

ENSURING CONSUMERS GET A FAIR DEAL FROM INSURANCE

Summary

Nearly everyone buys General Insurance (GI) products, from compulsory policies such as motor insurance, to add-ons like gadget cover. In recent times the market has adapted to changing consumer demands and technological advances. Not all of these changes have been in the interests of customers, creating detriment and dissatisfaction.

This paper sets out seven issues affecting consumers of GI products, which the Financial Services Consumer Panel¹ has identified through discussions with stakeholders.

The list is not exhaustive; nor are the issues new. Addressing the issues one by one might alleviate the symptoms but would not cure the underlying disease. To do this requires a cultural shift by the industry, in order to restore trust and ensure that firms are truly 'treating customers fairly'.

Seven issues affecting consumers of GI products

- insufficient information to enable choice;
- lack of transparency and potential conflicts;
- an increase in charged for extras;
- lack of affordable cover for high-risk groups;
- disproportionate ancillary charges;
- auto-renewal and increasing renewal costs;
- poor post-sales and claims management processes.

It is important that the FCA continues to tackle unfair practices in the GI market. The Panel also urges the industry to help address these issues and the dissatisfaction experienced by consumers. In particular, we would like the industry to:

- be explicit where cover which a consumer might reasonably expect to be standard does not form part of a policy;
- show clearly in cash the price increases to auto-renewed policies and remind consumers in good time that they can shop around for a better deal;
- be clearer about the fees charged for basic policy changes and ensure charges reflect actual costs;

¹ <http://www.fs-cp.org.uk/>

- ensure information is presented in a way that encourages consumers to look beyond price when comparing policies, in line with Association of British Insurers (ABI) best practice guidance;
- be clearer about who owns comparison sites and whether or not they cover the whole of the market;
- put customers first, reward loyalty and move away from a culture that treats consumers with suspicion.

Background

As with many goods and services, people increasingly buy GI products on-line, often using a comparison website. Comparison sites are popular with consumers, and have enhanced competition within the market, often benefitting some of the smaller insurers. At the same time, the ability for consumers to shop around and switch providers easily has put pressure on insurers' traditional business models.

Against this background, the Panel selected the GI market as one of its strategic priorities for 2012/13. It examined the working of the market and the potential for consumer harm through a series of in-depth discussions with market participants (insurers and intermediaries), regulatory bodies and consumer groups (see Annex A). Although the Panel's focus encompassed all GI sales channels, many of the discussions focussed on internet sales issues, possibly due to the large number of transactions that now take place online.

The Panel looked for information about:

- the scope of cover offered by GI policies;
- the sales process;
- post-sales and customer service.

The discussions crystallised the six key issues of concern, which are set out in further detail below. These also provided the framework for a workshop organised by the Panel and attended by the FCA in April 2013.

Findings

Insufficient information to enable choice

It is difficult for consumers to make an informed choice about which policy to buy on-line. Policies tend to be promoted on headline price, with little other information about important features such as exclusions and excess fees. This leads to problems when consumers try to claim and realise that they are not covered for something, or have extremely high excesses.

This issue is not new and the industry has already made efforts to address it. In 2009, the ABI published Best Practice guidance to all insurance distributors, aimed at ensuring consumers could look beyond price when comparing policies². The guidance included elements such as the need to highlight where the displayed search results returned a different level of excess to that specified by the consumer.

² <http://www.biba.org.uk/PDFfiles/ComparisonWebsiteGuide2010.pdf>

However, as not all insurers and intermediaries have adopted the guidance, its impact has been limited. Products are still primarily promoted on headline price, with the risk that consumers will miss vital features when making a choice.

The FCA has said in its 2013/14 Annual Plan that it will review the risks that price comparison websites present to consumers and whether they comply with regulatory requirements³. It believes that self-service online models increase consumer information and product choice in core GI markets, but the focus on headlines distracts consumers from crucial product features such as coverage and terms⁴.

We welcome this review and look forward to working with the FCA and others to improve comparison websites for the benefit of consumers.

Transparency and potential conflicts of interest

There are clearly potential conflicts of interest between consumers, intermediaries and insurers. It is not always clear that insurers are the main owners of comparison websites⁵, nor whether the sites cover the whole of the market, or only certain segments of it. Some insurers have multiple brands aimed at different segments of the market, but again this is not always clear to the consumer. The consequences of this lack of transparency on consumers' buying decisions are uncertain. We would welcome further analysis being conducted in this area.

