Financial Conduct Authority

Policy Statement PS16/21

Increasing transparency and engagement at renewal in general insurance markets – feedback on CP15/41 and final rules and guidance

August 2016

Contents

In this Policy Statement we report on the main issues arising from Consultation Paper 15/41 *Increasing transparency and engagement at renewal in general insurance markets* and confirm the final rules and non-handbook guidance.

Please send any comments or enquiries to:

Laurence Morton
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 4686
Email: cp15-41@fca.org.uk

We have developed the policy in this Policy Statement in the context of the existing UK and EU regulatory framework. We will keep the policy under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 706 60790 or email publications_graphics@fca.org.uk or write to Editorial and Digital Department, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS

Abbreviations used in this paper

ABI	Association of British Insurers
CBA	Cost benefit analysis
CP	Consultation Paper
FCA	Financial Conduct Authority
ICOBS	Insurance Conduct of Business Sourcebook
PS	Policy Statement

1. Overview

Introduction

1.1 In December 2015, we consulted on new rules and guidance for general insurance renewals. These proposals were intended to address concerns about levels of consumer engagement and the treatment of consumers by firms at renewal, and the lack of competition that results from this.[1] We based our proposals on findings from the large-scale randomised controlled trial that we conducted with three firms in the home and motor general insurance markets[2], as well as our wider research. We proposed new rules across all personal lines general insurance markets requiring firms to:

- disclose last year's premium at each renewal
- include text to encourage consumers to check their cover and shop around for the best deal at each renewal, and
- identify consumers who have renewed with them four consecutive times, and give these consumers an additional prescribed message encouraging them to shop around

1.2 Alongside this, we proposed guidance on how firms can maintain records to demonstrate compliance, including keeping a record of premiums.

1.3 We also proposed non-Handbook guidance to help firms meet their obligations towards consumers at renewal. This guidance detailed the importance of providing appropriate information and issuing clear communications to consumers at renewal. It further addressed how firms should treat consumers who want to switch or cancel, and the appropriateness of fees or charges for cancelling or renewing policies.

1.4 Our consultation closed in March 2016 and we received 113 responses. This paper sets out our response to the feedback we received. It also includes the final rules and guidance. We are proceeding with the proposals we have consulted on but have made some changes in response to this feedback. This includes a new requirement that where a consumer's circumstances have changed during the course of holding their policy, firms must give an annualised premium reflecting any mid-term adjustments, instead of last year's premium.

1.5 We expect that our package of measures will prompt consumers to engage, shop around, and make better-informed decisions. The measures will also increase firms' focus on renewal practices, and, as a result, improve consumer outcomes.

1 FCA, CP15/41, *Increasing transparency and engagement at renewal in general insurance markets*, www.fca.org.uk/static/fca/documents/consultation-papers/cp15-41.pdf.

2 FCA, Occasional Paper no. 12, *Encouraging Consumers to Act at Renewal*, https://www.fca.org.uk/news/occasional-paper-no-12.

Who does this affect?

1.6 This Policy Statement (PS) will affect firms and consumers in retail general insurance markets. Insurers and intermediaries selling retail general insurance products will be required to implement the new requirements that we set out.

Is this of interest to consumers?

1.7 We expect our proposals to improve outcomes for consumers who have a general insurance policy. Our requirements will prompt more consumers to shop around at renewal and will make price increases at renewal more transparent.

Context

1.8 We have had concerns about poor consumer outcomes arising from pricing practices at the point of renewal in general insurance. These concerns include prices increasing in a way that is not transparent at renewal, and longstanding customers paying more than new customers for the same insurance product. These concerns have been shared by a number of stakeholders, including consumer and industry representatives.

1.9 In 2014, we launched a large-scale randomised controlled trial with over 300,000 customers from one home insurance and two motor insurance providers to assess whether improved disclosure can help consumers become more engaged at renewal. Full details of the research project are in Occasional Paper 12 *Encouraging Consumers to Act at Renewal*, which was published alongside our Consultation Paper (CP).[3]

1.10 We tested four types of disclosure. Of these, we found that showing the previous premium on renewal notices was the best way to increase consumer engagement.

1.11 Alongside this research project, we reviewed findings from our 2013 thematic review of auto-renewal terms in home and motor insurance markets, as well as information about complaints. This indicated that the renewals practices of some firms could be improved to help consumers engage and make better-informed decisions.

1.12 In the 2015 Summer Budget, the Government announced that we intended to use the insights gained through this research to develop proposals that would encourage people to shop around at renewal.

Summary of feedback

1.13 We received 113 responses from a wide range of stakeholders, including individual consumers, consumer groups, insurers, brokers, price-comparison websites, consultants and trade bodies. We also had conversations with a number of stakeholders during the consultation process.

3 FCA, Occasional Paper no. 12, *Encouraging Consumers to Act at Renewal*, https://www.fca.org.uk/news/occasional-paper-no-12.

1.14 We are grateful for the valuable feedback we received and want to take this opportunity to thank all those who responded to our consultation. We have carefully considered the points made in responses and have used this feedback to help shape our final rules and guidance.

