

General insurance pricing practices market study

Feedback to CP20/19 and final rules

Policy Statement

PS21/5

May 2021

This relates to

Consultation Paper 20/19
which is available on our website at
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25 June 2021 – We have updated the implementation date of some of our rules relating to premium finance disclosure (ICOBs 6A.5.2R and 6A.5.3R) which will now come into effect on 1 January 2022, instead of 1 October 2021. Please refer to our [Handbook Instrument Annex B](#) on page 4.



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1 Summary

- 1.1** Our general insurance pricing practices market study found that the home and motor insurance markets are not working well for all consumers. While many people shop around, many loyal customers are not getting good value. We found that 6 million policy holders paid high prices in 2018 – if they paid the average for their risk they would have saved £1.2bn.
- 1.2** In September 2020, we published a [consultation paper](#) setting out a proposed package of remedies. In this paper, we summarise the feedback received in the consultation and introduce new rules to address the harms we identified.

Who this affects

- 1.3** This will affect:
- general insurers and intermediaries
 - life assurers and intermediaries selling pure protection business
 - trade bodies representing these firms
 - consumers and consumer organisations
- 1.4** In this Policy Statement we generally use the terms '[customer](#)' and '[consumer](#)' in line with the application of the rules; however, sometimes context dictates that we use the terms in their non-technical sense. Please see the Handbook text for the application of the rules.

The wider context of this Policy Statement

The findings from our market study

- 1.5** General insurance products give customers protection when things go wrong, for example if they have a car accident or their house is damaged. It is important that the general insurance sector works well for customers.
- 1.6** In 2018, we published TR18/4: Pricing practices in the retail general insurance sector: [Household insurance](#). This identified the issues relating to firms' pricing practices that presented the most potential for significant harm and poor outcomes for consumers. We conducted the general insurance pricing practices market study to investigate these concerns in more detail.
- 1.7** We published the market study [final report](#) in September 2020 which provides more discussion on the harm identified. We found that firms use complex and opaque pricing techniques for home and motor insurance to identify customers who are more likely to renew with them. Firms then increase prices for these customers each year at renewal, in a process known as 'price walking'. This results in some customers paying high prices relative to their cost to serve. In addition, some firms engage in practices

that can discourage customers from shopping around. While lower prices are available for customers if they regularly switch or negotiate with their existing provider, price walking distorts competition and leads to higher overall prices for customers.

Delivering fair value in a digital age

1.8 Our findings showed that markets are failing to achieve fair value for those consumers who are paying a loyalty penalty. We explained in our 2020 business plan the three target outcomes we want to see, to ensure consumers get fair access, price and quality:

- consumers can choose from products that meet their needs, at a suitable quality and price
- digital innovation and competition support greater value for consumers
- vulnerable consumers are not exploited or targeted with poor value products and services and access to key products and services is fair.

1.9 Our remedies aim to ensure consumers receive fair value in the home and motor insurance markets, primarily by ensuring that customers can make choices, and receive products and services at a suitable quality in relation to the price, over the lifetime of the customer relationship.

1.10 The remedies will support our other work to deliver these outcomes, including the new Consumer Duty, on which we are currently consulting (CP21/13), and our recently-published [Guidance for firms on the fair treatment of vulnerable customers \(FG21/1\)](#).

Our consultation

1.11 We consulted on a package of measures to improve competition and ensure firms offer fair value products in the future, including:

- A pricing remedy requiring that when a firm offers a renewal price to a customer, this should be no greater than the equivalent new business price (ENBP) for a new customer.
- Enhancements to our existing product governance rules to ensure firms have processes in place to deliver products that offer fair value to customers. These provisions would apply to all non-investment insurance contracts, including all types of general insurance and pure protection insurance, not only to home and motor insurance.
- Rules requiring firms to offer a range of accessible and easy options for consumers who want to cancel auto-renewal on their contracts. We proposed applying these provisions to all general insurance contracts sold to retail customers.
- Reporting requirements to help ongoing supervision of the home and motor insurance markets and help us monitor firms.

1.12 Alongside our consultation, in September 2020 we also introduced new reporting and governance requirements around [value measures](#). These give greater transparency around product value and provide [specific metrics](#) for firms to consider when assessing whether their own products offer fair value to their customers.

How these measures link to our objectives

Ensuring relevant markets function well

- 1.13** These measures are designed to improve the way general insurance markets function. At present, competition is not working effectively for all consumers, which is leading to poor outcomes for many customers.

Competition

- 1.14** Price walking distorts competition and increases costs for consumers and firms. Our remedies are designed to improve competition in these markets by preventing firms from price walking customers and ensuring they deliver fair value.

Consumer protection

- 1.15** Some consumers have been harmed by paying very high prices over a long period, and by practices that have discouraged them from shopping around. Our remedies are designed to reduce harm for these consumers and secure an appropriate degree of protection for them.

Summary of feedback and our response

- 1.16** We received 101 responses to our consultation. Respondents included insurers, intermediaries, service providers, professional and trade bodies, consumer organisations and individuals. We also met with many of these stakeholders during the consultation period.
- 1.17** We hosted three online events to discuss the package of remedies and published a follow-up Q&A document addressing questions raised at these events. This Policy Statement supersedes the contents of this Q&A document, which we have therefore removed from our website.
- 1.18** Overall, respondents felt that our remedies were necessary to address the harms that we found. Most respondents felt they were proportionate, although some firms considered that some of our proposals would raise costs and may not deliver corresponding benefits to consumers.

Implementation period

- 1.19** Many respondents expressed concern around the proposed implementation period, which they felt would be insufficient to allow them to deliver the required operational and business-wide changes while working under significant pressure to deal with the impacts of the Covid-19 pandemic.
- 1.20** In response to this feedback, we announced on 23 March that we would continue to apply our original proposal requiring firms to implement by the end of September 2021 any rules we introduce relating to systems and controls (SYSC), retail premium finance (ICOBS 6A.5) and product governance. We also announced that firms would have until the end of 2021 to implement any rules on pricing, auto-renewal and reporting.

1.21 Our rules on pricing, auto-renewal and reporting will come into effect on 1 January 2022, with a transitional provision for the rules on pricing and auto-renewal disclosure. This allows firms until 17 January to have their processes in place, providing they backdate benefits to customers to 1 January.

1.22 Our rules on systems and controls (SYSC), retail premium finance rules (ICOBS 6A.5) and product governance come into effect on 1st October 2021.

Pricing remedy

1.23 Respondents generally accepted the need for FCA action to address price walking. However, respondents raised several questions about how the proposed rules would operate in practice. We propose to introduce the pricing remedy broadly in line with our consultation. However, we are introducing some changes to address issues raised by respondents, which are set out in Chapter 3. These include:

- more detailed rules on the treatment of incentives
- amendments to our rules on the treatment of closed books
- more guidance on how firms must set renewal prices where there is new risk information available or where risk information is missing
- amendments to our anti-avoidance provisions to clarify how firms should treat fees not included in the premium.

1.24 To inform our policy approach to discounts and incentives we conducted an online experiment looking at consumer perceptions of and response to such incentives. Alongside this Policy Statement, we have published the details and results of this experiment in a research paper.

Product governance

1.25 Respondents broadly agreed with our proposals. Some felt that the requirement for an annual product review may be disproportionate. Others were concerned that some requirements may involve sharing commercially sensitive information that could breach competition laws. We were also asked to clarify the scope and expectations of proposals for retail premium finance sold alongside insurance. We have responded to these points in Chapter 4. We are also making minor changes to the rules, notably around the sharing of data and the responsibilities of different parties in the distribution chain. These rules also supersede GI distribution chain: Guidance for insurance product manufacturers and distributors ([FG19/5](#)), which we will withdraw when they come into effect.

Auto-renewal

1.26 There was widespread support for our proposals to prevent barriers to consumers who want to exit their auto-renewal arrangements. However, some respondents expressed concern about the proposed requirement for firms to allow consumers to cancel auto-renewing arrangements by telephone, post and email or online. They argued that this would involve significant costs for firms whose business models do not involve these channels. Other respondents questioned our proposals to apply our rules to all GI products and raised concerns on their application to health insurance and pet insurance where changing insurer can lead to pre-existing conditions no longer being insured.

- 1.27** We are proceeding with our proposals, but with some changes, outlined in Chapter 5. These include allowing greater flexibility on the methods firms offer consumers to cancel auto-renewal which must include the methods by which a consumer is able to take out a new policy. We are also excluding private health and medical, and pet insurance, where customers could lose cover for pre-existing conditions or acquired benefits if they unintentionally don't renew.

Reporting

- 1.28** There was some support for our proposals, including from consumer organisations. However, some respondents questioned whether the proposals were proportionate and whether they would meet our objectives. Some suggested clarifying definitions and queried the scope and granularity of the proposals. We have decided to make some changes to our reporting proposals in response to feedback, simplifying several of the reporting requirements, and introducing additional reporting requirements for reporting on closed books and prior year premiums for different cohorts of renewing customers. We outline these changes in Chapter 6.

