact customers that had claimed on, or used the benefits of, their add-on products.

### Our response

We aimed to ensure that customers sold products on an opt-out basis (before implementation of these rules) were not left at risk of continuing to renew these products without being made aware of them. We also aimed to be proportionate, which is why we did not propose that firms obtain active consent from these customers – because this would stop the products being auto-renewed.

**Consistency with the rules:** We have revised the rules to clearly distinguish between the renewal of add-ons sold before and after rule implementation. The rules relating to sales after implementation will remain the same and are discussed below.

In relation to sales made before the implementation of the rules; we have added transitional rules which give firms the option to either obtain an active election from their customers, or take reasonable steps to inform their customers that the renewal of their add-on product is optional, that they may elect not to renew the product and also the effect, if any, of the non-renewal on the primary product. In line with our principles for business, we are also asking firms not to make it unduly difficult for customers to elect not to renew these add-ons. These provisions are not time-limited, but we will keep them under review.

**Contacting customers – who, how and when:** We have not been prescriptive about how customers should be informed of the information above, nor have we been prescriptive about who informs them. However, we believe that our example of contacting customers at their next renewal by writing to them, or calling them, to inform them of the information outlined above, could satisfy the requirements in certain circumstances. We believe it is likely that the seller of the product will generally be in the best position to inform the customer of this information. The customer will only need to be informed once, not after every renewal.

We believe that the requirements should apply to all customers, not just those purchasing within the past two years – as mentioned, we want to ensure that all customers are aware of their add-on purchases. We accept that it may be difficult for firms to identify these customers; however, our proposed approach gives firms flexibility on how to comply with our requirements. Therefore, for insurance purposes, this could be included in a customer’s renewal documentation, when firms ought to be contacting all customers in any event.

**Customers that have previously claimed:** We accept that customers that have claimed on, or used the benefits of, their add-ons are more likely to be aware of their purchases. However, as set out above, we want to ensure that customers also make an informed decision about whether or not to renew their add-ons. Firms may want to use the fact that a customer has successfully claimed on an add-on as evidence that they are aware of the product and/or the benefits provided. However, firms will still need to ensure that the customer is informed of the information mentioned above.

**Future work:** We have committed to consulting in the autumn on measures to help consumers make an informed decision when renewing general insurance policies. As such, further proposals for the renewal of products are better addressed through that piece of work.

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### Renewal of add-ons sold after rule implementation

**2.8** In CP15/13 we proposed that active elections from customers at each renewal would not be required if:

- the customer had already actively elected to obtain the add-on; and
- the add-on is offered on substantially the same terms

**2.9** Respondents broadly agreed with this proposal, believing it was sensible to allow for the automatic renewal of these products. However, we did receive a suggestion that firms should also be able to automatically renew add-ons if the terms had changed on more favourable terms.

### Our response

We are supportive of firms' intentions to innovate and make improvements to their products. We also recognise that this can result in customer benefits.

However, we are concerned that 'favourable' is a subjective term and, what may be considered more favourable by one customer may not be considered more favourable by another. There is therefore a risk that this change could lead to customer harm. As such, we are not changing this aspect of the policy. This means that firms will need to inform customers of any changes to their products and customers will need to actively elect to obtain the add-on.

### Remedy scope

- 2.10** We proposed that this remedy would apply to any add-on product when it is sold alongside a regulated financial primary product (if that primary product is sold by a regulated firm or their representative). This means that add-ons such as title insurance sold in addition to a mortgage would be covered, as would warranty cover sold in addition to home emergency insurance. We wanted to ensure that customers were protected from the detrimental effects of opt-out selling, regardless of whether the add-on was regulated or not. In addition, we wanted to future proof the rules so that customers would be protected should opt-out selling emerge in other markets.
- 2.11** A number of respondents queried whether the ban should apply to legal expenses insurance – given that firms had already started to move away from selling this on an opt-out basis. Respondents also commented that motor legal expenses insurance (MLEI) is a valuable product, which customers ought to have.
- 2.12** A small number of respondents also asked the FCA to be mindful of the possibility that there may be some scenarios where opt-out selling could be beneficial to customers, or may be required in the future e.g. as a result of government initiatives.

### Our response

**Legal expenses insurance:** We are not making any changes to the scope of the ban as a result of this feedback. Our own research at the time of publishing revealed that MLEI was still sold on an opt-out basis. Therefore, excluding these products could result in customer harm. Our thematic review into MLEI did find that consumers valued this product. There are many other add-on products that customers benefit from. MLEI can be a complex product and we believe that, in line with our policy objectives, customers should be making active and informed decisions about whether or not to purchase it.

**Waivers:** We have identified some situations where applying the ban could lead to harm or inconvenience for customers. We have therefore excluded these situations from scope; these circumstances are discussed below. The FCA has a formal waivers process and firms may apply for a waiver to these rules. Applications will be assessed against the statutory tests on a case-by-case basis.

## Implementation timing

- 2.13** Respondents asked us to be mindful of allowing sufficient time for firms to make necessary systems changes before the rules come into force; a 12-month period was suggested by one respondent. We also received a request that we update our online version of the Handbook so that firms can view the new rules before they come into force.

### Our response

We are aware that some firms will need to make systems changes, as well as potentially updating documentation and call scripts, in order to comply with the new rules. We agree that sufficient time should be allowed for firms to implement these changes.

We have considered how long this process might take and discussed timings with firms that have already switched from opt-out to opt-in selling. We have also been mindful of the timing of other FCA rules and EU Directives that firms may need to comply with.

Having taken the above into account, we have decided that the rules will come into force on 1 April 2016. This will provide a lead-in time of six months. Firms will be able to view the new rules on our online Handbook before this date.

## What is not captured by the rule?

### Free products

- 2.14** There was general agreement that the ban should not apply to free products. In CP15/13 we explained that by 'free product' we mean any product offered to the customer at no extra charge. However, we explained that when the product becomes chargeable, the ban would apply.

- 2.15** One respondent expressed concern that requiring customers to opt-in to these products could result in:

- Customers failing to opt-in to free products and therefore missing out on cover.
- Firms being unable to auto-renew these products once they become chargeable.

### Our response

We agree that applying the ban to products offered for free initially, but which later attract a charge, could result in the outcomes above. However, our proposals aim to ensure that customers are not defaulted into purchasing products for which a charge is, or may become, payable. We do not believe customers should become bound to pay a charge without first consenting to pay that charge.

In light of the above, we will not be making any changes to the policy in relation to previously free products. Firms will therefore need to obtain an active election from customers if the product will, or may, become chargeable.

## Unbreakable bundles

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- 2.16** In CP15/13 we differentiated between breakable and unbreakable bundles.<sup>6</sup> We explained that we do not believe unbreakable bundles amount to a number of add-on products sold together. We set out that, because there is no optionality in an unbreakable bundle – the customer either agrees to purchase all of the products or not – the ban on opt-out selling would not apply. However, we proposed that the ban would apply to breakable bundles – as these offer customers a choice on their add-on purchases.
- 2.17** Respondents largely agreed with this proposal, but queried why we would not apply the ban to unbreakable bundles when we accept that they can reduce customer choice. Respondents also asked for clarification on whether excluding unbreakable bundles from scope meant that the bundle itself could be sold on an opt-out basis. One respondent expressed concern that firms could use unbreakable bundles to avoid the effects of the ban.

### Our response

The ban on opt-out selling is about helping customers make an active decision about product purchases. Unbreakable bundles can reduce customer choice, in the sense that the customer is unable to tailor the bundle to their individual needs. However, we do not believe the ban on opt-out selling is the appropriate way to address this. This policy is concerned with optional add-ons and, as discussed above, we do not believe unbreakable bundles are formed of optional add-on products. In addition, customers will generally be aware that they are purchasing an unbreakable bundle, even if it does limit their choices. This is often not the case with products sold on an opt-out basis.

While the ban will not apply to the individual products forming an unbreakable bundle, firms will need to obtain consent to the purchase of the bundle. In our experience, unbreakable bundles are rarely sold as an optional product to another financial product. However, where this does occur, the ban will apply.

There is a possibility that more unbreakable bundles will be created in response to this policy. However, our understanding is that firms that have already transitioned from opt-out to opt-in selling have not increased the number of unbreakable bundles offered. Competitive pricing should also act as a deterrent to this – as a bundle of products is generally sold at a higher price than single primary products.

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<sup>6</sup> A packaged bank account is an example of an unbreakable bundle. A motor policy sold with optional legal expenses cover and breakdown cover is an example of a breakable bundle.

**Options selected on a price comparison website (PCW), the option to auto-renew and overdrafts**

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- 2.18** We explained that the ban on opt-out selling would not apply to options selected on a PCW, the option to auto-renew or overdrafts. This was because of:
- A wish to maintain customer convenience/active elections already being made (options selected on a PCW and the option to auto-renew).
  - Ongoing work in these areas, at both UK and EU level (the option to auto-renew and overdrafts).
- 2.19** We also commented that optional additional products sold along with unregulated credit union loans would not be caught by the ban, as the primary product would be outside of our regulatory perimeter. However, the ban would apply to optional additional products sold in connection with credit unions' activities that do fall within our remit.
- 2.20** One respondent queried why we were not imposing more stringent conditions on banks. The other comments received in relation to these aspects of the policy supported our position.