Our response to the feedback

1.15 There was broad support in principle for our proposed measures. However, a number of concerns were raised about the details of our proposals. We are therefore making final rules and guidance with the following changes in light of this feedback:

- a new requirement that where a consumer's circumstances have changed during the course of holding their policy, firms must give an annualised premium reflecting any mid-term adjustments, instead of last year's premium. Where there has been no mid-term adjustment, firms must still show last year's premium.
- an alteration to the 'shopping around' disclosure that firms must provide, so that consumers are encouraged to consider cover when shopping around as well as price
- bringing 10-month policies into scope, in addition to annual policies, to reduce the risk of some firms avoiding our proposals
- extending the proposed implementation deadline by three months to ensure that all parts of industry have enough time to implement our proposals

Next steps

1.16 We are requiring firms to make the necessary changes to their renewal communications by 1 April 2017.

1.17 We have developed these rules and guidance in the context of the existing UK and EU regulatory framework. We will keep the policy under review to assess whether any amendments will be required due to changes in the UK regulatory framework, including as a result of any negotiations following the UK's vote to leave the EU. We expect firms to implement changes unless we issue a communication to state that we are altering the requirements.

1.18 Our proposed measures aim to increase engagement and promote competition through enhanced disclosure. Our work suggests that while better disclosure and improvements to firms' practices do increase engagement, they are unlikely to fully address consumer inertia when renewing general insurance policies. There may be other reasons that explain why consumers do not act at renewal. We will maintain our focus on the treatment of existing customers, which is a Business Plan priority for the FCA. If we identify further concerns around consumer inertia and barriers to competition at renewal then we will consider further action at that time.

2.
Increasing engagement and transparency through disclosure

2.1 We received 113 responses to CP15/41 from a wide range of stakeholders, including individual consumers, consumer groups, insurers, brokers, price-comparison websites, consultants and trade bodies.

2.2 This chapter summarises the feedback we received and sets out our response, including where we consider that changes are necessary to our proposals. The first part of the chapter addresses feedback on our general approach. The second part covers specific feedback on our rules and guidance.

2.3 Some of the feedback cut across the questions we asked, and so we address the issues raised in the feedback thematically.

Merits of our general approach

2.4 In CP15/41, we proposed introducing new disclosure to encourage more consumers to engage at renewal and consider whether they have the policy that is right for them. We also proposed non-Handbook guidance on firms' obligations towards customers at renewal. We noted that we had considered options such as capping renewal prices, banning introductory discounts, or placing conditions on auto-renewal. We did not propose introducing such measures at this time.

2.5 The majority of respondents agreed in principle with our intention to improve consumer outcomes at renewal through increased disclosure; however, this approach was not supported by all respondents.

2.6 Some respondents argued that our renewals intervention should be more limited, or that no action was needed to address concerns around renewal pricing. In particular, a small number of firms argued that regulation was already too burdensome and tilted in favour of the consumer. These firms argued that the FCA should therefore not be imposing any further requirements on firms.

2.7 In contrast, some respondents suggested that we should taking a more interventionist approach:

- a small number of respondents suggested consumers should be given an active choice on whether their policy will auto-renew
- a small number of respondents suggested that firms should be required to offer the same prices to new customers as existing customers

- it was also suggested that firms should be expected to take action to increase customer engagement when they identify that legacy products are providing inferior benefits compared to newer products

2.8 A few respondents called for additional intervention focused on the extent to which our proposals would help vulnerable consumers. They argued that disclosure would not fully address pricing issues for vulnerable consumers. Instead, it was suggested a limit on first-year discounts, or a limitation on what firms are allowed to charge vulnerable consumers, might be more appropriate.

Our response

Our research shows that the measures we proposed are necessary in order to strengthen competition and protect consumers. We do not believe a more limited approach would be effective.

We also do not intend to go further at this stage by intervening in renewal pricing or by placing limitations on the renewals process itself. However, we will monitor the effect of the changes we are making and will consider further intervention if necessary. We also encourage industry initiatives that seek to help vulnerable consumers at renewal.

We acknowledged in our CP that there are limits to the extent that disclosure can reduce consumer inertia, as there are other contributing factors. As part of our Business Plan priority of focusing on the treatment of existing customers, we will continue to consider whether consumers are getting the right outcomes at renewal.

Feedback on our proposed rules and guidance

Disclosure of previous premium

2.9 In CP15/41, we proposed that firms should disclose last year's premium on renewal notices, allowing easy comparison with the quoted renewal premium.

2.10 We stated that firms would be permitted to provide other relevant information, including details of mid-term adjustments or the end of introductory discounts. However, we said this information should be in addition to the required disclosure and should not obscure it.

Accounting for changes in consumers' circumstances

2.11 We received a range of feedback to this question. Most respondents agreed in principle that consumers should be given a figure at renewal that reflects the premium they paid previously, but we received mixed feedback as to what exact figure should be shown.

2.12 Just under half of these respondents agreed that this figure should be last year's premium—in other words the actual amount the consumer agreed to pay at the start of the policy term.

2.13 However, a small majority of these respondents said we should instead require disclosure of a figure that accounts for where the consumer's circumstances have changed during the period of a policy. These respondents were concerned that consumers would not be comparing 'like with like' if they were given a figure (last year's premium) that did not reflect their current circumstances and risk. They felt that this would hinder consumers' ability to make informed choices when shopping around. Many of those calling for an alternative to last year's premium stated that firms would need to provide large volumes of information to explain why the quoted premium differs from the last year's premium, which might lead to consumer confusion. Some respondents considered that this would lead to increased enquiries from customers, with extra cost to firms. They suggested that an annualised premium reflecting any mid-term adjustments over the course of the policy should be shown instead of last year's premium.

2.14 A small number of respondents suggested firms should have to disclose the previous two years' premiums. They argued that this would reduce the risk of prices being inflated ahead of our rules being brought in. There were also three respondents who suggested that firms should instead be required to disclose the prices that new customers are paying (new business equivalent).