The Panel is aware of other transparency concerns, which ultimately inflate prices paid for policies by consumers. The Office of Fair Trading (OFT) in its recent private motor insurance market study found that insurers were not competing in the interest of consumers and have referred the market to the Competition Commission (CC). The report found instances of insurers referring "not at fault drivers" to credit hire organisations that charge high daily hire rates for replacement cars. The insurance company then receives a fee from the credit hire firm for the referral. The additional costs are borne by consumers through premiums rises. The OFT suggested that such practices push up premiums by £225 million a year⁶. We look forward to the outcome of the CC's investigation.

Charging for extras

Stakeholders had different perspectives on 'extras'. One point of view was that a basic product plus extras allows consumers to tailor insurance to their needs, rather like paying for allocated seating or checked-in baggage on a budget flight. However, consumers need to be confident they will get certain essential features with all policies and be able to extend cover in a way which meets their needs. In the case of travel insurance, for example, people might reasonably expect a standard minimum for cancellation, loss of baggage and medical cover in all policies. From this basic starting point they should be able to buy extra cover for additional risks such as dangerous sports or going on an adventure holiday.

³ <http://www.fca.org.uk/your-fca/documents/business-plan/bp-2013-14>

⁴ <http://www.moneymarketing.co.uk/regulation/fca-to-review-regulation-of-comparison-websites/1068443.article>

⁵ For example, Comparethemarket is owned by BGL group, which runs insurance brands like Beagle Street (http://www.bglgroup.co.uk/about/our_group_structure.php#s2), Confused.com is owned by Admiral (<http://www.confused.com/about-us/how-we-make-money>), and Esure owns 50% of GoCompare.com <http://www.gocompare.com/about/about-gocompare/>

⁶ <http://www.offt.gov.uk/news-and-updates/press/2012/44-12>

An alternative point of view is that charging for extras is just a way of raising the price of insurance. Which? research has established that certain product features that were historically included in the product price are now 'extras' for which consumers are required to pay a supplementary fee⁷.

There is scope to give further consideration to this issue, particularly in terms of establishing what basic levels of cover are in particular policy areas (eg. housing, travel, etc).

Ancillary charges

As with other sectors there is a concern that, as margins on products are squeezed, providers may use ancillary charges to boost profits. It may not be clear to consumers that these charges are fair and proportionate. For example, Which? suggests that some companies charge £35 to make a simple administrative change (e.g. getting married or change of address). It is not clear why it should cost so much to make a minor change to an electronic database.

This is clearly an issue of concern and one which goes to the core of firms' approaches to treating consumers fairly⁸.

Affordable insurance for high-risk groups

Basic policies with charged for extras may reduce the availability of affordable insurance for some consumers. There is a risk, therefore, that certain groups (e.g. particular age groups seeking travel or motor insurance) could become excluded from GI products as the scope of what firms deem to be mainstream becomes narrower and any non-standard requirements are not covered or carry prohibitively high charges.

Another current issue is the lack of availability of affordable insurance for people living in flood risk areas. Therefore, the recent agreement in principle between UK insurers and the Government to develop a not-for-profit flood fund – known as Flood Re – is a welcome development.

The new agreement will cap flood insurance premiums, linking them to council tax bands so that people will know the maximum they will have to pay. Funding to enable this will come from an industry-backed levy⁹.

Renewal premiums and automatic renewal

There is some evidence that insurers are exploiting their customers' inertia by increasing the price of renewal premium beyond that warranted by any additional risk. Which? research into household and motor insurance suggested that renewals are typically around 15 – 20% higher than the original policy purchase¹⁰. Consumers who auto-renew their policies have the benefit of continuous cover and may welcome having 'one less thing to worry about'. However, there is a need for greater transparency about changes in terms and conditions. Firms should make consumers aware of these in sufficient time before the renewal date, and remind consumers they can shop around.

⁷ "How to negotiate cheaper car insurance" - article in Which? magazine (pp55 – 57) in March 2012.

⁸ <http://www.fca.org.uk/firms/being-regulated/meeting-your-obligations/fair-treatment-of-customers>

⁹ <https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Flooding/Government-and-insurance-industry-flood-agreement/The-Future-of-Flood-Insurance>

¹⁰ "How to negotiate cheaper car insurance" - article in Which? magazine (pp55 – 57) in March 2012.

It is estimated that just under a third of drivers haven't switched insurer for more than three years. During this time, the average fully comprehensive car insurance premium has more than doubled¹¹.

Following an exchange of letters with Andrew Tyrie, Chairman of the Commons Treasury Committee, the FCA has said it will review the fairness of automatic renewal terms in consumer insurance policies. The Panel supports this and hopes it will raise consumer awareness of the need to consider switching products or providers.

Post-sales and claims management

It is the nature of insurance that consumers only find out whether their product works for them when the insured risk materialises and they need to make a claim. At this point, some may find the risk they reasonably expected to be insured against is not covered after all.