**Our response**

As respondents agreed with these proposals, we do not intend to make any changes.

Banks will be required to comply with the ban on opt-out selling when they sell optional additional products alongside financial primary products (in the same way as any other regulated firm).

We decided not to include overdrafts within scope because of ongoing UK and EU developments in this area.

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## 3.

# Banning opt-out selling: market failure and cost-benefit analysis

- 3.1** This chapter sets out the feedback received on our market failure and cost benefit analysis of implementing a ban on opt-out selling across financial services.

### Market failure analysis

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- 3.2** A small number of respondents queried the broad scope of the policy, commenting on the fact that the market study only focused on five products. Respondents also commented that the majority of products in the market study would not be caught by the proposed FCA ban, but instead would be caught by the Consumer Contract (Information, Cancellation and Additional Charges) Regulations 2013 (CCR).<sup>7</sup>

#### Our response

The ban on opt-out selling tackles the harmful customer behaviour which results from selling products on an opt-out basis; it is not dependent on particular products. As such, we do not believe that the market study's focus on a narrower set of products detracts from the harmful effects caused by this sales mechanism, which we want to address. We have therefore applied the ban more widely than the market study products.

Our objective was to close the gap in customer protection left by the CCR, which could for example arise if GAP is sold alongside motor insurance, or gadget insurance is added as an addition to home insurance. While these products can also be caught by the CCR, this does not mean we should narrow the scope of this policy. To do so would result in a reduction in customer protection.

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### Cost benefit analysis

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#### Reduction in overconsumption

- 3.3** Respondents queried whether we had sufficient data for our estimates on a reduction in overconsumption. One respondent felt that the calculations relied too heavily on data relating to motor legal expenses insurance.

<sup>7</sup> [www.legislation.gov.uk/uksi/2013/3134/made](http://www.legislation.gov.uk/uksi/2013/3134/made) These regulations prevent the opt-out selling of add-on products when sold in addition to a non-financial product e.g. GAP insurance sold with a motor vehicle.

- 3.4** A small number of respondents also queried the ‘savings’ figure in our estimations. Firms stated that the calculations had not accounted for potential customer costs – such as customers deciding not to purchase an insurance add-on and then having to self-insure.

#### Our response

**Data:** Opt-out selling has been in decline since we published our thematic review of motor legal expenses insurance. As such, any data set for opt-out selling will necessarily be small. In analysing the effects of the sales mechanism, and the potential effects of the proposed ban, we examined data from a number of insurers that had already made the transition from opt-out to opt-in selling. We also assessed data from the Competition and Market Authority’s review of private motor insurance and completed our own desk-based research of the market and current selling practices. Respondents did not provide further data to challenge the findings outlined in our cost benefit analysis.

**Customer costs:** Our calculations did not explicitly account for reductions in the number of customers covered for certain insurance risks (as a result of not opting-in to add-ons). The cost benefit analysis set out evidence that products sold on an opt-in basis have higher claims rates than products sold on an opt-out basis (claims rates for opt-out sales were reported to be less than half of those for opt-in sales). When considering this alongside evidence that selling products on an opt-in basis reduces sales by around 40% to 50%, claims paid to the additional customers that only purchase insurance products on an opt-out basis would be very small. The reduction in claims paid out to customers as a result of switching to opt-in selling would therefore be marginal.

The difference in claims rates could also be attributed to the increased levels of customer engagement and awareness resulting from opt-in sales. Therefore, even if selling on an opt-in basis reduced total sales, there would be an increased likelihood that the remaining customers would make claims. This would increase the total amount paid out to customers. In fact, if switching from opt-out to opt-in selling increased claims rates to the level of products sold on an opt-in basis, this would more than offset the reduction in claims resulting from customers no longer buying insurance add-ons.

Overall, this evidence suggests that the effect of the policy on claims paid to customers would be marginal, or potentially positive. As such, we have not altered our estimate of the benefits of the policy.

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#### Improvements in competition

- 3.5** Our analysis of the benefits of banning opt-out selling included an improvement in competition, as a result of increased price transparency. Respondents queried whether customers would shop around for lower priced add-ons, instead believing that customers would not find products cheaper elsewhere but would be left without the offered benefits.
- 3.6** Firms also suggested that prices would not decrease as a result of this policy. They felt that opt-in selling would likely lead to an increase in claims frequencies, and therefore increased claims pay-outs. Respondents suggested that prices will necessarily have to increase as a result of this.

### Our response

Opt-out selling means that customers see the price of a primary product upfront, but are actually presented with a bundled product at a higher price when they move to buying it. Customers therefore have more difficulty in assessing product value than they otherwise would. Whether or not individual add-ons are available more cheaply elsewhere, moving away from opt-out selling will make the prices of bundles more transparent and thereby enable better customer decision-making.

We agree that moving to opt-in selling is likely to increase claims frequencies for insurance add-ons. However, we have not seen any evidence that prices increased when firms moved from opt-out to opt-in selling. We believe the extent to which firms would be able to recover revenue reductions from their remaining customers is doubtful, especially in light of the increased competition and customer awareness of their add-ons.

### Costs

- 3.7** In our consultation paper we included an example of firms contacting customers at renewal, in order to notify them of any add-on products purchased before the implementation of this rule. Firms challenged the estimated costs of this policy on the basis that we had not included the cost of contacting customers at renewal.
- 3.8** One firm also commented that our estimate of one-off costs could potentially be too low – stating that systems changes sometimes cost in excess of £180,000. However, the respondent did not provide an alternative estimate and caveated this response by explaining that the costs would not need to be revisited if the policy was not applied retrospectively i.e. if customers did not have to actively elect add-ons they were previously defaulted into.

### Our response

For insurance products, firms already contact customers before their next renewal date. Therefore, we do not think that this policy will result in significant additional costs. Furthermore, we have not been prescriptive as to how customers are informed of the necessary information.

As set out in chapter 2, we are not requiring that customers previously sold add-ons on an opt-out basis actively elect to obtain the products at renewal. In light of this we have not made any revisions to the estimated costs set out in CP15/13.

## 4.

# Ensuring customers can make an informed decision – information provision

- 4.1 This chapter provides an overview of the feedback received on our proposed Handbook guidance for the provision of information to customers buying add-ons to general insurance products.
- 4.2 The Handbook guidance, together with the non-Handbook guidance discussed in Appendix 2, address the problems we found with the way customers are provided with information about add-ons during the sales journey, and their aim is to enable customers to make an informed decision when purchasing add-ons.
- 4.3 The Handbook guidance makes clear that firms must ensure that appropriate and timely information is provided – in a comprehensible form - for add-on products, as well as for stand-alone or primary products. This guidance comes into force on 1 April 2016.

### Background

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- 4.4 The market study found that the way in which information about add-ons is provided to customers can have a harmful impact and affect the way they make decisions. For example: insufficient information about each add-on; the timing of add-ons being introduced late in the sales journey; and, the way information is provided if it doesn't enable the customer to compare the 'packages' (i.e. primary product and add-ons) on offer, including the price.
- 4.5 We provide more detail about these problems in Appendix 2 – Finalised Guidance: General insurance add-on sales – appropriate and timely information.

### Proposed guidance

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- 4.6 ICOBS 6.1.5R requires that firms provide appropriate and timely information to customers so they can make an informed decision when buying general insurance products.

ICOBS 6.1.5R requires that 'A firm must 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.

- 4.7 We had some concerns that firms might be unclear that this rule applies irrespective of whether these are add-on or standalone products. We were also concerned that firms could do more, when selling add-ons, to provide appropriate and timely information in a way that would help customers to make an informed decision.

**4.8** Therefore, to address the problems we found with customers not being provided with information about individual add-ons, or the information provided being inadequate or provided at an inappropriate time, we proposed:

- Handbook guidance to clarify that our information provision rule – ICOBS 6.1.5R applies equally to add-ons as to standalone products.
- Non-Handbook guidance to suggest ways in which firms could address the add-on specific issues the market study highlighted.

**4.9** We received 18 responses relating to the guidance. Any issues or concerns relating to the Handbook guidance are reflected in paragraphs 4.10 – 4.11 below, together with our response. Most responses related to the non-Handbook guidance and are covered in Appendix 2.

#### **Handbook guidance – ICOBS 6.1.6AG**

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**4.10** Respondents were supportive of the FCA making it clear that the requirement to provide appropriate and timely information (ICOBS 6.1.5R) applies in the same way to any policy. This is regardless of whether that policy is sold on its own, in connection with another policy, or in connection with other goods or services.

**4.11** The only concerns raised were whether or not Handbook guidance is actually required – some respondent firms said they already do this.

#### **Our response:**

It is important to provide clarity for all regulated firms so that they understand our expectations in relation to ICOBS 6.1.5R and its application to add-ons. We will therefore proceed with the guidance as proposed.

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**4.12** This Handbook guidance is provided in Appendix 1 and is effective from 1 April 2016.

#### **Non-Handbook guidance – general insurance add-on sales: appropriate and timely information**

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**4.13** The Finalised Guidance and the consultation feedback, including our response are set out in Appendix 2 to this Policy Statement.