Outcomes we are seeking

- 1.29** As part of the consultation, we were asked to provide more detail on our vision and what we think the market dynamics will be after implementation.
- 1.30** Competitive pressures will influence how different firms will respond to our remedies and we expect firms to update their business models within their own specific context. Our package seeks both to improve outcomes for consumers and to bolster competition. They are designed to work together, to deliver outcomes we wish to see in a well-functioning market where:
- Firms compete in effective and innovative ways to provide long-term fair value (reflecting both price and quality of service and/or cover) for all customers throughout the duration of their relationship with the firm. This is ingrained in their behaviour and underpinned by strong governance. Improved competition enables consumers to make more informed decisions, based on overall product cost and quality. All customers continue to receive fair value over the long term as technological developments advance.
 - Firms do not engage in practices that limit customers' ability to make informed choices. They are transparent with consumers about the overall cost and quality of products from the start. They do not impose barriers to consumers switching to better deals. This helps consumers make more informed choices about which general insurance products meet their needs.
 - Customers can trust that firms are offering long-term fair value. Consumers who remain with their insurance provider can be sure that they will not end up paying high prices simply because they have not switched provider. They no longer need to search, switch or negotiate at every renewal to avoid price walking.
 - Differences in firms' products, including the type of service and quality they offer, in the evaluation of insurance risks, and in pricing structures, maintain the incentive for consumers to search and switch in the market. This drives competition and helps to ensure that all consumers receive fair value. Over the longer term, new technology helps make it easier and quicker to search and switch to better deals.

Measuring success

- 1.31** We are putting in place a supervisory approach to ensure firms comply with rules we implement. Before the implementation date, we will monitor firms' readiness. Following implementation, we will use a range of tools to assess firms' compliance, including thorough analysis of reporting data and attestations, as well as consumer and market intelligence. We will also monitor how the market may change following implementation of our rules. The reporting data we receive from firms will help measure success and allow us to track changes in the market and identify firms that continue to engage in price walking. We will use this information in our supervisory engagement with firms to hold them to account and ensure our remedies continue to work in the future.
- 1.32** We will undertake a longer-term evaluation to understand the effect on the market. We envisage this beginning in the first half of 2024, as by that time we will be able to assess the impact of the pricing remedies on customers after at least two renewals, and three renewals for some consumers. To facilitate this, we may need to collect additional data from firms over and above the reporting measures set out in Chapter 6.

Next steps

- 1.33** The rules we are introducing come into force on:
- 1 October 2021 for the systems and controls (SYSC), product governance (PROD), premium finance provisions (ICOBS 6A.5) and related glossary changes (in Annex A Part 1, Annex B Part 1, Annex C, Annex D Part 1 and Annex E of the instrument published in the Appendix of this Policy Statement). The GI distribution chain: Guidance for insurance product manufacturers and distributors (FG19/5) will also be withdrawn when these rules come into effect.
 - 1 January 2022 for the pricing and auto-renewal remedies, reporting requirements, and related glossary and administrative changes (in Annex A Part 2, Annex B Part 2, Annex D Part 2 and Annex F of the instrument), with a transitional provision until 17 January 2022 for the pricing and auto-renewal disclosure rules.

2 The wider context

2.1 In this chapter, we address feedback to some of the broader issues raised in response to our consultation.

The proposed implementation period

2.2 In CP20/19, we proposed that any new rules would come into effect four months after we publish our Policy Statement.

Q1: *Do you have any comments on the proposed implementation period?*

2.3 Many firms and trade bodies expressed concern that a 4-month implementation period would be unrealistic for the scale of changes that firms would need to make. They highlighted that they need to make significant changes to IT and reporting systems, pricing models, governance and coordination through the distribution chain. While some firms felt that a minimum period of 6 months would be needed, the majority said they would need at least a 12-month period to implement the rule changes.

2.4 Some respondents said it would be particularly difficult to undertake the work at the same time as other new regulatory requirements (such as the value measures rules) and legislative changes (such as in relation to whiplash claims), and while working patterns are disrupted due to the Covid-19 pandemic.

2.5 Firms warned that rushing to meet a tight timeframe could lead to a range of problems including cursory or ineffective implementation, workarounds and increased risk of mistakes in pricing. Some firms said that they could freeze new business or exit the market for a period, or for good.

2.6 Firms said a short implementation period could create unpredictability in prices for both new and existing customers. They also argued that a short timeframe for technology change favours insurers with the most sophisticated models already in place and this could weaken competition and consumer choice.

2.7 Several respondents felt that the proposed implementation period was sufficient. A few intermediaries and one insurer felt it would be achievable for them. Consumer groups in particular welcomed a short implementation period to deliver the benefits from the reforms.

Our response

As noted in Chapter 1, on 23 March 2021 we announced that we would continue to apply our original proposal requiring firms to implement by end of September 2021 any rules we introduced relating to systems and controls (SYSC), retail premium finance (ICOB 6A.5) and product

governance. We also announced that firms would have until the end of 2021 to implement any rules on pricing, auto-renewal and reporting.

Following this announcement, several firms contacted us to ask for a short extension to the implementation period, as they felt that introducing the IT changes needed would be difficult alongside reporting and other year-end obligations.

For the pricing and auto-renewal disclosure rules, we are adding a transitional provision. This will allow firms until 17 January 2022 to implement processes, providing they compensate any customers who suffer a loss resulting from the failure to have processes in place on 1 January. For the pricing remedy, the provision requires firms to make good any pricing differences for consumers who received higher quotations than they would have done under the new rules. For disclosures required under the new auto-renewal rules, firms must contact customers to provide the required information where this has not been done on time. Firms must do this by the end of February 2022.

We are mindful of the challenges posed by the implementation of these remedies and recognise that firms would ideally have wanted 12 months to implement them. However, we believe it is essential that the reforms are implemented as soon as practicable to address the harm that price walking causes customers.

We expect firms to implement the rules on or before the deadlines. We will monitor firms' change programmes and will check their progress regularly. We will consider appropriate action if we find evidence that firms have not taken sufficient steps to implement the rules by the implementation date, including action to ensure they take appropriate steps to repair any harm that arises, especially financial loss to consumers. Our response to Question 7 explains the attestations firms will need to make if they exercise the transitional provision, or to say that they did not exercise this provision.

Equality and diversity considerations

2.8 In CP20/19, we said that our proposals might have an impact on people with the protected characteristic of age under the Equality Act 2010.

- Where older people renew regularly with the same insurer and currently pay higher prices than equivalent new business customers, they might find their insurance premiums are reduced to the ENBP.
- Where younger people currently shop around regularly for insurance, they might find the premiums offered by new insurers increase as a result of our proposals. This is because new business discounts might not be as common or significant.

Q2: *Do you have any comments on the possible impact of our proposals on people with protected characteristics under the Equality Act 2010?*

- 2.9** There were 35 responses to this question. Many respondents expressed concerns that price-sensitive consumers were most likely to see an increase in premiums under the proposed remedies, including those under financial pressure, such as low-income groups and young drivers. Some said the impact of the remedies is likely to be redistributive, as other customers will see premium reductions.
- 2.10** A few respondents said they do not believe customers with protected characteristics would be affected any differently to those without such characteristics. On the other hand, we heard from consumers who said their protected characteristics made it difficult for them to engage with the market at present, and who welcomed the proposals.
- 2.11** Some respondents called for us to monitor the effects of the remedies on premiums for customers with protected characteristics and to remain vigilant in checking that pricing and product features do not discriminate against customers with protected characteristics. Some respondents noted that firms' pricing models may use rating factors correlated with race or other protected characteristics, which could result in different pricing outcomes for these groups.
- 2.12** Some firms asked for further guidance on how they should approach the use of data linked to protected characteristics. For example, we were asked whether age could be a factor for margin pricing, what external data may 'implicitly' relate to race, ethnicity or other protected characteristics and whether there is an obligation to cross-check whether permitted data used correlates to protected characteristics. Others thought that we should be monitoring pricing on the basis of race to ensure consumers are not adversely impacted based on race.

Our response

In the final report, we looked at the characteristics of consumers who are of longer tenure and so, on average, pay higher margins as a result of price walking. Age is the main factor correlated with tenure. For motor insurance, the average tenure of consumers younger than 45 years of age is less than 2 years. For consumers 65 and above it is more than 4 years. A similar relationship between age and tenure is observed for home insurance.

We recognise that our interventions could lead to price increases for price-sensitive consumers, including younger consumers, who regularly shop around for their insurance. However, current new business prices are often unsustainably low as they are designed to attract customers who will pay significantly more in the future or are subsidised by loyal customers. We do not think this provides fair value to consumers overall. Nor are these very low prices always offered to regular switchers.

We expect the introduction of our remedies to make the supply of insurance more efficient, resulting in lower costs and therefore lower prices overall. In addition, switching is costly in terms of consumer time and firm resources, so a reduction in the level of switching will reduce costs for both consumers and firms. In the longer term, we therefore believe that our remedies will improve competition and ensure firms

deliver fair value to their customers. This is fundamental to a healthy and well-functioning market which is in the interest of all consumers.

We will monitor how firms react to our proposals. If we see conduct that breaches our rules result in customers with protected characteristics suffering harm, we will take appropriate action.

Firms need to ensure the data they use in pricing does not discriminate against customers based on any of the protected characteristics under the Equality Act 2010, unless permitted by the Act. In Northern Ireland, where the Equality Act is not enacted but other anti-discrimination legislation applies, firms should ensure that they comply with any applicable legislation and FCA rules and guidance.