Our response

We carefully considered the feedback on what premium data consumers should receive to decide which option would best meet our objective of engaging consumers and helping them make informed decisions at renewal. On balance, we have decided to make a change to our requirements. Where a consumer's circumstances have changed during the course of the policy, resulting in a mid-term change in the policy premium (a mid-term adjustment), firms must now at the point of renewal show the customer an annualised premium reflecting mid-term adjustments. For example, where a motor policyholder changes the vehicle which is insured during the policy term, there is likely to be a mid-term adjustment to the price of the policy if the risk changes. Here, the motor insurer would need to show an annualised premium figure at renewal which accounts for the change in vehicle and risk. This would need to be shown in a way that makes it easy for the policyholder to compare with the quoted renewal premium. Where there have not been any mid-term changes in premium, firms will still be required to show last year's premium.

We are not being prescriptive on how firms should calculate the annualised figure which accounts for mid-term changes in the premium. However, the figure must exclude any administrative fees and charges. Firms will be able to give an explanation of what this figure is to help consumer understanding. But we expect that in calculating and describing this figure, firms consider our overall expectation under principle 7 of our Principles for Businesses, that they pay due regard to customers' information needs and give them information in a way which is clear, fair and not misleading.

We are still allowing firms to add wording to explain price increases. Where a mid-term change in the premium has occurred, firms may in addition display last year's premium, if they believe this would help consumer decision making. We would like to emphasise though that these explanatory statements should not obscure the required disclosures.

In CP15/41 we explained that, as well as looking at the merits of different forms of premium that could be disclosed, we considered a number of alternative disclosures. These include requiring firms to provide the equivalent price that a new customer would pay for the same insurance policy. Our preferred option is to disclose the previous premium. This option was the most successful at prompting consumers to engage with the disclosure measures during trials, and we believe introducing this requirement would be a proportionate way of achieving our aims.

We recognise the concern that firms might in the short-run increase prices in advance of our bringing in disclosure rules, so that the difference between the new premium and previous premium seems smaller. We want to be clear that any attempts to undermine the remedy by artificially increasing prices prior to implementation would not be in the spirit of the new rules, and we will take action as necessary.

Inclusion of other fees and charges in disclosure

2.15 A number of respondents noted that firms might try to circumvent the previous premium disclosure proposal by increasing fees and charges, including cancellation fees. A few respondents stated that we should seek to broaden the previous premium disclosure so that it includes the full cost of an insurance policy.

Our response

In order to ensure the disclosure that consumers receive is simple and understandable, we do not propose going further by including fees and other charges in the disclosure.

Existing disclosure requirements already require firms to provide information about fees before they are incurred.[4] The guidance we are introducing (set out in appendix 2) also reminds firms about our expectations about fees and charges. We expect firms to be able to evidence their compliance with our principles, and to treat customers fairly.

Displaying monthly payments

2.16 Two respondents said firms should be allowed flexibility to show the previous premium in a monthly format, where a consumer pays monthly and so is provided with a new quote in a monthly format.

Our response

Our proposals allow this flexibility. In CP15/41, we stated that firms presenting new premiums in a certain way should present the previous premium in a consistent format, so that they are comparable.

4 Requirements on fee disclosure are set out at ICOBS 4.3.1R and guidance is set out at ICOBS 4.3.2G.

However, we remind firms that we expect them to disclose the total premium for general insurance policies, as displaying the monthly premium alone is not sufficient for consumers to make an informed decision.[5] Recent FCA research about add-on policies confirms that showing policies in a monthly format can make it more difficult for consumers to make decisions.[6]

'Shopping around' messages

2.17 In CP15/41, we proposed that at each renewal firms include a message encouraging consumers to check their cover. We also proposed firms encourage consumers to shop around for the best price. We did not prescribe the form of these messages but proposed allowing firms flexibility to tailor this to their customers.

2.18 In our research, we found that disclosure of the previous premium was less effective when year-on-year increases in premiums were smaller, which occurred after a number of renewals. To give an additional prompt to engage consumers after a number of renewals, we proposed that the fourth renewal notice contain a prescribed message:

> *'You have been with us for over five years. You may be able to save money if you shop around.'*

Nature of the 'shopping around' messages

2.19 The vast majority of respondents agreed that we should require firms to encourage consumers to 'check their cover'. Many noted this reflected existing practice in the market. However, concerns were raised about the requirement to provide a statement to encourage consumers to shop around at renewal, and to provide an additional prescribed message at the fourth renewal. Only a limited number of respondents fully supported the 'shopping around' proposals.

2.20 Some respondents were content with the messages on shopping around but stated that they should better balance quality and price, arguing that consumers already have a tendency to ignore policy terms and focus on price.

2.21 Some respondents suggested the 'shopping around' messages should be more flexible, and we received the suggestion that firms should be permitted to present the message as a question, rather than a statement. A few stated that the messages should be delivered directly by the FCA.

Our response

There was strong support for firms encouraging consumers to check their cover meets their needs, so we are not altering this aspect of the requirement.

In CP15/41, we stated that we did not want encourage an excessive focus on price. To ensure that price and cover are balanced in the 'shopping around' disclosure, which must be provided at each renewal, we have altered the rule so that firms will be required to encourage consumers to also consider cover when shopping around. Firms have discretion over the exact wording they

5 FSA, www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2008/icobs_clarification.shtml.

6 The results of the FCA's behavioural experiment 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. www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report (page 52).

chose to use for the first three renewals. They are able to formulate the prompt as a question, provided this does not serve to discourage the consumer. For example, firms may wish to use the following prompt:

'Have you checked that your insurance cover still meets your needs? Have you considered shopping round to find the best deal for the cover you want?'