# Annex 1

## List of non-confidential respondents

Association of British Travel Agents

Andrew Yule Limited

ARAG

Association of British Insurers

AXA UK Group

BGL Group

BJP Oxford

British Insurance Brokers' Association

The Council of Mortgage Lenders

Financial and Legal Insurance Company

Financial Services Consumer Panel

Free Motor Legal Ltd

Gocompare.com Limited

theidol.com

Institute and Faculty of Actuaries

LV = Liverpool Victoria

Moneyexpert Ltd

Moneynotation Limited

National Franchised Dealers Association

Phill Crean

Qdos Broker & Underwriting Services Ltd

RSA Insurance Group

Saga

Virgin Money

# Appendix 1

## Made rules (legal instrument)

**CONDUCT OF BUSINESS (OPTIONAL ADDITIONAL PRODUCTS)  
INSTRUMENT 2015**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 137A (The FCA’s general rules);
    - (b) section 137R (Financial promotion rules);
    - (c) section 137T (General supplementary powers); and
    - (d) section 139A (Power of the FCA to give guidance); and
  - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 1 April 2016.

**Amendments to the FCA Handbook**

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below:

(1)	(2)
Conduct of Business sourcebook (COBS)	Annex A
Insurance: Conduct of Business sourcebook (ICOBS)	Annex B
Mortgages and Home Finance: Conduct of Business sourcebook (MCOB)	Annex C
Banking: Conduct of Business sourcebook (BCOBS)	Annex D
Consumer Credit sourcebook (CONC)	Annex E

**Citation**

- E. This instrument may be cited as the Conduct of Business (Optional Additional Products) Instrument 2015.

By order of the Board  
24 September 2015

## Annex A

### Amendments to the: Conduct of Business sourcebook (COBS)

In this annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

After COBS 2.4 insert the following new section. The text is not underlined.

#### 2.5 Optional additional products

Restriction on marketing or providing an optional product for which a fee is payable

- 2.5.1 R (1) A *firm* must not enter into an agreement with a *client* under which a charge is, or may become, payable for an optional additional product unless the *client* has actively elected to obtain that specific product.
- (2) A *firm* must not impose a charge on a *client* for an optional additional product under an agreement entered into on or after 1 April 2016 unless the *client* has actively elected to obtain that specific product before becoming bound to pay the charge.
- (3) A *firm* must not invite or induce a *client* to obtain an optional additional product for which a charge will be, or may become, payable if the *firm* knows or has reasonable cause to suspect that:
- (a) a contravention of (1) or (2) will take place with respect to the product; or
- (b) the *person* supplying the optional additional product will act in a way that would contravene (1) or (2) if that *person* were a *firm*.
- (4) An omission by a *client* is not to be regarded as an active election for the purposes of this *rule*.
- (5) It is immaterial for the purposes of (3) whether or not the *firm* would or might be a party to the agreement for the optional additional product.
- (6) A charge includes a financial consideration of any kind, whether payable to the *firm* or any other *person*.
- (7) An optional additional product is a good, service or right of any description, whether or not financial in nature, that a *client* may obtain (or not, as the case may be) at his or her election in connection with, or alongside, a *designated investment*.
- (8) If the *client* is required to obtain the additional product as a condition of the transaction related to the *designated investment*, then that product is an optional additional product if the *client* is given a choice:
- (a) as to the seller or supplier of that product; or

- (b) which specific product to obtain.
  - (9) It is immaterial for the purposes of (7) and (8) whether the optional additional product is obtained from the *firm* or another *person*.
  - (10) (a) If, under the terms and conditions of an optional additional product, there is to be an automatic renewal of the agreement on substantially the same terms, it suffices for the purposes of (1) to (3) if the *client* actively elected before entering into the initial agreement or a preceding renewal to obtain the product.
  - (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).
  - (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.
  - (11) A *client* may make an active election for the purposes of this rule through an intermediary in the sales process and through a *person* acting on behalf of the *firm*.
- 2.5.2 G An example of an omission by a *client* which is not to be regarded as an active election is the failure by the *client* to change a default option such as a pre-ticked box on a website.
- 2.5.3 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial service or product.
- 2.5.4 G *Firms* are reminded that they must ensure that their *appointed representatives* comply with this section COBS 2.5.

Amend the following as shown.

## TP 2 Other Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: coming into force
...			...		
2.-2	<i>COBS</i> , with the exception of <i>COBS</i> 15		...		
<u>2.-2A</u>	<u><i>COBS</i> 2.5.1R(1) to (3)</u>	<u>R</u>	<u>A firm need not comply with <i>COBS</i> 2.5.1R(1) to (3) in relation to an automatic renewal of an agreement for an optional additional product which was entered into on or before 31 March 2016 provided:</u>	<u>From 1 April 2016</u>	<u>On 1 April 2016</u>
			(1) <u>the automatic renewal of the agreement is on substantially the same terms. The phrase “on substantially the same terms” is to be interpreted in the same way as in <i>COBS</i> 2.5.1 (1) (b) and (c) ;</u>		
			(2) <u>on the occasion of the first automatic renewal on or after 1 April 2016, the firm takes reasonable steps to ensure that the client is informed:</u>		
			(a) <u>that the renewal of the agreement is optional;</u>		
			(b) <u>that the client may elect not to</u>		

					<u>renew the agreement; and</u>		
				(c)	<u>of the effect of the non-renewal of the agreement, if any, on the designated investment; and</u>		
			(3)		<u>the procedure to be used by <i>clients</i> for electing not to renew the agreement pays due regard to the interests of <i>clients</i> and treats them fairly.</u>		

## Annex B

### Amendments to the Insurance: Conduct of Business sourcebook (ICOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

#### 6.1 General

...

6.1.6A G The appropriate information *rule* applies in the same way to any *policy*, regardless of whether that *policy* is sold on its own, in connection with another *policy*, or in connection with other goods or services.

...

After ICOBS 6A.1 insert the following new section. The text is not underlined.

#### 6A.2 Optional additional products

Restriction on marketing or providing an optional product for which a fee is payable

- 6A.2.1 R (1) A *firm* must not enter into an agreement with a *customer* under which a charge is, or may become, payable for an optional additional product unless the *customer* has actively elected to obtain that specific product.
- (2) A *firm* must not impose a charge on a *customer* for an optional additional product under an agreement entered into on or after 1 April 2016 unless the *customer* has actively elected to obtain that specific product before becoming bound to pay the charge.
- (3) A *firm* must not invite or induce a *customer* to obtain an optional additional product for which a charge will be, or may become, payable if the *firm* knows or has reasonable cause to suspect that:
- (a) a contravention of (1) or (2) will take place with respect to the product; or
  - (b) the *person* supplying the optional additional product will act in a way that would contravene (1) or (2) if that *person* were a *firm*.
- (4) An omission by a *customer* is not to be regarded as an active election for the purpose of this *rule*.
- (5) It is immaterial for the purposes of (3) whether or not the *firm* would or might be a party to the agreement for the optional additional product.

- (6) A charge includes a financial consideration of any kind whether payable to the *firm* or any other *person*.
- (7) An optional additional product is 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 his or her election in connection with or alongside a *non-investment insurance contract*.
- (8) If the *customer* is required to obtain an additional product as a condition for the purchase of the *non-investment insurance contract* then that product is an optional additional product if the *customer* is given a choice:
- (a) as to the seller or supplier from whom to obtain the product; or
  - (b) which specific product to obtain.
- (9) It is immaterial for the purposes of (7) and (8) whether the optional additional product is obtained from the *firm* or another *person*.
- (10) (a) If, under the terms and conditions of an optional additional product, there is to be an automatic renewal of the agreement on substantially the same terms, it suffices for the purposes of (1) to (3) if the *customer* actively elected before entering into the initial agreement or a preceding renewal to obtain the product.
- (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).
- (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.
- (11) A *customer* may make an active election for the purposes of this rule through an intermediary in the sales process or through a *person* acting on behalf of the *firm*.
- 6A.2.2 G An example of an omission by a *customer* which is not to be regarded as an active election is the failure by the *customer* to change a default option such as a pre-ticked box on a website.
- 6A.2.3 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial service or product.
- 6A.2.4 G *Firms* are reminded that they must ensure that their *appointed representatives*

comply with this section *ICOB*S 6A.2.

Amend the following as shown.