More generally, consumers often perceive a culture within the industry aimed at minimising claims and treating them all as potentially fraudulent. For example, the outsourcing of claims management and use of loss adjusters raises questions about payment and incentivisation structures. Loss adjusters are incentivised for keeping the value of claims down which in turn leads to consumers often having to face several hurdles before their claim is paid out or having to go through a series of negotiations to get payments that reflect the true value of a lost or damaged item, or the cost of replacing it. The hurdles, which range from providing historic documentation to having to provide multiple proofs of loss or damage at the expense of the consumer (eg. a manufacturers' letter certifying damage beyond repair, plus the actual damaged item), appear designed to encourage consumers to abandon legitimate claims. This happens at a time when people are particularly vulnerable having, for example, been burgled, involved in a car accident, or taken ill on holiday. It is perhaps not surprising, then, that the majority of GI complaints to the Ombudsman relate to claims.

Insurers, for their part, are understandably wary of consumers making fraudulent claims. However, the recent three quarter increase in complaints to the Ombudsman since 2009¹² could be taken as a signal that insurers may be placing too much emphasis on fraud at the expense of vulnerable claimants.

Many of the failures identified in the OFT private motor insurance market study¹³ were felt to have been caused by insurers failing to look after their customers. Whether there is a mismatch between policyholders' expectations and the scope of cover offered or whether insurers are failing to meet basic customer service standards, are issues which warrant further inspection.

Conclusions and next steps

As with many areas of financial services, some of the biggest challenges within the GI sector relate to culture, asymmetry of information and treatment of customers.

¹¹ http://www.mymoney24.co.uk/home/save_a_packet_on_your_car_insurance_1_1519814

¹² Ombudsman Service financial year 2012/13 annual review of consumer complaints about insurance, credit, banking, savings and investments.

¹³ http://www.ofc.gov.uk/shared_ofc/market-studies/private-motor-insurance/OFT1451-motor-insuranceMIR.pdf

The Panel has discussed these issues with the FCA's GI Policy and Supervision Teams. It is reassured that FCA is focussed on this area and welcomes the approach the regulator is taking to tackle culture as well as controls, as set out by Martin Wheatley at the recent BIBA Conference¹⁴.

The FCA is set to review both the risks that price comparison websites present to consumers and whether they comply with regulatory requirements and the process of auto-renewal of policies and whether it is fair. The Panel will continue to work with the FCA going forward and hopes to see a reduction in systemic poor practices and an increase in positive outcomes for consumers.

The panel also believes that more could be done to tackle consumer harm in the following areas:

Pre-sales

- Insurers need to ensure consumers are aware of the full cost of GI products, are clear about what is and isn't covered (particularly when it may be reasonably expected), and what excess charges will be applied in the event of a claim. Availability of this information up front, in a clear and easily understood format, should reduce a lot of the post-sale dissatisfaction consumers feel.
- The extent to which consumers understand who owns comparison websites, what parts of the market they cover etc, is often unclear. The extent to which this is problem, and whether having this knowledge would alter a consumer's purchasing decision, is little understood. Further work in this area could prove insightful and help inform regulatory policy and approaches.
- The principle of 'basic policy plus extras' is fine in principle, but insurers should determine what consumers expect to be included in the basic product and use this as an industry standard. Additional charges should be completely transparent.

Post-sales

- Ancillary charges should be fair and proportionate to the cost incurred by the firm and should not be seen as a means to increase profit.
- Auto renewal has its benefits and ensures that people are always insured. However, it should not be seen as a way to take advantage of consumers' inertia. Loyalty should be rewarded not exploited.
- Consumers should be provided with a positive experience, rather than being treated with suspicion and facing a battle to successfully make a claim when they may be at their most vulnerable and distressed having had the risk they were insuring against (eg loss or damage to property or family) materialise.

Financial Services Consumer Panel

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¹⁴ <http://www.fca.org.uk/news/firms/meeting-the-growth-challenge>

Annex A – list of organisations the Panel held discussions with during the process of producing the GI report

Type of organisation	Organisation
Regulatory bodies	<ul style="list-style-type: none">• Financial Ombudsman Service (FOS)• Financial Services Authority (FSA)• European Insurance and Occupational Pensions Authority (EIOPA)• Office of Fair Trading (OFT)
Consumer groups	<ul style="list-style-type: none">• Citizens Advice (CAB)• Which?
Insurers	<ul style="list-style-type: none">• Association of British Insurers (ABI)• Aviva• AXA
Intermediaries	<ul style="list-style-type: none">• British Insurers Brokers' Association (BIBA)• Compare the Market (CtM)

All discussions took place between August and October 2012.