We have also altered the prescribed 'shopping around' message, which must be provided at the fourth renewal. The new wording for the disclosure that will apply at the fourth renewal is:

'You have been with us for a number of years. You may be able to get the insurance cover you want at a better price if you shop around.'

We have aimed to ensure that this message is still succinct and simple, so that it is likely to resonate with consumers.

We are still requiring the message be delivered directly by firms rather than the FCA. We believe firms will be best placed to determine how to present this to their customers, as part of existing renewal communications.

Scope of the 'shopping around' messages

2.22 A number of respondents fundamentally disagreed with the 'shopping around' proposal. Common reasons put forward by industry respondents were that these disclosures would damage firms' brand identity and alienate consumers. It was also suggested that consumers would inevitably focus on price rather than quality.

2.23 Some respondents argued that it was the responsibility of insurance brokers to shop around for consumers. These respondents thought that the 'shopping around' messages would cause consumers to question firms' service, in particular the service of brokers giving advice. Some smaller brokers very strongly opposed this measure being applied to brokers.

2.24 A few respondents suggested that the 'shopping around' disclosures were suitable for mainstream products but should not apply to policies that may cover pre-existing medical conditions. One respondent also said niche products should be excluded.

Our response

We proposed a broad scope as we believed consumers could potentially benefit from shopping around in all personal lines general insurance markets, across all channels. We are confirming this scope as we have not seen any clear examples where the 'shopping around' disclosures would not potentially improve outcomes for consumers.

While we recognise that some intermediaries will shop around at each renewal on behalf of their customers, we understand this is not always the case, and that many brokers will have a limited panel. It is therefore possible that consumers could achieve a better outcome by shopping around themselves or using an alternative intermediary.

We recognise that consumers with cover for pre-existing medical conditions may not be able to find equivalent cover elsewhere. We have addressed this risk by altering the 'shopping around' disclosure requirements so that consumers are encouraged to consider cover as well as price. We reiterate that firms are able to make it clear to their customers that they have cover for pre-existing medical conditions, and that they may wish to consider this when shopping around.

Timing of the additional 'shopping around' message that must be provided after several renewals

2.25 Some respondents also commented on the timing of the additional 'shopping around' message given to those consumers renewing four or more times.

2.26 A few respondents said that the additional shopping around message should not just be required after five years, but rather should be given earlier to encourage greater shopping around.

2.27 There were also comments from a few respondents that people should not be encouraged to shop round after an arbitrary time point. This included the comment that five years was not appropriate for the warranty market given the longer duration of many warranty policies.

2.28 There were also some technical queries around when the proposals would apply, including some that pointed out the current message of '*You have been with us for over five years*' was not technically correct for annual policies, as this would generally be received in advance of the five-year point.

Our response

Our trials found that when price increases diminish the disclosure of previous premium disclosure is less effective at prompting action from consumers. The intention of the additional 'shopping around' message is to provide an additional prompt for consumers to engage with their policy at this point. Aggregated data from three home insurance providers suggest that price increases diminish after five years on average, though we recognise that the timing of when this happens may vary. Nevertheless we think the fourth consecutive renewal is the right point at which to introduce this prompt.

We have amended the prescribed message to ensure it is not misleading. The new wording for the disclosure that will apply at the fourth renewal is:

> *'You have been with us for a number of years. You may be able to get the insurance cover you want at a better price if you shop around.'*

We recognise that some stakeholders were unclear about when the additional 'shopping around' disclosure would be required. The additional 'shopping around' disclosure must be provided when a consumer is about to enter into a fourth (or more) consecutive renewal of a policy through the same channel. This applies to renewals across all channels (including intermediaries as well as insurers). We include within this renewals where the intermediary changes the insurer behind the policy but the features and exclusions of the policy are so similar to the previous one that from the consumer's perspective they have renewed their policy.

If a renewal does not occur in one year then this breaks the chain of consecutive renewals.

As well as new customers, this rule will also apply to existing retail customers who meet the criteria.

Presentation of the disclosure

2.29 In CP15/41, we proposed that the prescribed information be included clearly, accurately and prominently at renewal, in a place that makes it easy to compare with the renewal quote.

2.30 Most respondents did not respond to this question. Of those who did, a number fully agreed with our proposed requirements for presentation of the disclosure.

2.31 Some respondents argued we should be more prescriptive about presentation to drive consistency. Some suggested the premium should always be on the first page. Other suggestions were that we should:

- require the font size of the disclosure to be at least as large as the rest of the text
- limit the number of disclaimers permitted
- require renewal notices to be sent three weeks before renewal

2.32 A couple of respondents thought firms should have more discretion about the presentation of the disclosure – for example, not being required to make sure the new premium is comparable with the previous premium. We also received feedback that the effect of requiring the proposed disclosure to be presented in a durable medium might be to remove the discretion some firms use to communicate renewal terms over the phone.