## TP 2 Other Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
3	<u>ICOB</u> S 6A.2.1R(1) to (3)	R	<u>A firm need not comply with ICOB</u> S 6A.2.1R(1) to (3) in relation to an automatic renewal of an agreement for an optional additional product which was entered into on or before 31 March 2016 provided:	From 1 April 2016	On 1 April 2016
			(1) <u>the automatic renewal of the agreement is on substantially the same terms. The phrase “on substantially the same terms” is to be interpreted in the same way as in ICOB</u> S 6A.2.1R (10)(b) and (c).;		
			(2) <u>on the occasion of the first automatic renewal on or after 1 April 2016, the firm takes reasonable steps to ensure that the customer is informed:</u>		
			(a) <u>that the renewal of the agreement is optional;</u>		
			(b) <u>that the customer may</u>		

					<u>elect not to renew the agreement; and</u>		
				(c)	<u>of the effect of the non-renewal of the agreement, if any, on the <i>non-investment insurance contract</i>; and</u>		
				(3)	<u>the procedure to be used by <i>customers</i> for electing not to renew the agreement pays due regard to the interests of <i>customers</i> and treats them fairly.</u>		

## Annex C

**Amendments to the Mortgages and Home Finance: Conduct of Business sourcebook  
(MCOB)**

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

## 2.1.2 R ...

...	...
<i>home purchase provider</i>	... <del>MCOB 2.7A</del> <u>and</u> <del>MCOB 2.8.6G</del> <u>and</u> <u>MCOB 2.9</u>
...	
<i>SRB administrator</i>	... <del>MCOB 2.8.1G to MCOB 2.8.5G</del> <u>and</u> <u>MCOB 2.9</u>
...	
<i>a firm that communicates or approves a financial promotion of qualifying credit or of a home reversion plan</i>	... <del>MCOB 2.7A</del> <u>and</u> <del>MCOB 2.8 (except MCOB 2.8.6G)</del> <u>and</u> <u>MCOB 2.9</u>
<i>a firm that communicates or approves a financial promotion of a home purchase plan</i>	... <del>MCOB 2.7A</del> <u>and</u> <del>MCOB 2.8.6G</del> <u>and</u> <u>MCOB 2.9</u>

...

After MCOB 2.8 insert the following new section. The text is not underlined.

**2.9 Restriction on marketing or providing an optional product for which a fee is payable**

- 2.9.1 R (1) A *firm* must not enter into an agreement with a *customer* under which a charge is, or may become, payable for an optional additional product unless the *customer* has actively elected to obtain that specific product.
- (2) A *firm* must not impose a charge on a *customer* for an optional additional product under an agreement entered into on or after 1 April 2016 unless the *customer* actively elected to obtain that specific product before becoming bound to pay the charge.
- (3) A *firm* must not invite or induce a *customer* to obtain an optional additional product for which a charge will be, or may become, payable if the *firm* knows or has reasonable cause to suspect that:

- (a) a contravention of (1) or (2) will take place with respect to the product; or
  - (b) the *person* supplying the optional additional product will act in a way that would contravene (1) or (2) if that *person* were a *firm*.
- (4) An omission by a *customer* is not to be regarded as an active election for the purposes of this *rule*.
- (5) It is immaterial for the purposes of (3) whether or not the *firm* would or might be a party to the agreement for the optional additional product.
- (6) A charge includes a financial consideration of any kind whether payable to the *firm* or to any other person.
- (7) An optional additional product is 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 his or her election in connection with or alongside entering into a *home finance transaction*.
- (8) (a) Where a *customer* is required to obtain a specific additional product in order to enter into the *home finance transaction*, the product is not an optional additional product.
- (b) Where a *customer* is required to obtain a particular category of additional product (for example, a particular type of insurance) in order to enter into the *home finance transaction*, and the *customer* is given a choice as to the seller or supplier from whom to obtain the product or which specific product to obtain, the product is an optional additional product.
- (9) It is immaterial for the purposes of (7) and (8) whether the optional additional product is obtained from the *firm* or from another *person*.
- (10) (a) If, under the terms and conditions of an optional additional product, there is to be an automatic renewal of the agreement on substantially the same terms, it suffices for the purposes of (1) to (3) if the *customer* actively elected before entering into the initial agreement or a preceding renewal to obtain the product.
- (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).
- (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.

- (11) A *customer* may make an active election for the purposes of this *rule* through an intermediary in the sales process or through a *person* acting on behalf of the *firm*.
- 2.9.2 G An example of an omission by a *customer* which is not to be regarded as an active election is the failure by the *customer* to change a default option such as a pre-ticked box on a website.
- 2.9.3 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial service or product.
- 2.9.4 G *Firms* are reminded of the guidance on appointed representatives set out in *MCOB 1.5G*.

Amend the following as shown.

#### TP 1 MCD Transitional Provisions

...

After MCOB TP 3 insert the following new section. The text is not underlined.

#### TP 4 Other Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: coming into force
1	<i>MCOB 2.9.1R(1) to (3)</i>	R	A <i>firm</i> need not comply with <i>MCOB 2.9.1R(1) to (3)</i> in relation to an automatic renewal of an agreement for an optional additional product which was entered into on or before 31 March 2016 provided:	From 1 April 2016	On 1 April 2016
			(1) the automatic renewal of the agreement is on substantially the same terms. The phrase “on substantially the same terms” is to be interpreted in the same		

				way as in <i>MCOB</i> 2.9.1R(10)(b) and (c);		
			(2)	on the occasion of the first automatic renewal on or after 1 April 2016, the <i>firm</i> takes reasonable steps to ensure that the <i>customer</i> is informed:		
			(a)	that the renewal of the agreement is optional;		
			(b)	that the <i>customer</i> may elect not to renew the agreement; and		
			(c)	of the effect of the non-renewal of the agreement, if any, on the <i>home finance transaction</i> ; and		
			(3)	the procedure to be used by <i>customers</i> for electing not to renew the agreement pays due regard to the interests of <i>customers</i> and treats them fairly.		

## Annex D

### Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text, unless otherwise stated.

1.1.4 R (1) Chapters 2, 2A, 5 and 6 of *BCOBS*...

...

After BCOBS 2 insert the following new chapter. The text is not underlined.

#### 2A Optional additional products

##### 2A.1 Restriction on marketing or providing an optional product for which a fee is payable

- 2A.1.1 R (1) A *firm* must not enter into an agreement with a *banking customer* under which a charge is, or may become, payable for an optional additional product unless the *banking customer* has actively elected to obtain that specific product.
- (2) A *firm* must not impose a charge on a *banking customer* for an optional additional product under an agreement entered into on or after 1 April 2016 unless the *banking customer* actively elected to obtain that specific product before becoming bound to pay the charge.
- (3) A *firm* must not invite or induce a *banking customer* to obtain an optional additional product for which a charge will be, or may become, payable if the *firm* knows or has reasonable cause to suspect that:
- (a) a contravention of (1) or (2) will take place with respect to the product; or
  - (b) the *person* supplying the optional additional product will act in a way that would contravene (1) or (2) if that *person* were a *firm*.
- (4) An omission by a *customer* is not to be regarded as an active election for the purposes of this *rule*.
- (5) It is immaterial for the purposes of (3) whether or not the *firm* would or might be a party to the agreement for the optional additional product.

- (6) A charge includes a financial consideration of any kind whether payable to the *firm* or any other *person*.
- (7) An optional additional product is a good, service or right of any description (whether or not financial in nature) that a *banking customer* may obtain (or not, as the case may be) at his or her election in connection with or alongside a *retail banking service*.
- (8) (a) Where a *banking customer* is required to obtain a specific additional product in order to receive the *retail banking service*, the product is not an optional additional product.
- (b) Where a *banking customer* is required to obtain a particular category of additional product (for example, a particular type of insurance) in order to receive the *retail banking service*, and the *banking customer* is given a choice as to the seller or supplier from whom to obtain the product or which specific product to obtain, the product is an optional additional product.
- (9) It is immaterial for the purposes of (7) and (8) whether the optional additional product is obtained from the *firm* or from another *person*.
- (10) A *borrower-lender agreement* enabling a *borrower* to overdraw on a current account, or arising where the holder of a current account overdraws on the account without a pre-arranged overdraft or exceeds a pre-arranged overdraft limit, is not an optional additional product.
- (11) (a) If, under the terms and conditions of an optional additional product, there is to be an automatic renewal of the agreement on substantially the same terms, it suffices for the purposes of (1) to (3) if the *banking customer* actively elected before entering into the initial agreement or a preceding renewal to obtain the product.
- (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).
- (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.
- (12) A *banking customer* may make an active election for the purposes of this *rule* through an intermediary in the sales process, or

through a *person* acting on behalf of the *firm*.

- 2A.2.1 G An example of an omission by a *banking customer* which is not to be regarded as an active election is the failure by the *banking customer* to change a default option such as a pre-ticked box on a website.
- 2A.2.2 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial service or product.

Amend the following as shown.

### TP 1 Transitional Provision

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions: coming into force
...					
1A	<u>BCOBS 2A.1.1R(1) to (3)</u>	R	<u>A firm need not comply with BCOBS 2A.1.1R(1) to (3) in relation to an automatic renewal of an agreement for an optional additional product which was entered into on or before 31 March 2016 provided:</u>	<u>From 1 April 2016</u>	<u>On 1 April 2016</u>
			(1) <u>the automatic renewal of the agreement is on substantially the same terms. The phrase “on substantially the same terms” is to be interpreted in the same way as in BCOBS 2A.1.1R(11)(b) and (c);</u>		
			(2) <u>on the occasion of the first automatic renewal on or after 1 April 2016, the firm takes reasonable steps to</u>		

				ensure that the <i>banking customer</i> is informed:		
				(a) <u>that the renewal of the agreement is optional;</u>		
				(b) <u>that the <i>banking customer</i> may elect not to renew the agreement; and</u>		
				(c) <u>of the effect of the non-renewal of the agreement, if any, on the <i>retail banking service</i>; and</u>		
			(3)	<u>the procedure to be used by <i>banking customers</i> for electing not to renew the agreement pays due regard to the interests of those <i>banking customers</i> and treats them fairly.</u>		

## Annex E

## Amendments to the Consumer Credit sourcebook (CONC)

In this Annex, underlining indicates new text, unless otherwise stated.