We are also exploring potential further work to study whether there are correlations between profit margins and the racial composition of local geographic areas that could result from pricing algorithms.

Firms asking for further guidance on how they should approach the use of data linked to protected characteristics should refer to our [2018 thematic review of pricing practices for household insurance](#). This outlines some of the findings from our work on this issue. Where firms use external data within their pricing models, they should undertake appropriate due diligence to ensure that the data does not include factors that might have the potential to discriminate based on protected characteristics.

Application to firms based in Gibraltar and firms in the temporary permissions regime

2.13 At least 20% of UK motor insurance is purchased from firms in Gibraltar. To ensure all firms serving customers in the UK are subject to the same rules, we proposed to apply the remedies to Gibraltar-based firms (whether selling into the UK on a services or branch basis) and firms in the temporary permissions regime. This will ensure that UK customers are subject to the same protections if they buy insurance from a firm in Gibraltar or the temporary permissions regime.

Q3: *Do you have any comments on our proposal to apply the rules on which we are consulting to firms based in Gibraltar and firms in the temporary permissions regime?*

2.14 Most respondents who answered this question supported the proposal and expressed support for a level playing field for firms with customers in the UK.

2.15 Respondents based in Gibraltar broadly supported the proposals but asked for more clarity on how the process would work in practice. In particular, firms asked:

- how the proposed requirement for senior manager attestation relates to the UK Senior Managers and Certification Regime (SM&CR) in jurisdictions that do not have the same regime, and

- how the reporting requirements would apply to non-UK firms.

2.16 They also said the FCA and Gibraltar Financial Services Commission (GFSC) should work together to minimise any resulting costs and regulatory overlap.

Our response

We consider that it is important for all firms selling home and motor insurance in the UK, whether they are based in the UK or elsewhere, to be subject to the rules we are making in this Policy Statement. This ensures effective competition in the interests of consumers and an appropriate degree of consumer protection. We are therefore taking forward the approach on which we consulted.

We have engaged with the GFSC and will continue to work with them in relation to the supervision of Gibraltar-based firms under these rules.

As discussed further in Chapter 3, we are making some changes to the requirement for senior manager attestation. We are clarifying that, where firms are subject to the SM&CR, the person making the attestation needs to hold a relevant Senior Manager Function (SMF) under the regime, but this is not required where firms are not subject to the SM&CR. Instead, for firms based in Gibraltar or subject to the temporary permissions regime, the person making the attestation must be a director, as defined in our rules.

Chapter 6 discusses the reporting requirements in more detail. We expect all firms, whether based in the UK or not, to submit data to us directly.

3 The pricing remedy

3.1 Our consultation set out our proposed pricing remedy. In this chapter, we summarise the feedback received, our response and outline the rules we are now introducing.

A ban on price walking

3.2 In the consultation, we proposed to introduce a pricing remedy, so that a firm must offer a renewal price to a consumer that is no greater than the equivalent new business price (ENBP) that it would offer a new customer.

Q4: *Do you have any comments on our proposal to ban price walking?*

3.3 We received 78 responses to this question, with the majority agreeing with our proposals.

3.4 Some respondents said that the proposals would reduce competition in the market. They said the proposed remedies might result in higher new business prices for customers who regularly shop around at renewal and this could lead to a reduction in shopping around. Others said we should provide more information on the expected competition impacts.

3.5 One respondent said the proposals could impact firm profitability and have a knock-on impact on insurers' capital positions.

3.6 Some respondents said insurers are likely to reduce cover or increase costs for additional products if they cannot increase the premiums of core insurance products.

3.7 A few respondents said our package of remedies would be insufficient to reduce consumer harm. They said more work is required on product value and transparency across the general insurance market. It was also suggested that we should consider measures such as caps on premium increases, to protect consumers from firms raising premiums to replace money they would have made through price walking.

Our response

We are making rules to take forward the pricing remedy. We are, however, making some changes to the rules to address issues raised in feedback.

In the final report for the market study, we set out our analysis of the likely impact of the remedy package on the nature and intensity of competition for new customers. There is intense competition for new customers in the current market and we expect that to continue. We expect the nature of competition to improve, with consumers being better informed about the overall cost of products when they choose an insurance provider and firms becoming more focused on delivering fair value to consumers.

Different firms have different business models and pricing strategies. Firms that currently use price walking more extensively will need to adapt their new business prices more than firms with less reliance on price walking. Therefore, there may be a redistribution of market shares, revenues, and profits between firms as competition evolves, and new business prices may rise for some customers, particularly those who shop around regularly. This may impact on the profitability of some firms.

We are not proposing to introduce additional measures, such as caps on premium increases. We consider that the package of remedies we are introducing will be sufficient to ensure firms offer fair value insurance going forward.

We recognise that some firms could seek to reduce the quality of insurance products, or attempt to upgrade renewing customers, purely to charge them higher prices. We remind firms of their obligations to deliver products that offer fair value to customers, which are outlined in Chapter 4.

This is a complex intervention, and some effects will depend on how firms respond and how consumer behaviour changes. We will look closely at how firms change their business models in response to the remedies. We will also undertake an evaluation to understand the effect of our remedies on the market. Where we find continuing consumer harm, we will take appropriate action.

Timing of the pricing assessment

- 3.8** Many firms asked us to confirm the timing of the assessment for calculating the ENBP. Renewal notices are generally sent a month or more before policies renew, and prices can change before the policy renewal date. Firms said the rules should require that the renewal premium is no higher than the ENBP on the date the renewal notice is prepared, rather than on the date the policy renews, as firms would not know the renewal date premium when sending out the renewal notice.

Our response

The pricing rules apply at the point when a firm prepares a customer's renewal notice, not at the point the customer's contract is renewed. This is the point at which a firm should calculate the ENBP.

Insurers frequently change their prices. This has some implications for how customers understand the pricing remedy. An insurer could offer a compliant renewal notice (ie, one that is in line with the ENBP on the day it is prepared) but, because the insurer subsequently changes its pricing, the consumer could then find the same insurer offering a lower price nearer to the renewal date. This is already a feature of the market. Firms may want to highlight this possibility to consumers in the renewal letter.

As we said in the March announcement, the pricing rules will apply to renewal notices prepared after the rules take effect, rather than to policies renewing after the rules take effect.

Additional risk information

- 3.9** Many firms said the rules should be amended to clarify that, when calculating the ENBP, they can take account of additional risk information obtained during the contract term. Firms could, for example, have data from telematics devices showing if the customer represents a greater or lesser level of risk. Some respondents also suggested that we prescribe the permissible risk factors to calculate the ENBP, to ensure a consistent approach to pricing across the market.

Our response

In Paragraph 3.8 of CP20/19 we acknowledged that 'the renewal quotation may differ from last year's premium due to changes in the consumer's risk since they became a customer or since the last renewal'. This was reflected in the proposed guidance, which allowed a firm to take account of any additional risk information acquired during the term of the customer's current policy where this information is:

- information the customer would be asked to disclose if they were a new business customer or
- information about new business customers that would be available to the firm from other external sources of information.

We consider that firms should calculate the ENBP, taking into account all available information on changes to the consumer's risk, irrespective of its source. We changed the rules to reflect this.

Some respondents have pointed out that the customer's risk often decreases with tenure. For example:

- there is typically a lower risk of fraud with renewing customers than with new customers
- information such as telematics may show a driver is lower risk than previously priced
- some firms have said that the customer's tenure may itself be a factor indicating a lower risk

The ENBP should reflect the customer's actual risk, regardless of whether that has increased or decreased over the term of their insurance. For that reason, our rules also require firms to take account of new information available at renewal that indicates a reduction in the customer's risk when calculating the ENBP. This is better aligned to the intended outcomes as set out in CP20/19 and will result in fairer and more accurate prices for customers. More generally, we do not intend to prescribe the risk factors that firms must always use as this would constrain their discretion to price according to risk.

Missing risk information

- 3.10** Firms also asked how they should treat long-standing customers where they lack some relevant information required to calculate the ENBP. It may be, for example, that a firm now asks new business customers for information that they did not gather in the past. Other firms said that they take behavioural factors into account in new business pricing. For example, if there is a longer period between the quotation being obtained and the start date of the policy, some insurers give 'quote to inception' discounts. Not having this information at renewal makes it impossible to calculate the ENBP in exactly the same way as for new customers.

Our response

We understand that there could be situations where firms have information on new business customers that is not available for renewal customers.

We have considered whether we should specify in the rules a particular proxy to be used in place of the missing information. For example, we could require firms to replace missing information with the average customer's information, or that which gives an outcome most favourable to the renewing customer. Those who addressed these suggestions in their responses were broadly opposed to both, and we have concluded that neither is practical as they could lead to inaccurate pricing.

Instead, we have added guidance making it clear that firms may determine their own approach to how they take account of any missing information when calculating the ENBP. However, we also make clear that firms must be able to demonstrate that the product offers fair value and the renewal price does not systematically discriminate by tenure.

We remind firms of their broader obligation to ensure that the insurance contracts they propose to customers are consistent with that customer's demands and needs. This applies equally to renewing contracts as to new business contracts. If firms do not have sufficient information to satisfy themselves that a renewal contract is consistent with those needs, they will need to obtain and consider that additional information before proposing a renewal. As part of the record-keeping requirements, firms should also record information on how they ensure they do not discriminate against customers of longer tenure.