Our response

We believe we have achieved the right balance between being prescriptive and allowing appropriate flexibility. We are therefore maintaining the proposal that the information be presented clearly, accurately and prominently in renewal notices, in a place that makes it easy to compare with the renewal quote. We also expect firms to take into account our trials, which showed that disclosure is most effective when on the front page of a renewal notice.[7]

While we are requiring that the disclosure be provided 'in writing or another durable medium', this will not remove existing flexibility for firms that communicate renewal terms by telephone. The exception for telephone communications (as set out in ICOBS 6.1.14) will continue to apply. Firms

7 Firms testing disclosure of previous premium all included the information on the front page of their renewal notices. Additionally, in the consumer survey for the trial, we asked consumers from two firms who renewed whether they read their renewal letter. At Firm A, 28% read the letter in detail and 44% skim read or read the first page. At Firm B, 23% read the letter in detail and 39% skim read / read the first page.

should, however, consider whether they are communicating renewal terms in a 'comprehensible form', as required under ICOBS 6.1.5R. Firms should also consider the specific guidance in ICOBS 6.1.7G, which relates to information provided orally. We would like to remind firms that rules applicable to a new contract apply to a renewal.[8]

Scope of the rules

2.33 We proposed in CP15/41 that the proposals would apply to all retail general insurance policies, across all channels, and to both automatic and manual renewals. We proposed applying the proposal to annual contracts, and those longer in duration. We did not propose including monthly contracts, as we believed consumers renewing monthly would likely be more aware of the previous premium paid, but we invited views on this.

Types of insurance products in scope

2.34 Some of the consultation respondents argued that there was not currently the evidence to justify all general insurance products being in scope of the proposals:

- a few respondents stated that our research conducted with motor and home firms could not be applied more widely
- some stated that policies such as private medical insurance and pet insurance, where pre-existing medical conditions are covered, should be excluded as consumers risk losing cover by switching
- a few respondents argued that our proposals are less likely to be effective for niche products, where cover is not available elsewhere and opportunities to shop around may be limited
- two respondents suggested that we should not apply the proposals to motor insurance as our evidence did not demonstrate an increase in switching in this market

Our response

We consider that our measures have the potential to improve outcomes for consumers across all general insurance markets, and that consumers would benefit from a consistent experience when renewing products. Therefore, we are not limiting the type of policies in scope of the rules we are introducing.

Relevance of trial findings: In our randomised controlled trial, we found that disclosure of the previous premium increased shopping around in home insurance. We believe the findings of this trial apply more widely, in particular given that the home insurance market is relatively more competitive than most other general insurance markets.

While our trials found that disclosure of the previous premium did not increase switching or negotiating for motor insurance, the proportion of consumers shopping around increased from 67% to 73%. Consumers can benefit from making a more informed decision about their options, even where they decide not to switch. ABI research from May 2014 shows that 89% of respondents

8 ICOBS 6.1 and ICOBS 6.2 sets out what firms are required to do when creating a new contract.

who received an insurance renewal said that it would be helpful to have last year's price printed on their insurance renewal.[9]

Pre-existing medical conditions: We believe that competition should still be encouraged in the private medical insurance and pet markets. We are, however, allowing firms sufficient flexibility to explain where pre-existing conditions are covered, which should help consumers make decisions about switching.

Duration of policies in scope

2.35 A number of respondents fully agreed with the duration of policies in scope of the proposal. However, a few noted that our draft rules, which applied to policies of a 'period of more than 12 months', did not cover annual policies as intended.

2.36 A number of those responding to the question on scope suggested shorter policies should be included. Some suggested 10-month and 11-month policies should be included to prevent avoidance.

2.37 One respondent said the proposals should apply to all policies longer than one month. A few said monthly policies should be in scope where price is only reviewed on an annual basis.

Our response

We note the concerns raised about 10- and 11- month general insurance contracts. We expect that the issue of consumer inertia at renewal would also apply to contracts of this length. There is a risk that policies could be structured as 11-month or 10-month contracts to avoid the rules. We are therefore widening the scope of our proposals to capture all policies of 10 months or more in duration.

For simplicity, we are continuing to base the scope on the duration of the contract, rather than the frequency of price reviews.

Group policies

2.38 Two respondents stated that it would not be practical to directly provide the proposed disclosures to every consumer who is part of a group policy, and queried whether this was required.

2.39 Our response: Our intention is that the disclosures prompting engagement at renewal should be provided to those consumers responsible for negotiating a price at renewal. This is therefore less relevant to consumers who are part of a group policy. We have made a minor amendment to the rules we are introducing to clarify that the disclosures need only be provided when a renewal is being proposed directly with a consumer.

9 ABI, Renewal pricing – customer questions and answers. www.abi.org.uk/~/media/Files/Documents/Publications/Public/2014/GI/Renewal%20pricing%20customer%20questions%20and%20answers.pdf.

Implementation deadline

2.40 In CP15/41, we proposed that firms be required to implement our proposals by 1 January 2017.

2.41 A couple of respondents agreed with the 1 January 2017 deadline, and further suggested that these proposals should be introduced more quickly if feasible for the industry to do so.

2.42 The majority of respondents stated that the proposed 1 January 2017 deadline would not be feasible given the impact of cumulative regulatory change. Most of these respondents argued that firms would require 12 months from the publication of final rules to implement our proposals.

2.43 A few firms stated that they would not be able to implement the proposals until 18 months from publication of the final rules. One reason given for this 18-month timeframe was the potential need to capture premiums over a period of 12 months, in order to be able to display last year's premium.

Our response

Our original proposal of 1 January 2017 was based on the desire to bring the proposals in as soon as possible. However, after carefully considering the feedback, and having held discussions with the broker industry and some software houses, we acknowledge some practical challenges. We have therefore extended the implementation deadline by three months to 1 April 2017.

This extended deadline should give firms sufficient time to implement our rules, while still ensuring that this important pro-competitive initiative is introduced swiftly. Introducing disclosure of previous premium in April 2017 will also mean that it will be more meaningful in the home insurance market. This disclosure will come into force 12 months after the introduction of Flood Re, which has reduced the price of some home insurance policies.