Restriction on marketing or providing an optional product for which a fee is payable

- 2.2.6 R (1) A firm must not enter into an agreement with a customer under which a charge is, or may become, payable for an optional additional product unless the customer has actively elected to obtain that specific product.
- (2) A firm must not impose a charge on a customer for an optional additional product under an agreement entered into on or after 1 April 2016 unless the customer actively elected to obtain that specific product before becoming bound to pay the charge.
- (3) A firm must not invite or induce a customer to obtain an optional additional product for which a charge will be, or may become, payable if the firm knows or has reasonable cause to suspect that:
- (a) a contravention of (1) or (2) will take place with respect to the product; or
- (b) the person supplying the optional additional product will act in a way that would contravene (1) or (2) if that person were a firm.
- (4) An omission by a customer is not to be regarded as an active election for the purposes of this rule.
- (5) It is immaterial for the purposes of (3) whether or not the firm would or might be a party to the agreement for the optional additional product.
- (6) A charge includes a financial consideration of any kind whether payable to the firm or any other person.
- (7) An optional additional product is 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 his or her election in connection with or alongside a service the provision of which constitutes the carrying on of a credit-related regulated activity.
- (8) (a) Where a customer is required to obtain a specific additional product, in order to receive the service the provision of which constitutes the carrying on of the credit-related regulated activity, the product is not an optional additional product.

- (b) Where a *customer* is required to obtain a particular category of additional product (for example, a particular type of insurance), in order to receive the service the provision of which constitutes the carrying on of the *credit-related regulated activity*, and the *customer* is given a choice as to the seller or supplier from whom to obtain the product or which specific product to obtain, the product is an optional additional product.
- (9) It is immaterial for the purposes of (7) and (8) whether the optional additional product is obtained from the *firm* or another *person*.
- (10) A *borrower-lender agreement* enabling a *borrower* to overdraw on a current account, or arising where the holder of a current account overdraws on the account without a pre-arranged overdraft or exceeds a pre-arranged overdraft limit, is not an optional additional product.
- (11) (a) If, under the terms and conditions of an optional additional product, there is to be an automatic renewal of the agreement on substantially the same terms, it suffices for the purposes of (1) to (3) if the *customer* actively elected before entering into the initial agreement or a preceding renewal to obtain the product.
- (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).
- (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.
- (12) A *customer* may make an active election for the purposes of this rule through an intermediary in the sales process or through a *person* acting on behalf of the *firm*.
- 2.2.7 G An example of an omission by a *customer* which is not to be regarded as an active election is the failure by the *customer* to change a default option such as a pre-ticked box on a website.
- 2.2.8 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial service or product.
- 2.2.9 G *Firms* are reminded of the guidance on appointed representatives set out in *CONC 1.2.3G*.

...

After CONC TP 6 insert the following new section. The text is not underlined.

### TP 7 Other transitional provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision		(5) Transitional provision: dates in force	(6) Handbook provisions: coming into force
1	CONC 2.2.6R(1) to (3)	R	A <i>firm</i> need not comply with CONC 2.2.6R(1) to (3) in relation to an automatic renewal of an agreement for an optional additional product which was entered into on or before 31 March 2016 provided:		From 1 April 2016	On 1 April 2016
			(1)	the automatic renewal of the agreement is on substantially the same terms. The phrase “on substantially the same terms” is to be interpreted in the same way as in CONC 2.2.6R(11)(b) and (c)		
			(2)	on the occasion of the first automatic renewal on or after 1 April 2016, the <i>firm</i> takes reasonable steps to ensure that the <i>customer</i> is informed:		
			(a)	that the renewal of the agreement is optional;		
			(b)	that the <i>customer</i> may elect not to renew the agreement; and		
			(c)	of the effect of		

				the non-renewal of the agreement, if any, on the service the provision of which constitutes the carrying on of a <i>credit-related regulated activity</i> ; and		
			(3)	the procedure to be used by <i>customers</i> for electing not to renew the agreement pays due regard to the interests of <i>customers</i> and treats them fairly.		

## **Appendix 2**

# **Finalised Guidance: General insurance add-on sales – appropriate and timely information**



## Finalised guidance

# GENERAL INSURANCE ADD-ON SALES

## APPROPRIATE AND TIMELY INFORMATION

September 2015

# 1 Background

### **General insurance add-on market study**

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- 1.1 This guidance follows the FCA's General Insurance (GI) Add-on Market Study (the market study)<sup>1</sup> that looked at whether competition in markets for add-ons was effective or not, and whether this had an impact on consumer outcomes. We confirmed the findings of our market study in July 2014.
- 1.2 We found that competition for add-ons is not effective:
  - Selling products as an add-on has an adverse impact on consumer behaviours and decision-making.
  - The add-on channel provides the primary product provider with a clear point of sale advantage that can restrict choice and competition for consumers.
- 1.3 Due to these weaknesses in the sale of add-ons, we found that consumers are more likely to buy inappropriate or unsuitable products, or receive poor value for money. This translates into overpayment, which we estimated as at least £108m a year for four of the products in the market study.

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<sup>1</sup> <http://www.fca.org.uk/news/general-insurance-add-ons-market-study>

## Detailed findings of the market study – information

1.4 The market study found that the way in which information about add-ons is provided to customers can have a harmful impact and affect the way they make decisions. For example:

- Insufficient information about the cover and/or price affects the customer's ability to assess the options and to choose the right product for their needs.
- When add-ons are introduced very late in the sales journey this has a profound effect on consumer decision-making. The behavioural experiment we carried out as part of the market study showed that the later the add-on was introduced in the process, the less likely the customer was to search for alternative offers, and the more likely they were to buy the first add-on they viewed. In the experiment, 65% of consumers bought the first insurance at the point of sale, whereas only 16% purchased the first product offered if the add-on was introduced early on.<sup>2</sup>
- Information is not provided in a way that enables the customer to compare packages i.e. the primary product and any add-ons. In the behavioural experiment we found that when add-on prices were not revealed until the point of sale consumers failed to choose the best option 24% of the time<sup>3</sup> – this was despite them being provided with a comparatively simple choice.
- The way the price is 'framed' e.g. only monthly prices displayed, can result in consumers not understanding the 'real' price of the add-ons, or the overall package. 30% of consumers (in the behavioural experiment) changed their mind about purchasing once they saw the total annual cost.

1.5 Similar issues in relation to the provision of appropriate information were found in two further studies: our thematic review on price comparison websites<sup>4</sup> (PCWs) and the Competition and Markets Authority's (CMA) private motor insurance (PMI) market investigation.<sup>5</sup>

- Our thematic review found that PCWs did not present sufficient product information in a clear and consistent way. This applied to both the core policy and add-on products.
- The CMA investigation found information asymmetries between PMI providers and consumers, and that consumers faced difficulties in comparing the price and terms of their chosen add-ons across different providers.

1.6 These findings support our view that firms need to do more to ensure that customers are provided with the right information at the right time.

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<sup>2</sup> General insurance add-ons: *Experimental consumer research report*: [www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report](http://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report), page 25.

<sup>3</sup> General insurance add-ons: *Provisional findings of market study and proposed remedies*: <http://www.fca.org.uk/static/documents/market-studies/ms14-01.pdf>

<sup>4</sup> Price comparison websites in the general insurance sector: <http://www.fca.org.uk/news/tr14-11-price-comparison-websites-in-the-general-insurance-sector>

<sup>5</sup> Private motor insurance market investigation, final report: [https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final\\_report.pdf](https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf)

## 2 Information provision remedy

### Proposed guidance

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- 2.1. The market study proposed a number of remedies designed to improve customer decision-making in relation to add-ons, one of which was guidance to help firms provide appropriate information in a timely manner to enable customers to make an informed decision.
- 2.2. In CP15/13 we consulted on proposed guidance which included:
- Introducing add-ons to customers earlier in the sales process, in particular the most common add-ons.
  - Demonstrating good practice in helping customers compare packages of primary product<sup>6</sup> and add-ons<sup>7</sup>, and to make comparisons of packages easier, with a clear price for the whole package given.
  - Displaying the annual price of add-ons (as well as monthly) to ensure the customer can adequately understand the overall price of the add-ons.
  - Reminding firms of their duties in relation to add-ons – they are insurance contracts in their own right, and as such are subject to ICOBS requirements to provide salient information on the features, benefits, exclusions, terms and price.
- 2.3. In designing this guidance we took several matters in account:
- Add-on insurance is not always poor value – it can be an easy and convenient way for customers to buy products, and we recognise that customers may value this.
  - We believe that it is important that customers have access to the right information at the right time, and the way decisions are presented can have a particularly significant impact on customers' decisions. But we also know that simply providing more information is not the answer.
  - Technological change can frequently bring new challenges and opportunities for how information is provided to customers. We are keen to encourage any innovative practices that benefit customers and do not want to constrain innovation by being overly prescriptive.
- 2.4. The guidance suggests ways in which firms can address the add-on specific issues the market study highlighted, as already described in this chapter. It clarifies our expectations around when add-ons could be introduced – earlier in the sale journey; how

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<sup>6</sup> By primary product we mean the goods or service the customer originally set out to purchase.