Payment methods and distribution channels

- 3.11** Respondents asked us to clarify how firms should use the customer's payment method when determining the ENBP. Some respondents also asked us to reconsider the proposed rule requiring firms to calculate the ENBP for renewing customers based on their initial payment method when they first took out the policy. For example, a customer may have paid in a lump sum in their first year, then switched to a monthly direct debit in the second.
- 3.12** We were also asked to clarify which distribution channel to attribute a renewing customer to if the firm does not have a record of the original channel used or if the customer had switched channel during the initial acquisition process.

Our response

Under the draft rules, firms would have been required to assume that customers had selected the same payment method (annually or monthly) as they originally used to pay for their policy when determining the ENBP. However, having considered the feedback, we have removed this requirement.

Under the PROD rules firms will need to consider how they use customer payment methods to determine the risk price and whether this is consistent with providing fair value. Firms would be contravening the fair value requirements where they increase the price of insurance products because the customer is purchasing the policy using retail premium finance, unless the firm has an objective and reasonable basis for making the change.

Where firms do not have a record of the original distribution channel, we have introduced a rule requiring firms to use the channel most commonly used by new business customers when calculating the ENBP. If the customer had switched channel during the acquisition process, then the firm should use whichever channel, or combination of channels, was used to determine the price for that particular customer at new business.

Flexibility to define distribution channels

- 3.13** The rules require firms to determine the ENBP based on the original distribution channel used by the customer. Firms asked how much flexibility insurers and intermediaries have to define their distribution channels.

Our response

In ICOBS 6B.2.5R and ICOBS 6B.2.6G, we have guidance that firms should treat each intermediary chain, price comparison website (PCW) or affinity/partnership scheme through which it sells policies as a separate channel. Other than that, the rules allow firms to interpret the term distribution channel in a way that works for their own business model. A firm could have different channels for each brand it operates. A firm could also treat sales that have come from different types of marketing as different channels.

Discounts and incentives

- 3.14** Several respondents felt that, unless our rules prevented it, firms might offer discounts and incentives to new customers to subvert the aims of the pricing rules. For example, firms might offer a discount for new business customers and reduce this discount at subsequent renewals to reproduce the effect of price walking.
- 3.15** There were different opinions on whether firms should be able to offer discounts or incentives to new business customers and, if so, whether there should be any limits on the type of incentives that could be offered. For example, some respondents pointed out that some incentives, like vouchers, are very similar to a monetary discount.

- 3.16** Some respondents suggested firms should be able to offer new business cash incentives, without having to replicate these for renewal customers, providing they made it clear that it is a one-time discount for new customers and they give an indication of what the price for that customer might be in future years.
- 3.17** One respondent asked how the rules apply to discounts for certain types of customers, such as staff discounts. Another respondent asked whether there should be cap on the value of any discount that can be offered.
- 3.18** Other respondents argued that cash and non-cash incentives (such as retail vouchers) offered to new business customers should replicated in the ENBP, because otherwise firms could use them to continue price walking customers.
- 3.19** Some respondents also referred to the role of price comparison websites (PCWs) and other intermediaries and the extent to which they could offer incentives. As PCWs typically only distribute new business policies, respondents said the approach to incentives should not disadvantage other types of firms compared to PCWs.

Our response

Following the feedback received, we have considered whether the ENBP should take account of other types of incentives. The use of incentives can be a part of healthy competition. However, incentives that are only available to new business customers can distort competition and lead to a difference in the effective price for new and renewal customers. New business incentives can also prevent consumers from accurately assessing the expected long-term cost of the product.

In determining our approach, we have considered:

- the extent to which the incentive can mimic price walking
- the extent to which the incentive may cause customer confusion over the expected long-term price of the product or adversely impact decision making
- the impact on effective competition.

We also conducted an online experiment to examine how consumers perceive different types of discounts and the effect of discounts on consumers' ability to choose the best value product. We have published the results of this experiment in a research paper alongside this Policy Statement. In this research, we considered a range of different types of incentives that firms may offer. The incentives ranged from those that are clearly cash or cash-equivalent (eg, a cash or percentage discount, a 'first month free' offer, and a free add-on) to those which are clearly non-cash (a toy, a chance to win a holiday, and carbon offsetting).

We found that consumers found it more difficult to determine their expected long-term price when presented with cash or cash-equivalent incentives. For that reason, we have amended the rules to make it clear that both cash and cash-equivalent incentives that are offered to new customers must be reflected in the ENBP.

For the purposes of our rules, a non-cash incentive is defined as one that is not capable of being readily expressed as having a definite monetary value. The table below gives an indication of how a range of different incentives would be treated under the rules. These are examples of incentives that respondents mentioned in their responses:

Type of incentive	Must be reflected in ENBP?
Toys	No
Carbon off-setting	No
A percentage chance to win back the premium	No
Points in a retail loyalty scheme	Yes
Retail vouchers	Yes
Cashback	Yes
A free add-on	Yes
One month free	Yes
A monetary discount on the premium	Yes
A percentage discount on the premium	Yes

The examples in the table above are not exhaustive, as it is not possible for us to anticipate every type of incentive that firms may offer their customers in the future. We expect firms to make reasonable judgements based on the rules and the similarity of other incentives to those in the table.

Our rules on incentives apply equally to all firms setting renewal prices. A firm that does not set renewal prices would not be involved in price walking and so will not be caught by these rules. We believe that this approach provides a level playing field for all firms involved in setting renewal prices.

To prevent firms circumventing the object of the rules, the rules on incentives apply when the incentive is either wholly or partly funded by a firm setting a renewal price. This means that if a firm that sets the renewal price funds a cash or cash-equivalent incentive that is given to customers by another party in the distribution chain, then the firm that funded the incentive will still need to include it in the ENBP for renewing customers.

We remind firms that using cash or cash-equivalent incentives to systematically discriminate against customers based on tenure would breach the rules.

Firms should also ensure the presentation of incentives is clear and does not confuse or disguise the price of the insurance product.

Under the rules, firms can offer discounts to particular groups such as staff discounts or for consumers who use different channels. Any such discounts offered to new business customers would need to be reflected in the ENBP.

We do not consider it would be appropriate to cap the level of any discount or incentive, as the use of incentives can be part of healthy competition.

Most favoured nation (MFN) and non-resolicitation clauses (NRCs)

- 3.20** Some respondents called on us to consider restricting PCWs' use of MFNs and NRCs.
- 3.21** MFN clauses limit the price at which a supplier can offer a product through alternative sales channels. Under narrow MFN clauses, suppliers agree not to set lower prices through their own websites compared with prices offered on PCWs. Wide MFNs restrict a supplier from charging lower prices through any other sales channel, including their own website and other PCWs.
- 3.22** Linked to this, there is a question about whether we should restrict the use of NRCs in agreements between insurers and PCWs. NRCs prevent PCWs from approaching consumers around the time of first renewal and prompting them to re-engage with the PCW.

Our response

The Competition and Markets Authority (CMA) has already investigated and reached a decision in respect of wide MFNs. We note that the competitive implications of narrow MFNs are different from wide MFNs, and there may be efficiency benefits from their use. As such we do not propose to investigate these clauses at this time.

We have become aware of NRCs in many agreements between insurers and PCWs, in particular for home, motor and pet insurance. It appears that NRCs might initially have been used as part of the negotiation to attract insurers onto PCWs when the PCWs were first establishing themselves and needed to bring recognised insurance brands onto their panels. However, that justification has declined over time and, in line with this, their prevalence also seems to be declining.

While we have not conducted an in-depth investigation, it appears that NRCs aim to reduce consumer engagement as they are about to come out of contract. Broadly, we think consumers get the best outcomes when they actively shop around to ensure they get the best available offer. But, as a result of NRCs, consumers are more likely to renew with their current insurers and so may have worse outcomes than if they did re-engage with the market, in terms of higher prices or other conditions of their insurance. Moreover, we previously found that levels of consumer engagement and switching are low in these markets, which already limits competitive pressure on insurers.

We therefore think that NRCs, by limiting search and switching or negotiation, may reduce pressure on insurers to give their best offers to consumers, and that consumers can suffer harm as a result. Accordingly, we think that NRCs can be anti-competitive. We have written to relevant firms informing them of our view.

Renewal transparency rules

3.23 Some respondents said that the aim of the pricing remedy appears to conflict with existing renewal transparency rules in ICOBS 6.5, which encourage customers to shop around to see if they can get their insurance cover at a better price. They suggested clarifying how the two sets of rules work together.

Our response

Our existing rules in ICOBS 6.5 require firms to disclose the renewal price and the previous year's price as part of the renewal notice. Firms are also required to remind the customer, from the fourth renewal onwards, that they can compare prices and levels of cover from other providers, with a prescribed message required to be given.

The wording of the prescribed message is '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.'

These rules apply to all retail general insurance products, and we are not making any changes to them.

The ICOBS 6.5 renewal rules and pricing rules complement each other. The pricing rules are designed to ensure that consumers are offered a renewal price that is in line with new business pricing by their incumbent supplier. This does not mean that the renewal price will not be higher than the previous year's price, nor does it mean the renewal price is the best available in the market. The renewal rules assist consumers by giving them a clear understanding of the change in their price and an easy benchmark for comparison. Since consumers may benefit from shopping around, the wording of the disclosures remains correct and appropriate.