We want to emphasise that we expect industry to ensure that they have arrangements in place that allow regulatory changes to be introduced in a timely fashion.

Non-Handbook guidance

2.44 In CP15/41, we set out guidance on how firms can ensure they are providing appropriate information and issuing clear communications at renewal, including by being clear about auto-renewal mechanisms and changes to terms and conditions. We also addressed switching and cancelling, including the importance of having clear and accessible ways for consumers to cancel. Additionally, we stated that firms should review the appropriateness of any fee or charge for cancelling or renewing policies.

2.45 This proposed guidance received little comment, with most respondents who commented agreeing in full with what we set out. A few respondents asked us to go further in stating our expectations of how firms should treat consumers who cancel their policies. We also received a comment that the guidance went too far in suggesting firms should consider whether it is appropriate for their customers to be allowed to cancel policies through the same medium as their original purchase.

Our response

There were no major concerns raised that would cause us to alter the non-Handbook guidance. We set out the confirmed guidance in appendix 2.

Cost benefit analysis (CBA)

2.46 In CP15/41, we set out our expectations of the costs and benefits of our proposals. We stated that we expect benefits to consumers of £64–103 million per year. In addition, we said that we expected firms to incur increased call handling costs of £3.9 million per year, and we estimated the costs to consumers of time spent shopping around to be £13.1 million per year. We also anticipated one-off implementation costs for firms of £133 million.

2.47 A number of respondents provided us with feedback that they believed our CBA to be incomplete, as it had not considered all the relevant factors or had made false assumptions.

2.48 Some respondents argued that we had overestimated the benefits of the proposals, including a few who suggested that our research was only relevant to the home and motor markets. Some respondents challenged our assumption that the benefits for medical, travel and pet insurance consumers would be the same as for home insurance consumers.

2.49 Some respondents stated that we had underestimated the operational costs to firms of implementing the proposal, including not adequately factoring in the cost of additional call centre queries. A few noted that their costs would be higher than the assumed average costs per firm. A few respondents also noted that a shorter implementation deadline would increase their implementation costs.

2.50 Some suggested we had not accurately predicted the wider effect of our proposals on the market, including by not recognising switching costs.

Our response

We acknowledge the feedback on the CBA but note that we considered these points as part of the original CBA. We have not received any new material information that would warrant us making changes to our CBA.

Benefits for wider general insurance markets: We acknowledge that some consumers with pre-existing medical conditions covered under medical or pet insurance might find it harder to find equivalent cover elsewhere. However, for those medical or pet insurance consumers who are able to find the right cover elsewhere, we believe there is greater potential for increased shopping around than in the home insurance market. This is because the home insurance market is relatively more competitive than the market for medical or pet insurance. Overall, we believe our estimate that the benefits for the medical, travel and pet insurance markets would be the same as for home insurance is reasonable.

Costs per firm: We had anticipated a variation in the cost of implementation between firms due to differences in the systems firms use. Our estimate in our CBA uses the cost we expect from an average firm. Therefore, comments from some firms that their costs would be higher than the average cost we used in our calculations are in line with expectations.

Change to previous premium proposal: We have considered what impact, if any, the change to the previous disclosure requirement would have on costs and benefits. Overall, our conclusion is that the impact of this change on the CBA will be minimal. Given that any increase in costs will be of minimal significance, we need not revise the CBA.

In our CBA, we considered that costs to firms would come from both one-off implementation costs (particularly systems changes) as well as on-going costs (primarily from increased consumer contact and reductions in revenues as a result of changes in consumer behaviour). Costs to customers would come from additional switching and negotiating efforts. We believe that these types of costs remain broadly the same

We considered whether there might be an increase in costs arising from one-off systems changes, However, because we already accounted for costs incurred by firms in creating the information links for the last year's premium proposal, we consider that any further associated costs for industry overall would be minimal. We do not believe that there will be an increase in ongoing costs from an increase in customer contact as a result of the change. As raised by many respondents, an annualised figure reflecting mid-term adjustments is likely to offer a more relevant comparison which consumers are less likely to query.

We also believe that the benefits will not significantly change. As with the costs, we do not consider that the types of benefits would be different under this new approach. Our trial involved some consumers being given last year's premium and others and annualised figures reflecting mid-term adjustments. As such, we consider that our estimated quantifiable benefits between a range of £64.0 to £103.4 million per year remain relevant.

Annex 1
List of non-confidential respondents

AA

ABI

Admiral Group

Admiral Marine Ltd

Ageas (UK) Ltd

AIG

AJ Insurance Services Ltd

Alan Blunden & Co Ltd

Allianz

Andrew Yule Insurance

Apprentice Insurance Broker

ARAG plc

Arthur J Gallagher

Ashley Rodwell Insurance Agencies Ltd

Association of Financial Mutuals

Aviva

AXA UK Group

Backhouse Insurance Brokers Ltd

Barclays Bank Plc

BGL Group Ltd

BIBA

Bridge Insurance Brokers Ltd

Brightside Insurance Group

British Gas Insurance

Bupa UK

Caunce O'Hara & Co Ltd

Collison Insurance Group

Cornish Mutual

Coversure Insurance Services Limited

Cox Braithwaite Insurance Brokers

CRS Consultants Ltd

David Symons

David Wright

Deric Cotterill Insurance Brokers

Douglas Insurance Brokers Ltd

E Coleman & Co Ltd

Ecclesiastical Insurance Office Plc

Ellis & Co

Emma McClarkin

Evan Owen

Federation of Private Residents Associations Ltd (FPRA)