<sup>7</sup> This does not relate to unbreakable bundles, such as packaged bank accounts, which have their own rules in ICOBS 6.1.12R.

it could be made easier for customers to compare packages of primary products and add-ons, and how price could be displayed for add-ons to aid customers' decision-making.

- 2.5. The intention is for the guidance to apply broadly to general insurance add-on sales, although the focus in the guidance is on PCWs, because this was an area of particular focus in the market study due to the volume of add-on sales they facilitate. We believe that the principles of good practice described in the guidance will be relevant to other sales channels too.
- 2.6. By improving the way information is provided and add-ons are presented to customers we expect that customers will be better informed when choosing their provider and products, leading to increased shopping around and improved customer decisions. This, along with the increased price transparency, should also lead to increased competition and therefore better outcomes for customers. We have applied the guidance to all customers i.e. not just retail customers because non-retail customers face many of the same challenges when making informed decisions if they are not offered appropriate and timely information.

#### **ICOBS 6.1.5R – appropriate and timely information**

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- 2.7. The guidance was proposed under our existing ICOBS rule (ICOBS 6.1.5R). This requires that firms provide appropriate and timely information to customers so they can make an informed decision when buying general insurance products.

##### **ICOBS 6.1.5R**

A firm must 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.

- 2.8. This rule applies irrespective of whether this is an add-on or standalone product. To avoid doubt we proposed Handbook guidance to make this clear. We are confirming ICOBS 6.1.6AG in the Policy Statement - published at the same time as this Finalised non-Handbook Guidance.

##### **ICOBS 6.1.6AG**

The appropriate information rule applies in the same way to any policy, regardless of whether that policy is sold on its own, in connection with another policy, or in connection with other goods or services.

## Consultation feedback and our response

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- 2.9. We received 18 responses to the consultation on the proposed non-Handbook guidance, from firms and trade bodies. Respondents were supportive of the importance of improving information provision to help customers make informed decisions. However, respondents raised some concerns about the detail of the guidance, including questions about process; implementation timings and scope; areas not covered by the guidance; and, the potential unintended consequence if promoting the most common add-ons stifles competition and innovation. Some respondents also noted that PCWs will need clearer information from insurers to enable them to implement these information provision improvements.
- 2.10. The feedback and our response are detailed in Annex 1: Summary of feedback received. In response to the feedback, we have made one amendment to clarify that the principles of this guidance do apply to 'optional extras' e.g. accidental damage on contents or buildings insurance.
- 2.11. There were no issues raised that lead us to believe that we shouldn't proceed with the guidance. The Finalised Guidance is provided in Chapter 3 and has immediate effect.
- 2.12. We expect firms to already be actively working towards delivering appropriate and timely information in add-on sales, but we realise that firms will need time to implement new processes, particularly where changes to technology are required. Therefore, in our supervisory work, we will take into account what progress firms have made towards meeting the aims of this guidance. We would expect firms to have made the necessary changes to their sales journey by 30 September 2016.
- 2.13. We would remind firms that:
- The FCA has stated publicly that it will not take action against a person for behaviour that it considers to be in line with FCA guidance, supporting material or FCA-confirmed industry guidance which were current at the time of the behaviour in question<sup>8</sup>.
  - FCA guidance and supporting material are potentially relevant to an enforcement case, for example to help assess whether it could reasonably have been understood or predicted at the time that the conduct in question fell below the standards required by the Principles or rules. The extent to which we may take guidance and supporting material into account when considering a matter will depend on all the circumstances of the case<sup>9</sup>.

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<sup>8</sup> DEPP 6.2.1G (4): <https://www.handbook.fca.org.uk/handbook/DEPP/6/2.html> and the Reader's Guide to the Handbook p.24: <http://www.fca.org.uk/your-fca/documents/handbook/handbook-readers-guide>

<sup>9</sup> EG 2.22 – 2.27: [https://www.handbook.fca.org.uk/handbook/document/EG\\_Full\\_20141212.pdf](https://www.handbook.fca.org.uk/handbook/document/EG_Full_20141212.pdf) and the Reader's Guide to the Handbook p.24: <http://www.fca.org.uk/your-fca/documents/handbook/handbook-readers-guide>

## Market failure analysis and cost benefit analysis

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- 2.14. A cost benefit analysis (CBA) is not required for guidance, but to help stakeholders understand our thinking we did include an analysis of costs and benefits of the guidance in our consultation paper (CP15/13).

### CP feedback

- 2.15. One respondent was concerned whether the potential costs, estimated at £0.5m to £2.5m per firm, incorporated the cost of changes to PCWs and software houses, and also that these might be passed on to providers.

### Our response

- 2.16. As we said in the consultation paper, our assessment of costs was informed through the industry working group. This included a range of firms from across the general insurance section – including PCWs and providers. The broad range of £0.5m to £2.5m demonstrates that this was only an indicative sum – as firms are free to choose whether, or how, to adopt this guidance. We therefore do not propose to revisit or refine the CBA in this case.

## 3 Guidance on general insurance add-on sales: appropriate and timely information

- 3.1. This guidance is for firms that operate price comparison websites (PCWs) for general insurance products and other participants in the distribution chain. As noted below in paragraph 3.6, it applies more broadly to all general insurance add-on sales. It helps firms to understand our expectations in relation to information provision about product add-ons, where at present we are concerned that too often the information is provided too late in the process to help customers make meaningful decisions.

### **Background**

- 3.2. Appropriate information is important to inform customers' decisions when selecting and purchasing general insurance products. Our rules<sup>10</sup> require that firms must take reasonable steps to provide appropriate information in good time to allow customers to make an informed decision.
- 3.3. We would like to remind firms that, where add-on products are contracts of insurance in their own right, all relevant sections of the Insurance Conduct of Business (ICOBS) sourcebook apply. This includes the rule ICOBS 6.1.5R, which we set out below for the avoidance of doubt:

*A firm must 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.*<sup>11</sup>

- 3.4. We recognise that it is important to strike the balance between giving too much information and the customer being overwhelmed, or not providing enough for the customer to make an informed decision.
- 3.5. Work by the FCA and Competition and Markets Authority suggests that information provided for add-on sales is often not appropriate or timely.<sup>12</sup> Firms have addressed

<sup>10</sup> ICOBS 6.1.5R

<sup>11</sup> <https://www.handbook.fca.org.uk/handbook/ICOBS/6/4.html>. [We are consulting on adding clarity to ICOBS on this point: 6.1.6AG: The appropriate information rule applies to each policy in a transaction, whether it is a general insurance optional add-on or a policy forming a compulsory part of a bundle, in the same way as it applies to any other policy.](#)

<sup>12</sup> General Insurance Add-ons: Final report – confirmed findings of the market study: [www.fca.org.uk/your-fca/documents/market-studies/ms14-01-final-report](http://www.fca.org.uk/your-fca/documents/market-studies/ms14-01-final-report), Price comparison websites in the general insurance sector: [www.fca.org.uk/news/tr14-11-price-comparison-websites-in-the-general-insurance-sector](http://www.fca.org.uk/news/tr14-11-price-comparison-websites-in-the-general-insurance-sector) Private motor insurance market investigation, final report: [https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final\\_report.pdf](https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf)

some specific problems we found in both the price comparison websites in the general insurance sector thematic review and the market study on general insurance add-ons.<sup>13</sup> However, we believe that there is more firms could do to better meet our regulatory requirements when selling add-ons. The purpose of this guidance is to clarify our expectations around when add-ons could be introduced in the sales journey to best support informed decision-making, how it could be made easier for customers to compare packages of primary product and add-ons, and what price could be displayed for add-ons.

### ***Who does this guidance apply to?***

- 3.6. Although the provisional remedy proposals in our market study indicated that changes could be made to price comparison websites (PCWs), we believe that the best practice identified below should be considered by all participants in the distribution chain, and also apply irrespective of the form in which the customer engages with the distribution chain – be that online, over the phone, or in person.
- 3.7. When a firm sells a primary insurance product, such as buildings or contents insurance, and offers 'optional extras' (for example, accidental damage cover), the principles of appropriate and timely information apply. Presenting optional cover elements at the end of a quotation does not give the customer the opportunity to consider them in the context of the whole offering. Firms should therefore consider how they introduce 'optional extras' in light of this guidance and consider introducing them early on in the sales journey to help the customer to consider the overall package.

### ***Timing of the discussion of add-ons in the sales process***

- 3.8. The market study found that add-ons, or information about add-ons, were often introduced late in the sales process. This impacts the ability of customers to make informed decisions - a customer's focus on add-ons declines rapidly through the sales process, leading to very different purchase outcomes as they become focused on completing the transaction. For example, the behavioural experiment which accompanied the market study showed that when add-ons were introduced at the point of sale, 70% of people failed to view any other insurance offers, and 65% 'purchased' an add-on if it was introduced at point of sale, compared to just 16% when the add-on was introduced at the beginning of the process.<sup>14</sup> By point of sale, we mean when the customer selects 'buy' or 'buy now', and moves from browsing or obtaining a quotation to transacting a purchase.
- 3.9. We would like firms to consider bringing forward the introduction of add-ons. It is likely to be too late to discuss the most common add-ons for the first time after the customer has selected the primary product they want to purchase, and moved into transacting.