Parties to a transaction

3.24 Respondents asked us to clarify:

- whether customers should be treated as new business customers or renewal customers if their intermediary moves them to a new insurer at renewal.
- in cases where an insurer acquires a book of business from another insurer, and where that book is charged at a lower rate than the new insurer's standard pricing model, whether they could increase premiums over a number of years to move the customer onto their standard pricing model.

Our response

Where one of the parties to a renewal transaction is new, the business should be regarded as new business for them. So, if an intermediary re-brokers to a new insurer, that insurer is not bound by the pricing remedy until the subsequent renewal. Similarly, if a price-setting intermediary acquires a book of business from another firm, but keeps

the business with the same insurer, the intermediary would regard the customers as new business customers and the insurer would treat them as renewing customers.

This means that the same customer could be regarded as a new customer for one firm and a renewing customer for another firm, when renewing the same contract.

We have introduced guidance to clarify this position. To avoid the risk that this approach could be gamed, we are also amending the anti-avoidance provisions to make it clear that firms should not set up new entities or otherwise transfer books of business where the primary impact is to increase prices for the transferred customers.

If an insurer acquires a book of business from another insurer that is currently charged at a lower rate than the new insurer's standard new business pricing model, the rules do not require them to raise premiums to the standard rate. The first price offered by the insurer would be regarded as new business, so our pricing rules would not apply. For subsequent renewals, the rules require renewal premiums to be no higher than the ENBP, so it is possible for firms to offer lower prices to renewing customers compared with new business prices. Depending on the nature of the acquisition, this may involve an insurance business transfer subject to Part VII FSMA, requiring court approval. We will continue to assess any particular Part VII Transfer proposal against our statutory objectives. Firms will therefore still need to demonstrate any proposed transfer would not have a material adverse impact on policyholders including where customers could be exposed to the risks of increased premiums after an acquisition.

Premium finance

3.25 Respondents asked whether premium finance should be included in the calculation of the ENBP.

Our response

The pricing remedy requires that the renewal price must be no higher than the ENBP for both the insurance element and the bundled price of a product package. A bundled price includes all elements that make up the policy premium, including aspects such as commission and the cost of additional products, including premium finance. In the case of premium finance, we have provided guidance that, in determining whether the price of the premium finance at renewal is no higher than ENBP, the relevant price is the Annual Percentage Rate (APR) of interest if the premium finance is a regulated credit agreement or, if it is not a regulated credit agreement, the total price paid by the consumer. This means that the cost of the finance for a renewal should be no higher than it would be if the customer was a new customer. The cost may vary between customers, depending on their credit risk.

Notifications under Principle 11

- 3.26** Respondents asked what changes to pricing models should be notified to us under the proposed guidance relating to Principle 11, which requires firms to disclose appropriate information to the FCA.

Our response

We have introduced guidance that firms should notify us if they make changes to their pricing model where there is a material risk of consumer harm. As an example, we would expect a firm to notify us if they plan to take account of factors that correlate closely with tenure when setting premiums, such that long-standing customers might end up paying more than new business customers. Our guidance in SUP 15.3 includes further discussion of our expectations under Principle 11.

Introduction of new pricing models

- 3.27** Where an insurer introduces a new pricing model, some typically do this in stages, migrating customers over time. In situations where an insurer wishes to introduce a new pricing model, we were asked whether they could be granted more time to do this, or whether the model would need to be introduced at one time to meet the new pricing rules.

Our response

Where an insurer wishes to introduce a new pricing model over a period of years, we expect them to comply with the rules. If they think this will cause difficulty, they should discuss it with us.

Tenure

- 3.28** We were asked whether firms can take account of tenure as long as the renewal price is no higher than the ENBP.

Our response

We remind firms that they can offer renewal prices that are lower than the ENBP based on any factor, including a customer's tenure.

Gradual adjustments and smoothing

- 3.29** One firm asked if changes in renewal premiums could be phased in with gradual adjustments, using 'caps and floors', to smooth the process of increasing, or reducing, premiums relative to the ENBP. One respondent expressed the need to allow gradual adjustments, to facilitate the re-broking of affinity schemes.

Our response

If a firm increases prices for its new business customers, it will also be able to increase the ENBPs for renewing customers. Firms can choose to set the renewal price below the ENBP and might choose to do this to 'smooth' the impact of any new business price rises for renewing customers. In this way, a firm can introduce the price rises for renewing customers over a number of years. However, a firm cannot take the same approach if it wishes to reduce prices for new business customers: it cannot charge renewing customers a price which is higher than the ENBP.

Mid-term adjustments

- 3.30** Respondents asked how mid-term adjustments should be treated when calculating renewal prices.

Our response

Where the customer has made a change to their policy during the term (ie a mid-term adjustment), firms should calculate the ENBP at renewal based on that new information. This applies regardless of whether the new information increases or decreases the risk.

Gross-rated products

- 3.31** We were asked how the rules will apply to gross-rated products, and in situations where an intermediary forgoes part of their commission to reduce the end price for a new customer.

Our response

The pricing rules apply regardless of whether the firm prices on a net-rated or gross-rated basis. We have added a rule to clarify that intermediaries would not be prevented from foregoing commission to reduce the end price for a new business customer. This would then be equivalent to a discount and therefore need to be reflected in the ENBP when setting the price for a renewing customer.

No-claims bonuses

- 3.32** We were asked if the use of no-claims bonuses could be standardised across the industry.

Our response

Our proposals were not intended to address how firms calculate prices for new customers coming from different insurers, including taking account of no-claims bonuses. However, firms offering renewals must ensure that the renewal price is no higher than the ENBP and take renewing customers' claims history into account as if they were new business customers.

Application to particular products

3.33 Respondents questioned the application of our pricing rules to particular products, including:

- *Bespoke contracts* (eg for antiques, art, jewellery, classic car collections or large houses) – Premiums for these contracts are often calculated separately for each individual customer so it would be difficult to calculate the ENBP.
- *Subscription policies* – which have no renewal date but roll over from month to month
- *Commercial contracts* – including home insurance taken out by buy-to-let landlords or businesses insuring properties (like pubs or B&Bs).
- *Cover for certain types of vehicle* – including vans, caravans and house boats.

Our response

Bespoke contracts

The rules apply to bespoke contracts where these are for consumers. Where a firm cannot determine an ENBP because it does not offer the same product to new business customers, then the firms should treat the product as a closed book and calculate renewal prices in accordance with the closed book rules under ICOBS 6B.2.25R.

Subscription policies

The rules apply to home and motor insurance policies sold on a subscription basis. We have added further clarification to the rules, that:

- when a firm increases the premium on a subscription policy for a customer, this must be no higher than the ENBP
- firms must check the pricing of subscription products on an annual basis, if there is no regular annual price increase built into the contract
- where a firm resets the premium to a lower price, in line with ENBP, we would not expect the firm to backdate the price reductions.

Application to commercial customers

Our pricing rules only apply to policies sold to consumers, as defined in our rules. Firms insuring commercial properties or motor fleets will not be subject to the rules for this business. Firms dealing with buy-to-let landlords will need to consider whether they are dealing with a natural person acting outside their trade or profession. Some landlords, for example, will be consumers for whom the property is not their trade or profession. We would expect firms already to have processes to determine whether they are dealing with a consumer or commercial customer, so do not expect this to lead to significant changes in process.

Cover for certain types of vehicle

The pricing rules apply to home and motor insurance taken out by consumers for all domestic property and motor vehicles. For example, we consider that vans and touring caravans fit within the motor vehicle definition, and that static caravans and house boats used for residential purposes, or for holiday lets (where the policy is taken out by a consumer), fit within the domestic property definition. We do not plan to provide an exhaustive list covering every possible property

or vehicle subject to the rules. Firms will need to consider this for themselves. Where there is some doubt, they should retain a record of their decision and the reasons for it.

Closed books

3.34 Under our proposals, products for which there are no, or relatively few, new business customers would be classified as 'closed books' and subject to specific rules. This approach is designed to prevent renewal prices being based on ENBPs set at levels that are uncompetitive with open book products.

3.35 We proposed defining a closed book as one where policies may be renewed by existing customers and either:

- policies are not available for purchase by other customers, or
- the firm has not sold, or does not expect to sell, on an annualised basis, more than 15% of active policies under the product to new business customers.

3.36 Firms with closed books would be required to benchmark their renewal prices against a 'close matched' open book policy, where they have one. Where firms do not have any close matched products, we proposed that they must ensure that renewal prices do not systematically discriminate against customers based on their tenure.

Q5: *Do you have any comments on how our proposal would apply to products that are no longer actively marketed?*

3.37 Most of the respondents who answered this question broadly supported our proposals. Some respondents, however, disagreed with the proposals and suggested that we consider alternative approaches.

Definition of closed book

3.38 Some respondents suggested that we should review the proposed 15% threshold used in the definition. Some suggested using a lower threshold to reduce the number of products classed as closed. A few respondents suggested that we set different thresholds for home and motor insurance, recognising differences in the customer base. Some of the respondents said certain products that are currently successfully marketed to new customers would be classed as closed. Examples included many home insurance products and some niche products that have smaller customer bases and where there may be relatively low numbers of new business customers.