Financial Services Consumer Panel

FirstPort Insurance Services Ltd

Fresh Insurance Services Group Ltd

Gist (Insurance Brokers) Ltd

GMM Commercial Insurance Services Ltd

Green Insurance Group

Hastings Insurance Services Limited

Heather Lambeth

Hiscox

Howden UK Group

IFM Insurance Brokers Ltd

Inspire Risk Management Ltd

Institute & Faculty of Actuaries

Institute of Customer Service

International Underwriting Association

Investment & Life Assurance Group

JCI (North West) Ltd t/a Chadwick Insurances

K L Plester Personal Insurance Services

K R Phakey & Partners Ltd

Kelliher Insurance Group

Key Insurance Group Ltd

Legal & General

Lexham Insurance Consultants Ltd

Lifesure Group Ltd

Lloyds Banking Group

Lloyd's Market Association

Lockton Companies LLP

LV=

Mark Richard (Brokers) Ltd

Martin Connolly

MIMS

MoneySavingExpert.com

MoneySuperMarket.com

Mr & Mrs T.R. Kedgley

NFU Mutual

P J Sutton (Insurances) Ltd t/a Douglas Insurance Services

Polaris UK Limited

Rachel Ward

Richard Tidball Insurance Services Ltd

RSA

Sentinel Corporate Risk and Insurance Services Ltd

Siobhan Weller

Stuart Andrews

Sutcliffe Insurance Brokers Ltd

Swinton Group

T H March & Co Limited

Tamsyn Kennedy

Tesco Bank

Tesco Underwriting Limited

The Exeter Friendly Society Ltd

The GI Consultant.com Limited

The National Association of Caravan Owners (NACO)

Top Marques Insurance

TVIS Limited

UK & Ireland Insurance Services Ltd

Variety Insurance and Financial Services Ltd

Vicky Beedham

Victor Millwell insurance Agency Ltd

Victoria Holt

Virgin Money

Vitality Health

W B Baxter Ltd

Warwick Davis (Insurance Consultants) Ltd

Warwick Estates Property Management

Web Shaw Ltd t/a Jacksons

Which?

Zurich Insurance plc

Appendix 1
Made rules (legal instrument)

INSURANCE (INFORMATION DISCLOSURE FOR RENEWALS) INSTRUMENT 2016

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers); and
(3) section 139A (Power of the FCA to give guidance).

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 2017.

Amendments to the Handbook

D. The Insurance: Conduct of Business sourcebook (ICOBS) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Insurance (Information Disclosure for Renewals) Instrument 2016.

By order of the Board
28 July 2016

Annex

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

In this Annex, underlining indicates new text.

6 Product Information

6.1 General

…

Group policies

6.1.12 R …

Renewals

6.1.12A R (1) This *rule* applies when a *firm* proposes to a *consumer* the renewal of a *general insurance contract*, which is not a *group policy*, and which has a duration of 10 months or more.

(2) In this *rule*, 'renewal' means carrying forward a *policy*, at the point of expiry and as a successive or separate operation of the same nature and duration as the *policy*, with the same *insurance intermediary* or the same *insurer*.

(3) The *firm* must provide to the *consumer* the following information in good time before the renewal:

(a) the *premium* to be paid by the *consumer* on renewal;

(b) in a way that is consistent with the presentation of (a) so that they can be easily compared:

(i) except where (ii) applies, the *premium* for the *policy* which the *firm* proposes to renew, as set out at the inception of that *policy*;

(ii) where one or more mid-term changes were made to the *policy* which the *firm* proposes to renew, an amount calculated by annualising (or otherwise adjusting as appropriate to the duration of the proposed *policy*) the *premium* in effect following the most recent mid-term change, excluding all fees or charges associated with those mid-term changes;

(c) a statement alongside (a) and (b) indicating that the *consumer*:

(i) should check that the level of cover offered by the renewal is appropriate for their needs; and

(ii) is able, if they so wish, to compare the prices and levels of cover offered by alternative providers.

(4) Where the proposed renewal will be the fourth or subsequent renewal the *consumer* has entered into in respect of the *policy*, the *firm* must include the following statement, to appear alongside the matters required by (3)(a), (b) and (c)(i) (but omitting (c)(ii)): "You have been with us a number of years. You may be able to get the insurance cover you want at a better price if you shop around."

(5) The *firm* must communicate the information in (3) and (4):

(a) clearly and accurately;

(b) in writing or another *durable medium*; and

(c) in a way that is accessible and which draws the *consumer's* attention to it as key information.

6.1.12B G A *firm* should have regard to the record-keeping obligations referred to in *ICOBS* 2.4.1G and ensure that it has appropriate systems and controls in place with respect to:

(a) the adequacy of its records so it may fulfil its regulatory and statutory obligations; and

(b) the sufficiency of its records to enable the *FCA* to monitor the *firm's* compliance with the requirements under the *regulatory system*.

…

6 Annex 1R Responsibilities of insurers and insurance intermediaries in certain situations

…

	Situation	*Insurance intermediary's* responsibility	*Insurer's* responsibility
…			
(6)	Where *ICOBS* 6.1.12AR applies	Production and providing, as appropriate, where dealing with a *consumer* on renewal	Production and providing, as appropriate, where dealing with a *consumer* on renewal

Appendix 2
Finalised non-Handbook guidance: Improving renewal practices

Finalised guidance

FG16/8 - Improving General Insurance Renewal Practices

August 2016

Introduction

1.1 This guidance helps firms understand our expectations for the renewal of general insurance contracts, both in terms of what needs to be covered in the initial contract and what steps need to be taken if the firm intends to offer the consumer a subsequent contract.

