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15 May 2020

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Dear Sir/Madam

The Financial Services Consumer Panel (The Panel's) response to the Product Value and Coronavirus: Draft Guidance for Insurance Firms

The Panel welcomes this bold move from the FCA which makes firms seriously consider whether their products can offer the intended value to consumers throughout the supply chain during the pandemic. The Panel generally supports the proposed guidance. It links to the FCA's earlier work on General Insurance (GI) Value Measures,¹ to which the Panel responded,² and we hope this lays the foundation for a real change in firm culture in the insurance sector, where value for the consumer is put first over business and pricing models. Firms should pay particular attention to their SME customers where complicated distribution chains were leading to poor value for these customers as shown in the FCA's Sector Views earlier this year³ and, to the position of vulnerable customers whose ability to obtain value from their insurance during the pandemic might be different to other customers' (e.g. people who are "shielding" for health reasons might not be able to use their cars at all.)

The Sector Views also showcased the lack of trust consumers had for the insurance industry⁴ over banks and building societies. With the main reasons for distrust being misleading terms and conditions and unclear content, this is an opportunity for firms to build relations with their customers which will lead to benefits for both the consumer and for industry. Firms should base their consideration of product value on a rounded (and, where possible, researched) view of consumers' own interpretation of their needs and intended benefits, not unreasonably limited to the wording of demands and needs statements and contractual terms.

Given that there is already a requirement for firms to act in the consumers' best interests in the ICOBS rules⁵, the Panel feels that allowing firms six months to conduct this review is too long. Consumers will still be suffering harm in this time, in addition to potentially having to face other financial challenges caused by the pandemic. As the FCA has recognised, some firms are *already* considering the value of their products to

¹ <https://www.fca.org.uk/publications/consultation-papers/cp19-8-general-insurance-value-measures-reporting>

² https://www.fs-cp.org.uk/sites/default/files/fscp_response_cp19_8_-_gi_value_measures_response.pdf

³ <https://www.fca.org.uk/publication/corporate/sector-views-2020.pdf#page=32>

⁴ <https://www.fca.org.uk/publication/corporate/sector-views-2020.pdf#page=32>

⁵ ICOBS 2.5.-1R

customers and acting accordingly! The guidance should specify that firms develop a reasonable prioritisation of work, based on factors such as customer numbers, claims experience and renewal seasonality, and set an expectation that firms complete prioritised product reviews within an overall timeframe (we suggest 3 months rather than 6).

The guidance states it is "*restricted to cases where the firms or the product itself cannot deliver a benefit, or where the customer cannot make a claim as the underlying event is no longer relevant.*" The FCA should be cautious about giving firms too much discretion by restricting cases to which this guidance may apply, to just these scenarios. Firms must be reminded of their duty to act in the consumers best interests overall. The guidance should create an expectation that firms act where there is a material change in risk, not just where the risk or benefit is ruled out completely. The result of such review might be that the firm takes no action, but firms would have to be transparent about that with the FCA and other stakeholders.

Value is an important consideration for firms and consumers at renewal. With insurance contracts due for renewal either within, or shortly after, the proposed six-month period to review product lines, it is important that firms adhere to the FCA guidance around insurance renewals.⁶ There should have also been a clear requirement in the product value coronavirus guidance for firms to review product lines *before* imminent policy renewals, *and* for new policies sold in this time. At renewal, we would be concerned that the 'cost-to-cover' ratio of any insurance policy is significantly altered without the consumer being explicitly told that is happening, then being offered an alternative product where the ratio is closer to that of the original product.

Assertive supervision will be paramount in this sector. It is important that Supervision teams are adequately resourced and equipped to ensure firms adopt a consistent approach and that the guidance is being adhered to as intended. As we have said before, the FCA must have a clear picture of what good outcomes for consumers look like early on, with a view to evaluate the success of the guidance overall at a later stage. The FCA should consider its work on GI Value measures metrics⁷ to see how it could help assess the effectiveness of its guidance in the future.

Yours faithfully

Wanda Goldwag
Chair, Financial Services Consumer Panel

⁶ <https://www.fca.org.uk/firms/insurance-and-coronavirus-our-expectations>

⁷ <https://www.fca.org.uk/publications/consultation-papers/cp19-8-general-insurance-value-measures-reporting>