3.39 We were also asked if the threshold would be reviewed in the future and amended to reflect changes in market. Some respondents suggested that this might be needed as the pricing remedy is expected to reduce switching in the future, and the proportion of new business customers is likely to decline leading to more products being classed as closed.

Close matched products

- 3.40** Where products are classed as closed, some respondents expressed concern about the process to be followed to check that renewal prices are no higher than the ENBP on a close matched product. Some said this might lead to more complicated processes and increased costs for firms and customers. Others said the proposed process is subjective and that it could result in different approaches across the industry. Inappropriate products might be selected for comparison, which could lead to consumer harm.
- 3.41** We were asked how the process is expected to work for niche products, where a close matched product is less likely to be identifiable.
- 3.42** We were also asked if the proposals could have competition law implications, particularly where insurers underwrite products for other firms, such as affinity schemes. Checking prices with a close matched product might imply the sharing of sensitive information.

Unintended consequences

- 3.43** Some respondents also felt that the closed book proposals could lead to unintended consequences.
- 3.44** A few respondents said the proposals might lead firms with large back books to reduce new business sales, so products could be regarded as closed, if this will allow them to set higher renewal premiums. Others felt that the proposals relating to closed books would have a disproportionately negative impact on larger firms with a larger customer base, as they are more likely to have closed book products. One said, for example, that this could discourage firms from simplifying their propositions and moving back book customers to current products which may be more beneficial, because to consolidate in this way would create a closed book with added complexity and costs.
- 3.45** Where products that are still available for new business customers are classified as closed, one firm said this could have an unintended consequence of leading to higher renewal premiums if the close matched product has a higher ENBP than the product itself.

FCA monitoring

- 3.46** A few respondents suggested that we monitor the impact of these rules to ensure these unintended consequences do not lead to harm.

Our response

We propose to take forward the general approach on which we consulted. We are, however, making some changes to the rules on which we consulted to help address issues flagged by respondents.

The definition of a closed book

We are amending the closed book definition following consideration of the feedback and further analysis of the data collected for the market study. This analysis looked at which books would be caught by different levels of threshold and how many new policies were being sold for those

products. It identified several longer-lived products that were selling a material number of new policies but which would have been classified as closed books under the original proposed threshold. Therefore, we have decided to lower the threshold for such books.

Products that have been on sale for 5 or more years will only be considered closed if the firm has not sold, or does not expect to sell, on an annualised basis, more than 7.5% of active policies under the product to new business customers.

The threshold will remain 15% for products that have been on sale for less than 5 years.

In addition, any product that sells, or is expected to sell, more than 10,000 policies per year to new business customers would not be a closed book.

The new definition reduces the risk that an actively marketed book would be classified as a closed book.

Close matched products

We consider that it is necessary to introduce requirements for firms to calculate the renewal prices for closed book products with reference to the ENBPs of close matched products. This aims to ensure that customers in closed books are not subjected to price walking in the future. We acknowledge that this introduces new processes for firms to follow and will increase costs. The changes we have made to the closed book definition should reduce the number of products classified as closed, and make the costs more proportionate, in line with our original intentions for the closed book proposals. See the cost benefit analysis in CP20/19 and Chapter 7 of this Policy Statement for further discussion of the costs and benefits of our proposals.

Under our rules, a close matched product should have core cover and benefits that are broadly equivalent to the core cover and benefits enjoyed under the existing policy. We are not introducing further rules or guidance to assist firms identify a close matched product.

We acknowledge that the selection of a close matched product is subjective and we expect firms to record details of how they identify the product or determine that it is not possible to identify a close matched product. As discussed below, we will be monitoring this in our ongoing supervision of the market. We will take action if an inappropriate close matched product is selected leading to consumer harm.

Where a close matched product cannot be identified, for example for niche products, firms should follow the approach set out in ICOBS 6B.2.39R. In summary, where there is no close matched product with an ENBP against which a closed book renewal price can be compared, firms need to ensure they do not systematically discriminate against customers based on their tenure.

The closed book processes should be conducted in line with competition law, for example, in relation to the sharing of sensitive information. If firms find it difficult to develop a process consistent with competition law, after taking legal advice, they should contact us to discuss this further.

Unintended consequences

We do not expect the unintended consequences mentioned by some respondents to arise.

The closed book rules are designed to protect consumers in products that are not open to new business or where there are few new business customers. Firms should not be able to charge higher renewal premiums to existing customers by closing books.

The changes we are making to the rules on which we consulted should alleviate some of the concerns from firms, allowing the rules to apply in a more proportionate manner. This should mean that larger firms with a larger customer base should not face disproportionately higher costs that would discourage them from taking actions to benefit their customers. As ever, firms should follow the customer's best interest rule (ICOBS 2.5.-1R), so we would not expect them to avoid taking actions that are beneficial to customers.

The amended definition of closed books will reduce the number of products classified as closed. This should reduce the possibility for higher renewal premiums where a close matched product has a higher ENBP than a product that is incorrectly classified as closed.

FCA monitoring

We will monitor the application of the rules to check that unintended consequences do not materialise. We will take the appropriate action if we identify problems.

We are asking firms to report data on closed book products separately so we can do this. We also expect firms to retain relevant records, including how a close matched product was identified and in relation to the controls employed to ensure consumers do not face discrimination by tenure where a close matched product cannot be identified. See Question 8 for further discussion on the record-keeping requirements.

We will also consider if the closed book rules work as expected, and the way closed books are defined, as part of our monitoring of this intervention.

Closed books – additional questions

3.47 We were also asked about the process to be followed in assessing whether a book is closed. These questions related to:

- How often firms should assess books to determine if they are closed.
- Whether books should be assessed as open or closed across all channels or separately for each channel.

- Whether firms can take account of differences in the cost to serve customers in the close matched product compared to the closed book? For example, a closed book product might have been distributed by phone, but the closest matched product might be online only.
- Whether we expect firms to consider the ENBP of products from other firms where they have no close matched product.
- How firms would be expected to calculate the ENBP if the close matched product does not cover certain risks. For example, firms might not offer new business quotations for building insurance where a property has a history of flooding or subsidence but might be willing to continue insuring existing customers in these circumstances.
- How these rules would apply to intermediaries.
- How the rules would apply where an intermediary that has its own branded product decides to use a new underwriter going forward, but only for new business customers.

Our response

Frequency of assessment

We are introducing a new rule requiring firms to assess if their books meet the definition of a closed book at least once a year. This assessment should consider how many new business policies the firm has sold over the past year and how many it expects to sell in the next year. Firms may choose to make this assessment at the same time they review products under the product governance rules. Firms will also need to make an assessment at any time they make a material change to the distribution or marketing of the product that could change the status of the book.

Assessment of books by channel

We are introducing guidance to confirm that the assessment of whether a book is closed should be carried out based on the product as a whole, across all the channels used by the firm for distribution of the product.

Consideration of the cost to serve

We are making a change to the proposed rules to allow firms to make fair and proportionate adjustments to the ENBP from the close matched product to account for differences in costs, such as higher distribution costs, between the closed book product and the close matched product.

Consideration of new business prices from other firms

We have introduced an evidential provision (ICOBS 6B.2.40E(3)) that says that, in ensuring that the renewal price offers fair value, firms with closed books and no close matched product must avoid the outcome that renewal or additional product prices are higher than the new business price for similar cover, if the customer were to shop around as a new business customer approaching another firm or firms. We do not expect firms to assess the external market every time they produce a renewal quotation for customers in closed products with no close matched product. However, firms should consider, for example in the regular product reviews under the product governance rules, whether prices materially exceed those for equivalent products on a systematic basis, as this could indicate that they are discriminating against customers based on tenure.

Differences between the closed book and close matched product

Close matched products might not be able to produce an ENBP for a certain customer. For example, a closed book product might cover a risk that is not covered by the close matched product, and there may be no other close matched products that would cover this risk. In such situations, firms should instead follow the high-level requirements in ICOBS 6B.2.39R. In effect, for these customers, there would be no close matched product and firms would need to ensure they do not discriminate based on tenure. The rules require firms to maintain records on how they satisfy themselves that they do not systematically discriminate against customers based on tenure, including in generating ENBP and in setting renewal prices for closed books.

Application to intermediaries

The pricing rules in ICOBS 6B.2, including those for closed book products, only apply to firms with a role setting the renewal price or setting the price of additional products, including premium finance. All intermediaries are, however, subject to the anti-avoidance provisions, including in relation to not charging higher fees to renewing customers.

Application where the underwriter of a product is changed

We were asked to consider a scenario in which an intermediary decides to use a new underwriter going forward, but only for new business customers. In this scenario, we would expect each underwriter to assess whether their own book is closed. This could mean that, depending on the circumstances, the first underwriter (for all existing customers of the intermediary) regards its book as closed, while the intermediary and the new underwriter (for all new customers of the intermediary) regard their book as open. We have introduced some guidance to confirm this approach.