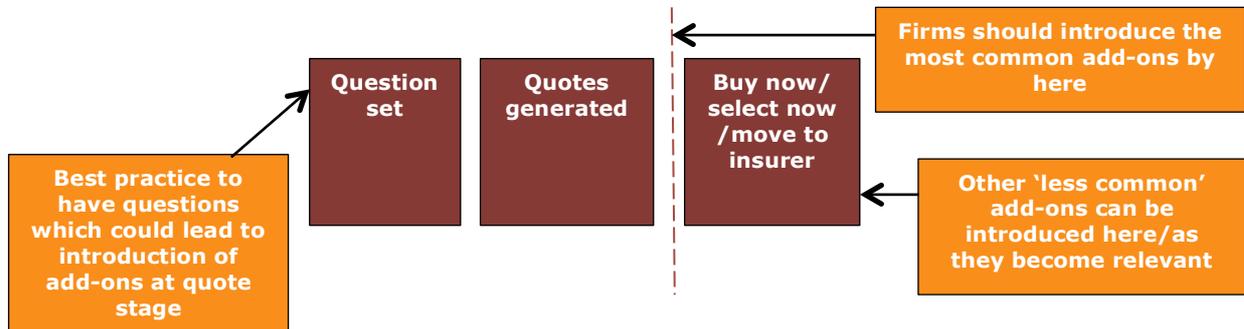
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<sup>13</sup> FCA, General insurance add-ons: provisional findings of the market study and proposed remedies [www.fca.org.uk/static/documents/market-studies/ms14-01.pdf](http://www.fca.org.uk/static/documents/market-studies/ms14-01.pdf)

<sup>14</sup> General insurance add-ons: Experimental consumer research report: [www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report](http://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report), page 25.

- 3.10. The 'most common' add-ons are the (at least) three add-ons which are purchased most frequently by the firm's customers. Firms should be able to identify which add-ons these are, and to monitor whether these change.<sup>15</sup>
- 3.11. The most common add-ons should be introduced as part of the initial question set so the customer considers them fully through their purchasing journey. If they are not introduced as part of the question set, they could be introduced at the latest on the first results page or when the customer receives a first quote.
- 3.12. By taking this approach with the most common add-ons only, firms will avoid overloading customers with too much information too early in the journey.<sup>16</sup>

**Figure 1. Visual representation of the point in the sales journey by which the most common add-ons should have been introduced**



- 3.13. Introducing add-ons earlier in the process enables customers to better engage in active decision-making when encountering add-ons. This could mean that customers are more likely to be receptive to information about the add-ons and, therefore, to make a more informed decision.

### **Price comparison websites (PCWs) acting as intermediaries**

- 3.14. We suggest some good practice to aid PCWs acting as intermediaries in identifying activities they should undertake.
- PCWs should be clear what the most common add-ons are for their customers.
  - They should have a process to identify the most common add-ons, and to monitor whether these change.
  - PCWs should gather enough information from insurers/brokers to provide customers with enough information to make an informed decision (as is required by ICOBS 6.1.5R).
  - PCWs may need to change the current point they introduce add-ons, and/ or their question set, and/ or their results page and;

<sup>15</sup> We are not suggesting that all add-ons could be discussed at one time as we believe this would be disproportionate, may result in homogeneity and lead to a reduction in innovation. We will, however, monitor developments and, if we consider that firms are circumventing the spirit of our guidance, we will review our position.

<sup>16</sup> This point specifically addresses one of the CMA's recommendations to the FCA, that we consider whether all add-ons, or just the most common add-ons, should be presented to customers.

- If relevant, PCWs should make it clear that further add-ons may be offered once the customer has moved to the purchase point.

### ***Insurers and intermediaries***

3.15. *We suggest some good practice to aid insurers and intermediaries in identifying activities they could undertake.*

- Insurers should provide the right information to PCWs to enable the PCW to meet ICOBS 6.1.5R.
- If the insurer is selling directly, then they should be clear what are the most common add-ons for their customers.
- They should have a process to identify the most common add-ons, and to monitor whether these change.
- They should provide customers with enough information to make an informed decision (as is required by ICOBS 6.1.5R).
- Insurers may need to change the current point they introduce add-ons, and/ or their question set, and/ or their results page, and;
- If relevant, insurers should make it clear that further add-ons may be offered once the customer has moved to the purchase point.

### ***Allowing customers to compare packages of a primary product and selected add-ons***

3.16. At present, most firms do not make it easy for customers to sort or compare based on a package of a primary product and selected add-ons. As such, customers find it hard to judge the value (total premium) of the complete package. Customers may select the cheapest primary product, but not the cheapest package of primary product and add-ons.

3.17. The behavioural experiment associated with the market study indicated that half of the mistakes were driven by selecting the cheapest primary product rather than reducing the cost of the bundle overall. By comparison, just 4% of participants did not choose the cheapest option when they were shopping around just for insurance (i.e. comparing a single price).<sup>17</sup>

3.18. We consider that, wherever a comparison between packages of products could be made, firms should allow customers to develop a package of a primary product and selected add-ons, and to deliver a combined price for them. This will enable comparison to take place.<sup>18</sup> The individual contracts will need to be priced, but clear

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<sup>17</sup> General insurance add-ons: Experimental consumer research report: [www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report](http://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report)

<sup>18</sup> This addresses two of the CMA's recommendations, namely that customers can compare across packages of products, and that prices are given.

display of the package price could help provide the customer with more appropriate information.

- 3.19. If the customer is using a PCW, ideally, the details of the chosen package would pass from the comparison site to the insurer site when the customer moves to the point of sale. We understand the technological complexities associated with this, but remain of the view that the industry should aspire to it.

**Figure 2. Illustrative example of packaged price**



### **Price comparison websites acting as intermediaries**

- 3.20. We suggest some good practice to aid PCWs acting as intermediaries in identifying activities they could undertake:
- PCWs should allow customers to develop a package of a primary product and selected add-ons and present them in a clear manner as one package, with one combined price.
  - PCWs should still show the price of individual elements that may be unbundled. and;
  - They should get the right data from insurers to be able to produce this price.

### **Insurers and intermediaries**

- 3.21. We suggest some good practice to aid insurers and intermediaries in identifying activities they could undertake:
- Insurers should be able to provide data to PCWs in a timely manner to enable a package of a primary product and selected add-ons to be built.
  - They should give consideration to how information regarding monthly premiums can be delivered to PCWs. and;
  - If operating in the direct-to-customer space, insurers could have the capability to build a package of a product and selected add-ons, and to display the combined price, in the same manner as a PCW.

### ***Annual versus monthly pricing***

- 3.22. Our work has shown that customers found it hard to assess the annual price of a policy when it was expressed as a monthly price only.<sup>19</sup>
- 3.23. We believe firms should display the annual price (or total price, if the policy has a duration greater than one year), even if the customer has asked for monthly pricing. This will help them understand the full price of the package of a primary product and selected add-ons.
- 3.24. This is not new – we noted this when we made clear our expectations in relation to price disclosure for regular premium insurance policies in 2008<sup>20</sup>, and the ABI included it in their good practice guide to buying insurance online.<sup>21</sup>

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19 Respondents that viewed insurance prices quoted in monthly terms were frequently surprised and changed their mind about purchasing a policy when the price was converted to yearly. For example, 30% of respondents in the 'Upfront add-on' treatment removed the primary plus insurance from their shopping basket when they were informed of the annual insurance cost. General insurance add-ons: Experimental consumer research report: [www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report](http://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report)

<sup>20</sup> [www.fsa.gov.uk/pages/Library/Other\\_publications/Miscellaneous/2008/icobs\\_clarification.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2008/icobs_clarification.shtml)

<sup>21</sup> [www.abi.org.uk/News/News-releases/2009/12/The-ABI-publishes-Good-Practice-Guide-to-help-customers-buying-insurance-online](http://www.abi.org.uk/News/News-releases/2009/12/The-ABI-publishes-Good-Practice-Guide-to-help-customers-buying-insurance-online)





## Annex 1: Summary of feedback received

<p><b>Consultation title</b></p>	<p>General insurance add-on sales: appropriate and timely information</p>
<p><b>Date of consultation</b></p>	<p>25 March 2015</p>
<p><b>Summary of feedback received</b></p>	<p>Respondents were supportive of the importance of improving information provision to help customers make informed decisions. However, respondents raised some concerns about the detail including questions about process, implementation timings and scope; areas not covered by the guidance; potential unintended consequences if promoting the most common add-ons stifles competition and innovation. Respondents also noted that price comparison websites (PCWs) will need clearer information from insurers to enable them to implement these information provision improvements.</p>
<p><b>Summary response to feedback received – see page 2 for detailed feedback</b></p>	<p>In terms of scope, we were asked to clarify that ‘optional extras’ e.g. accidental damage on contents insurance, are not captured by this guidance. We disagree – the guidance is relevant to optional cover extensions.</p> <p>We note firms’ questions about process and implementation timings. The purpose of guidance is not to be prescriptive in terms of requiring firms to adopt a particular process. We would expect firms to have made the necessary changes to their sales journey by 30 September 2016 (see paragraph 2.12 – 2.13 of the Finalised Guidance). Decisions around process and frequency of review are for individual firms to take, in light of their customers and business model.</p> <p>The guidance represents one way in which firms might meet regulatory requirements, and does not preclude firms applying principles of smarter, more effective disclosure to ensure that customers get the information at the best time and in the best format. Firms can still exercise judgement in deciding which add-ons to promote and we therefore consider that the guidance does not interfere with genuine innovation that meets consumer needs.</p> <p>We agree that insurers will need to provide the necessary information to PCWs, and other intermediaries, to enable them to implement improvements in information provision.</p>

## Changes made to the guidance as a result of feedback received

We have amended the guidance (paragraph 3.7) to make it clear that the spirit of the guidance applies whether or not 'optional extra' extensions of cover are a true 'add-on' i.e. because they are not a separate policy.