1.2 Our objective is two-fold:

- to remove barriers to consumers shopping around and switching, and
- to ensure consumers are treated fairly and that communications are clear, fair and not misleading

Background

1.3 In 2014, we launched a randomised controlled trial to test how consumers respond to different disclosure treatments at renewal and understand the root causes of consumer inertia. The trial gave us valuable insights into why consumers may not be engaging in their renewal decisions and the scale of the challenge of encouraging consumers to shop around. We have published the full report on the trial methodology and findings separately.[1]

[1] FCA, Occasional Paper no. 12, *Encouraging Consumers to Act at Renewal*, https://www.fca.org.uk/news/occasional-paper-no-12

1.4 Before this, in 2013 we undertook a thematic review which considered the fairness of auto-renewed home and motor insurance contracts. We identified examples of poor practice in the fairness and clarity of contract terms as well as firms' practices. We provided feedback to the individual firms who participated in the review at the time, and we have drawn on relevant findings and set out our views here so that the wider industry can benefit.

1.5 We have also identified common areas of complaints about general insurance renewals. These include pricing, communication issues, changes in policy details, poor administration, the role of the firm in highlighting alternative products and the auto-renewal mechanism.

Application of this guidance

1.6 This guidance applies to both insurers and intermediaries of general insurance products to retail consumers. Although commercial customers are not within scope, we would encourage firms to consider whether any of the issues raised by us about retail consumers would also apply to commercial customers and whether there is benefit to making wider changes.

1.7 This guidance covers the following areas: appropriate information and communications; switching and cancelling; and fees and charges. We set out below our guidance on each of these areas in turn:

Appropriate information and communications

1.8 Firms must comply with our existing principles and rules about disclosure and communications, including Principle 7:

> *A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.*

1.9 We encourage firms to consider the language in their renewal letters, and consider whether this could discourage the consumer from checking that the policy is appropriate or from shopping around. Firms should particularly look at this if the proposal is to automatically renew the policy, as the customer could read the notice as indicating that they do not need to take action.

1.10 Each time that a contract is renewed, a new contract is created. This means that we expect firms to follow existing rules and guidance at each renewal point. For instance, our appropriate information rule at ICOBS 6.1.5(R), states 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.*

1.11 Our guidance at ICOBS 6.1.6(G) explicitly states that this rule applies to renewals. As such, we would expect firms to be able to demonstrate that they are complying with this rule. We draw specific attention to the following aspects:

- We consider an auto-renewal term to be an important feature of a contract. Firms should consider whether and how they are providing consumers with appropriate information about the auto-renewal term, including what the consumer should expect and how it will operate.
- If an auto-renewal term is included in the preceding insurance contract, we expect the firm to communicate with the customer about how they intend to proceed. A communication could be by way of providing a renewal notice.
- The appropriate information rule also requires that the information is provided in good time. We encourage firms to consider whether their customers have enough time to review their renewal documentation, make an informed decision about it and take appropriate steps, which may include shopping around. We encourage firms to consider how they are communicating information about changes to policy terms and conditions, so that consumers can make an assessment about whether the policy remains suitable.

1.12 In terms of changes to the consumer's risk profile since the last renewal, firms should be aware of existing legislation on consumer disclosure requirements such as the Consumer Insurance (Disclosure and Representations) Act 2012. We also have relevant guidance in our Handbook: for instance, our guidance at ICOBS 5.1.1 and ICOBS 5.1.4. Firms should consider the needs of their customers and whether it is realistic to expect the consumer to remember all of the information they previously provided and the questions they were asked.

Switching and cancelling

1.13 As we have stated above, firms should consider whether and how they are providing consumers with information about their options for renewal. This is particularly important for auto-renewal contracts, where a consumer may have to take active steps to make clear their intention to switch to another policy. When considering what information to provide consumers, we encourage firms to focus on the practical steps the consumer would take.

1.14 We also encourage firms to consider what options they provide to consumers so that they can express their intention to switch or cancel. We have seen examples of onerous requirements that, in practice, create barriers to the consumer exercising choice and switching to a policy that is more appropriate to their needs. Firms may find it helpful to consider how consumers communicate with them as potential new customers and whether these modes of communication can also be appropriate for opting out or lapsing. We also specifically note our recent rules limiting the cost of calls consumers make to firms to a maximum 'basic rate', including post-contractual calls.

1.15 Firms may also wish to consider whether it would be useful to the consumer to be able to opt out of auto-renewal when entering a contract.

1.16 Once the policy has renewed, cancellation rights apply. A firm must provide a consumer with information on the right to cancel a general insurance policy, as set out in ICOBS 6.2.5(R). The information must be provided in good time before the conclusion of the contract. A consumer's right to cancel is within 14 days for a general insurance contract, unless one of the exceptions applies or it is a pure protection or payment protection contract. Within this period, there are limitations on what the firm can require a consumer to pay.

Charges

1.17 We expect firms to be able to evidence their compliance with our principles and any applicable rules about fees and charges, including our principle of treating customers fairly. We specifically call attention to the rule set out at ICOBS 4.3.1 and 4.3.2:

ICOBS 4.3.1R

(1) A firm must provide its customer with details of the amount of any fees other than premium monies for an insurance mediation activity.

(2) The details must be given before the customer incurs liability to pay the fee, or before conclusion of the contract, whichever is earlier.

(3) To the extent that an actual fee cannot be given, a firm must give the basis for calculation.

ICOBS 4.3.2G

The fee disclosure requirement extends to all such fees that may be charged during the life of a policy.

Financial Conduct Authority

PUB REF: 005268