Anti-avoidance measures

- 3.48** We proposed rules which were aimed at preventing firms operating in a way which frustrates the intended outcomes of the pricing remedy. This could include, for example, firms arranging their business in ways that result in consumers of longer tenure systematically being offered renewal prices that exceed the price for a new customer or the quality of service or cover enjoyed by customers of longer tenure being lower than that enjoyed by customers of shorter tenure.
- 3.49** Our proposed rules include an evidential provision (ICOBS 6B.2.40E) which set out the types of practices which could be taken to breach the anti-avoidance rule. These include firms systematically earning higher margin based on the customer's tenure.

Q6: *Do you have any comments on our proposals to address practices that aim to frustrate the intended outcomes of the pricing remedy?*

3.50 Our proposals were supported by roughly half of those who responded to this question, although a small number did oppose the rules and suggested that the proposed product governance rules should be sufficient to address the risk that firms seek to avoid our pricing rules.

3.51 Some respondents said that avoidance could take place inadvertently where firms think they are following the rules but fail to do so. To help address this, respondents suggested clarifying our expectations and possibly providing some examples of what would or would not be acceptable. Avoidance could also be deliberate, where firms set out to subvert the rules.

Respondents also suggested other possible avoidance practices including hollowing out cover and transferring books of policies between entities.

Fees

3.52 Some respondents queried whether fees charged separately from the insurance premium were included in the pricing rules. In particular, respondents suggested that fees could be increased with tenure as a way of replicating price walking.

Margin

3.53 Some respondents opposed the anti-avoidance evidential provision in the draft rules. Respondents said that firms might experience changes in margin over time without being in breach of the pricing rules, and that the provision could amount to a margin cap, which was not our stated purpose. Some argued that the proposed provision unfairly favoured insurers' direct sales over intermediated sales, because insurers could more easily account for increased margins through changing the risk or net price.

Our response

We will introduce the anti-avoidance rules. However, we welcome the feedback from respondents who shared their views on potential routes to avoidance, and we are making changes to address some of these.

Fees

Most intermediaries receive commission for distributing retail motor and home policies. However, some also charge the customer a separate arrangement fee. Such fees could be charged in addition to any commission the intermediary receives. We have not currently seen significant numbers of firms systematically increasing fees at renewal in the same way that premiums are being price walked; but, we are concerned that price walking through fees might become a more attractive option once the pricing remedy comes into force. Both fees and commissions are, ultimately, paid by the customer. From the customer's perspective, it makes little difference if a price increase is caused by a higher fee or by higher commission.

We are, therefore, making a change to the anti-avoidance rules to make clear that firms will be breaching our rules where they charge a customer a higher fee at renewal than if they were a new customer. This will apply to both insurers and intermediaries, and to both current and closed books.

However, it will only apply to arrangement fees that are charged as part of the insurance distribution process (including distribution of renewals). It will not apply to contingent fees, such as fees for mid-term adjustments.

We remind firms that our existing rules require the clear disclosure in cash terms of all such fees that the customers may be required to pay.

Margin

We recognise that references to 'margin' in the rules caused some confusion. Most respondents clearly interpreted 'margin' in this context as meaning net margin or profit. We agree with respondents that the pricing rules are not intended to cap profits and that these can both increase and decrease over time. This could be due to:

- actual claims costs being different than expected
- lower acquisition and operation costs for renewing customers than new business customers, or
- firms changing their pricing models to include more profit margin for new business and consequently renewal customers have different margins over time.

The pricing rules are intended to restrict renewal prices customers pay, so that they are no higher than ENBPs. As noted in our response to Question 4, the risk element of that ENBP may increase or decrease based on new information. However, the non-risk element of the price (ie the difference between the risk price and the final selling price, or the difference between the net-rated price and the gross price) should not be systematically higher based on tenure. We have amended the anti-avoidance provision to make this clear.

Based on this change, we do not consider that the rules create any unfairness or disparity between direct sales and intermediated sales.

Attestation and record-keeping requirements

3.54 We proposed that a firm must provide regular confirmation from a senior manager that its pricing model complies with the pricing remedy. We also proposed record-keeping requirements for firms to record their considerations under the pricing remedy rules.

Q7: *Do you have any comments on our proposal to require senior manager confirmation that the firm is complying with the pricing remedy?*

3.55 Most respondents who answered this question agreed with our proposal. Many respondents asked for further clarification about how the attestation would work in practice.

3.56 Some respondents commented that attestations could only be made by someone with sufficient knowledge and experience in pricing. Even then, two respondents felt that a judgement on whether the pricing remedy had been followed was subjective in

nature, making it difficult to guarantee compliance, though another said it is important that firms attest they comply with the spirit, not just the letter, of the rules.

3.57 Two respondents said the attestation is not needed, given that named individuals are already held accountable under the SM&CR and similar responsibilities elsewhere in our rules, such as the product governance rules.. Another said the attestation should cover all the remedies, not only the pricing remedy.

3.58 We were also asked for further clarity on our expectations about:

- whether there would be a form or template for firms to complete, to provide clarity on what is being attested and consistency from firm to firm
- how the attestation relates to the SM&CR regime and which SMF needs to make the attestation
- the scope of the requirements:
 - whether firms could have different managers responsible for attestation of different parts of their business
 - whether firms that set only part of the price (such as insurers that set the net rate) need to attest only in relation to the portion of the price they set, or to the end price paid by the customer
 - whether non-price setting intermediaries need to make the attestation
- how we plan to supervise and enforce the attestation rules.

Our response

We are taking forward our proposal to require a senior manager to attest compliance with the pricing remedy. We are making some changes to the rules on which we consulted, however, to help firms understand our expectations.

We consider that this requirement will form a valuable component in our ongoing work to hold firms and individuals to account for ending price walking for home and motor insurance.

Attestation format and wording

We are introducing a new form, to be submitted via our RegData platform, for firms to make the attestation.

We expect the attestation wording is to be as follows:

- 1. I attest that I am satisfied that the firm is, and has been, complying with the requirements in ICOBS 6B for the most recent reporting period, and*
- 2. I am satisfied that the pricing of home insurance and motor insurance renewal business and related sales practices:*
 - a. are consistent with the objectives of the rules as set out in ICOBS 6B.1.4G, and*
 - b. do not discriminate against customers of longer tenure, as set out in ICOBS 6B.2.39R, ICOBS 6B.2.47R and ICOBS 6B.2.48R, or*
- 3. I cannot make the above attestation for the following (free text) reasons*

The senior manager will need to attest whether they are satisfied that the firm meets the requirements. We consider that this wording finds the right balance in allowing the senior manager to attest compliance with both the spirit and letter of the requirements.

We would expect senior managers to attest by agreeing either i) both the first two statements, or ii) by ticking the third statement and providing some high-level information on the reasons the senior manager cannot attest to compliance with the rules. If the third statement is ticked, we would discuss the position with the firm. In the first year, where a firm uses the additional time allowed under the transitional provision described in Question 1, the attestation will also include the following wording before point 3:

The firm elected/did not elect to exercise the transitional provision to implement the rules by 17 January 2022.

If the firm elected to exercise the transitional provision, I attest that:

- a. the firm has made all repayments and provided all relevant information required by the transitional rules (yes/no)*
- b. the number of customers affected by the decision to exercise the transitional provision was as follows (free text)*
- c. the total amount of repayments paid was as follows (free text)*
- d. the number of customers contacted (for auto-renewal) was as follows (free text)*

The SM&CR

As discussed above, in relation to Question 3, we are amending the rules to clarify that, where firms are subject to the SM&CR, the person making the attestation needs to hold a relevant Senior Manager Function (SMF). Where the firm is not subject to the SM&CR, the person making the attestation must be a director of the firm.

We are not specifying which SMF or director must make the attestation. Firms must select an appropriate person who is capable of judging whether the firm complies with the rules.

Where firms are subject to the SM&CR, we regard the attestation to be compatible with it and to reinforce its aims.

Scope

While firms can have their own processes, under which multiple people can report information to the attesting manager, we require attestation from one person. They will need to be satisfied that the firm as a whole follows the rules and that they are content to make the attestation on behalf of the firm. This focuses responsibility on a single named individual. This person, therefore, will need to be capable of making the attestation for the whole firm, and to take responsibility for it.

The attestation will only cover the portion of the price set by the firm. The attesting person is not required to attest to compliance by other firms. However, we are introducing a rule that, if one firm becomes aware

that another firm in the distribution chain is not applying the pricing remedy properly, they should alert us.

The attestation requirement is only relevant if firms have a price-setting role.

We are not proposing to require attestation for the other remedies.

Supervision and enforcement

We expect to supervise on the same basis as for any other requests for senior manager attestations.

We would follow the usual FCA approach of reviewing all relevant information, including the annual data reported by the firm and the records we are asking firms to retain about their pricing model. We would then discuss our concerns with the firm and manager and take the appropriate action.

If, after reviewing a firm's records and data, we were to find that price walking was still happening, we would look to hold both the firm and the attesting person to account.

Q8: *Do you have any comments on our proposal for firms to retain documentation to show how they are satisfied that their pricing model complies with our rules?*

3.59 Most respondents who answered this question supported the proposals, with none explicitly disagreeing. Several firms asked for clarity on the following areas:

- the record retention period
- the content of records
- the format of records
- whether we expect independent oversight of a firm's approach to pricing
- application of the rules to non-price-setting firms
- whether our rules require records, including commercially sensitive information, to be shared with other firms in the distribution chain to give them assurance that the renewal price is set in compliance with the rules

3.60 A few respondents suggested coordinating our various record-keeping requirements which relate to product value (ie the GI pricing practices reporting, GI value measures reporting and rules introduced to implement the IDD) to avoid duplication.