We have also added a small drafting amendment to paragraph 3.1 to be clear at the outset that the guidance applies to all general insurance add-on sales i.e. not only PCW sales.

## Detailed feedback and our response

### Feedback

### Our response

#### Clarification of what is / and isn't an add-on

Several respondents asked for a definition of an add-on and in particular asked for confirmation that 'optional extra' extensions of cover (for example, accidental damage on buildings or contents insurance) are not add-ons for the purpose of this guidance.

Although this guidance originates as a remedy from the GI Add-on Market Study, its purpose is to help firms to provide timely and appropriate information to enable customers to make an informed decision. It is based on key findings from our behavioural research about how the timing of introduction of add-ons can significantly impact consumer behaviour and decision-making.

We are concerned that excluding these products would mean customers are not given the opportunity to consider these extras in the context of the whole offering. The principle of providing appropriate and timely information applies throughout the sales process, in accordance with ICOBS 6.1.5R. We have amended the guidance to make it clear that the guidance applies, whether or not 'optional extras' are an 'add-on'.

#### Process and implementation questions

Respondents asked: how often sellers will have to update their top three add-ons; can the add-on information be displayed across more than one page; when are firms required to implement?

And:

Requested that the FCA should recognise that the kind of systems and process changes required to implement this guidance will be complex and will not necessarily be easy or quick.

Guidance is generally designed to throw light on a particular aspect of regulatory requirements, not to be an exhaustive description of firms' obligations. This guidance is not prescriptive either in terms of requiring firms to adopt a particular process, or when they must implement. However, we expect firms to already be actively working towards delivering appropriate and timely information in add-on sales, but we recognise that the changes suggested will require systems and other changes that may take some time to develop, and therefore in our supervisory work, we will take into account what progress firms have made towards meeting the aims of this guidance. We would however expect firms to have made the necessary changes to their sales journey by 30 September 2016 (see also paragraph 2.12 – 2.13 of the Finalised Guidance).

Decisions around process and frequency of review are decisions for individual firms to take, in light of their customers and business model, and how best to achieve the objective of the guidance to provide appropriate and timely information.

## Flexibility in how the price is displayed

We received mixed responses to the need to display the total cost alongside a monthly cost, with some concerns raised about how this applies to rolling contracts or contracts of greater than 12 months.

The important principle for firms to take from this guidance is that the way the price is framed can result in the customer not understanding the 'real' price of the add-on(s).

The results of the FCA's behavioural experiment<sup>1</sup> were that where monthly prices were displayed rather than the annual price, significant numbers (30%) changed their mind about purchase once they saw the annual cost – in other words, once they saw the 'actual' price of the add-on, they no longer considered it an appropriate purchase.

The importance of displaying the total annual cost, and not only the monthly cost, is not new. The FSA made clear its expectations in relation to price disclosure for regular premium insurance policies in 2008<sup>2</sup>, and the ABI also included it in their good practice guide to buying insurance online<sup>3</sup>. Firms should therefore already be displaying the annual/total cost alongside the monthly cost.

Firms should also consider how the principle of helping customers understand the real cost applies to rolling contracts or those of longer than 12 months' duration.

## Potential unintended consequence – stifling competition and innovation

One respondent raised a concern that by promoting the most common add-ons this might have the unintended consequence of stifling competition and innovation.

We considered whether the respondent's concern was a legitimate one.

The aim of the guidance is to improve choice and competition for customers, and there is a balance to be struck between enabling firms to innovate, and offering true choice to customers.

Many add-ons can be elements of cover 'stripped out' of the core policy or products of very low value that are upsold in response to a need or 'fear' created by a sales person (for example, someone pointing out the cost of key replacement or new paintwork for the expensive new car a customer has just agreed to buy, or the consequences if the customer does not take the cover). A proliferation of add-ons, including some that one insurer might include as standard, can therefore mean overwhelming choice for customers. If they are introduced in a way that exploits behavioural biases, we do not believe that this represents innovation or competition that is truly in the customers' interests.

<sup>1</sup> <http://www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report> (page 52)

<sup>2</sup> [http://www.fsa.gov.uk/pages/Library/Other\\_publications/Miscellaneous/2008/icobs\\_clarification.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2008/icobs_clarification.shtml)

<sup>3</sup> <https://www.abi.org.uk/News/News-releases/2009/12/The-ABI-publishes-Good-Practice-Guide-to-help-customers-buying-insurance-online>

### **The ability for customers to compare add-ons**

Some respondents raised concerns about the ability for customers to adequately compare add-ons (a) where the cover is included in another core product (b) as the add-on cover and price can vary considerably between providers (c) a lack of common language/terminology.

Respondents said that common language would help customers to compare.

Firms can still exercise judgement in deciding which add-ons to promote and when. We therefore consider that the guidance does not interfere with genuine innovation that meets customers' needs and any impact on competition would be marginal.

We are aware that the wide variation of policy cover and a lack of common language used across GI providers can hinder customers comparing products, generally i.e. not just add-ons.

Consistent with our Smarter Consumer Communications initiative, we would like to see firms moving towards both clearer terminology but also some common language for standard policy cover, terms and conditions and this is a challenge posed to industry in the smarter consumer communications Discussion Paper.

PCWs and other intermediaries can help with this by encouraging insurers to work with them to deliver common terminology – where appropriate. This would also help those intermediaries when designing their own sales processes.

An example of an industry driven solution is the ABI's Statement of Best Practice for Critical Illness Cover<sup>4</sup> which introduced a common format for the description of Critical Illness Cover; the use of common generic terms and a model wording for Critical Illness and Exclusions which meet appropriate minimum standards.

### **Disagreement with the principle of providing information on add-ons early on**

One respondent disagreed with the proposal to introduce add-ons earlier in the sales process and said its own customer research found that customers prefer to have information on add-ons after they have selected the primary product.

We cannot comment on this customer research, other than to say that it is not consistent with the findings of our consumer research and behavioural experiment for the market study.

The guidance represents only one way in which firms might meet regulatory requirements, and does not preclude firms applying principles of smarter, more effective, disclosure to ensure that consumers get the information at the appropriate time i.e. early on in the sales journey, and in the best format to help them make decisions.

<sup>4</sup> Updated in 2014:

<https://www.abi.org.uk/~media/Files/Documents/Publications/Public/2014/Protection/Statement%20of%20Best%20Practice%20for%20Critical%20Illness%20Cover%20Dec%202014.pdf>

### **Information overload**

Some respondents were concerned that providing information on add-ons early on, or too much on one page, might lead to information overload for the customer.

We do not agree with this concern.

The guidance seeks to strike a balance between acting on our findings that late introduction of add-ons can lead to poor decision-making, and not overwhelming customers with information at the start by mandating that all add-ons must be introduced early i.e. we suggest that only the most common add-ons could be introduced early on.

It should be possible to display on one page the 'packages' for the customer to compare – at a high level. Further detail about the cover, limitations and exclusions may have to be provided separately or, for online, through other technology options such as hover boxes or pop-ups.

### **Conflict with the Competition and Markets Authority (CMA) Private Motor Investigation remedy**

One respondent was concerned that, if by introducing the add-ons early on this would be considered as a 'point of sale' disclosure, it would conflict with the CMA remedy for Protected No Claims Bonus.

The intention of this Finalised Guidance is to ensure that the customer is provided with appropriate and timely information about the most common add-ons, so that they can consider these and the core product as a whole. Similarly, the aim of the CMA remedy is to address information asymmetries between private motor insurers and consumers in relation to the sale of no-claims bonus protection insurance.

The CMA remedy is prescriptive with regard to the information that must be provided when Protected NCD is offered and accepted, but we cannot see that the CMA requirements are incompatible with this Finalised Guidance.

### **Insurers and intermediaries working together**

Respondents said that clearer information will be required from insurers to enable PCWs to implement these information provision improvements.

We agree.

The guidance suggests some good practice and activities that insurers and intermediaries could undertake – this includes that insurers should provide the right information to PCWs to enable the PCW to meet the requirements of ICOBS 6.1.5R (appropriate and timely information).

We encourage insurers and intermediaries to work together to provide appropriate information to customers.

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You can access the full text of the guidance consulted on here: <http://www.fca.org.uk/news/cp15-13-gi-add-ons-proposed-remedies> : Appendix 2

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Financial Conduct Authority



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© Financial Conduct Authority 2015  
25 The North Colonnade Canary Wharf  
London E14 5HS  
Telephone: +44 (0)20 7066 1000  
Website: [www.fca.org.uk](http://www.fca.org.uk)  
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