Our response

Following consideration of feedback, we are introducing rules to require firms to retain records of their considerations under the pricing remedy requirements. These will be important in helping us supervise the market to ensure that firms follow the rules.

We are introducing additional guidance to help firms understand our expectations in some areas:

The record retention period

We are not proposing to mandate a minimum period for firms to retain records. Instead, in line with our general approach to records, we are introducing guidance that records should be retained for as long as is relevant for the purposes for which they are made.

The content of the records

We are not mandating specific documents that must be created to meet our requirements. Instead, firms should consider what records are most relevant for their business model. We are, however, adding guidance to help firms understand which records we would expect to see retained under our record keeping requirements. For example, this includes records of minutes of any pricing committee and any analysis showing whether similar customers face different pricing outcomes.

The format of records

We are not mandating the format of records that must be kept. Records will need to be secure and accessible, to allow us to interrogate them to fulfil our regulatory and statutory obligations.

Independent oversight

We are not requiring firms to have independent oversight of their assessments and controls in relation to the rules in ICOBS 6B.2. However, if they do engage a third party to review their processes, they should keep a record of the results of this work.

Application to non-price-setting firms

The record-keeping requirements relate to the price-setting process, so will not be relevant to firms that do not have a price-setting role.

Sharing of information

As discussed below in relation to Question 10, we are not taking forward the proposed requirement that, where more than one firm is responsible for setting the price, each firm must take reasonable steps to ensure that the total renewal price complies with the rules. This means there is no need for firms to consider sharing the records with other firms for the purpose of complying with this rule.

Duplication

There are different FCA rules requiring firms to retain records about different aspects of the value of their products. These include requirements for records in relation to the pricing remedy, the new product governance rules, and the value measures rules in SUP 16.27. The records required for each are tailored to specific issues. For example, the pricing remedy is focused on stopping firms charging more for home and motor insurance to customers of longer tenure than equivalent new business customers, while the product governance rules apply to all firms and require them to assess that all types of non-investment insurance products provide fair value. The concepts are linked but are not the same, and not all the records would be required for all firms.

We therefore do not consider that it would be possible to consolidate the requirements. However, we encourage firms to consider how best to apply the requirements within the context of their business model. This might mean that firms subject to more than one of the record-keeping requirements can streamline the records they retain, so they cover all relevant matters.

Individual and multi-product discounts and negotiation

- 3.61** We proposed that, for combined policies, the overall combined renewal price must be no higher than the combined equivalent new business price.
- 3.62** We also proposed that firms would not be prevented from negotiating with individual customers at renewal, so a firm would be able to make a revised offer below the quoted renewal offer price.

Q9: *Do you have any comments on our proposals for multi-product discounts?*

Multi-product discounts

- 3.63** Most respondents who answered this question supported the proposals relating to multi-product discounts. However, several respondents asked us to clarify the meaning of the term 'multi product', in particular whether it includes additional products.
- 3.64** Some respondents also suggested the rules should be strengthened, for example by preventing the availability of multi-product discounts from varying by tenure or requiring greater disclosure of each component of price and any discount.
- 3.65** One respondent also asked how the rules apply to policies for high net worth customers when they are underwritten as part of the same contract and the underwriter has significant pricing discretion which is applied outside of system generated premiums, meaning that there is no equivalent new business premium.

Negotiation

- 3.66** Most respondents agreed with our proposals, though some were concerned that individual negotiation could become a way of allowing firms to continue price walking customers. Some respondents also asked for guidance on how they could reflect negotiated discounts at new business in the ENBP for renewing customers.

Our response

We are introducing rules on multi-product discounts and negotiation.

Multi-product discounts

We are taking forward our proposals on multi-product discounts. However, there are some points we wish to clarify.

As some respondents highlighted, we do not define the term 'multi-product' in our rules. A multi-product package is any situation where a firm sells together more than one insurance product that is caught by our pricing rules. As set out in CP20/19, one example would be where a home and motor insurance policy are purchased together. Under the pricing rules, firms can offer discounts for taking products as a package, as long as the total renewal price for the package does not exceed the ENBP for the package.

Regardless of whether a product is sold on its own or as part of a multi-product package, firms must ensure they do not systematically discriminate by tenure.

Firms should present multi-product discounts to consumers in a way that is clear, fair and not misleading (ICOBS 2.2.2R). This should mean that consumers are able to make effective and informed comparisons across the market. Firms should present incentives in a way that makes clear the price both with and without in the incentive.

The rules on multi-product discounts also apply to products sold to high-net worth customers. If a firm is unable to generate an ENBP or identify a close matched product because it is not part of the firm's standard policy offering, the firm must set the renewal price in accordance with ICOBS 6B.2.39R and ensure that they do not systematically discriminate against customers based on tenure.

Negotiation

Under our rules, consumers will be able to negotiate a reduction in the quoted renewal price.

We have clarified in the rules the position at new business. Consumers will also be able to negotiate discounts at new business, but any negotiated discount must also be reflected in the ENBP for renewing customers. This will prevent firms from using negotiation as a way to continue to price walk customers. Firms will need to determine how to ensure that new business discounts are included in the ENBP for renewing customers. We expect firms to be able to demonstrate that their approach does not systematically discriminate against customers on grounds of tenure and that they have taken account of their customers' best interests in determining their approach.

Distribution channels

- 3.67** We proposed that the pricing restriction would apply to all insurers and intermediaries involved in price-setting at each stage in the price setting chain. Linked to this, we proposed that, where more than one firm is jointly responsible for setting the renewal price, each firm must take reasonable steps to assure itself that the renewal price is set in compliance with the rules.

Q10: *Do you have any comments on our proposal to apply the pricing restriction rules to all stages of the price setting chain?*

3.68 Most of the respondents who answered this question agreed with our proposal to apply the rules to all stages of the price setting chain.

Treatment of intermediaries and insurers

3.69 A few respondents felt that the rules could lead intermediaries to be at a competitive disadvantage compared to insurers. They argued that insurers could comply with our proposed rules by matching the renewal price to the ENBP, and yet still earn a higher margin if a customer's risk profile decreases over time. On the other hand, they said that price-setting intermediaries must ensure their portion of the price does not increase at renewal, so they cannot earn a higher margin over time. Some respondents suggested an alternative would be for all firms to ensure that the total premium paid by the customer is no higher than the ENBP.

Scope of the rules

3.70 We were asked to clarify:

- the definition of a 'price-setting intermediary' and whether an intermediary can be regarded as price-setting for some, but not all, of the products it sells
- the application of the rules to intermediaries that sell gross-rated core policies but have a price-setting role in relation to additional products sold alongside the core policy
- whether an intermediary, subject to a delegated underwriting authority that requires them to set renewal rates using a formula set by the insurer, would be considered a price-setting intermediary, and if they could continue this practice, so long as renewal premiums are not higher than the ENBP
- the application to IFAs, mortgage brokers, PCWs, cash-back sites and certain other intermediaries (eg where motor insurance is sold alongside a primary purchase, such as a car).

Oversight of the distribution chain

3.71 We were asked how different firms share responsibility under the proposed rule requiring firms to take steps to ensure the renewal price set by other firms in the distribution chain complies with the rules.

Up-channelling

3.72 We were asked whether there can be changes to a customer's distribution channel at renewal, specifically in instances of 'up-channelling', where the customer moves to a product with a higher level of customer service and increased charge.

Our response

Following consideration of the feedback, we are taking forward our proposal to apply the pricing rules to all firms in the distribution chain involved in price-setting.

The treatment of intermediaries and insurers

As noted in our response to Question 4, we are amending the rules to clarify that a firm must include in its calculation of an ENBP any risk information acquired during the term of the customer's current policy that has the effect of either increasing or lowering the price. While the risk element of the ENBP may increase or decrease based on new information, the difference between the risk price and the final selling price should not be systematically higher for renewing customers, relative to the ENBP. We therefore do not consider that the rules will benefit insurers over intermediaries, and we are not proposing any changes to the rules on this point.

Scope of the rules

The rules apply to intermediaries involved in the setting of any portion of the renewal price, including those that take the net price quoted by an insurer and make any adjustment to it to determine the gross price, including where the intermediary rebates commission.

The mere receipt of commission, where this is determined by another firm, is not sufficient for an intermediary to be regarded as price-setting. An intermediary would also not be price-setting where their remuneration is determined by a delegated underwriting authority that requires them to set renewal rates using a formula determined by the insurer. In this instance, they have no discretion to change the premium paid by the customer.

This approach applies to all authorised firms that distribute home and motor insurance, including PCWs, IFAs and mortgage brokers. Car salesrooms are unlikely to be directly authorised but, instead, are more likely to act as Appointed Representatives (ARs). Authorised firms will need to ensure that the ARs for which they act as principal comply with the rules.

The pricing rules apply to intermediaries based on their role in setting the price of each contract. That means that an intermediary can be 'price-setting' for some contracts it sells and not for others. The rules apply separately to the core product and any optional additional products. As such, an intermediary can be price-setting for one and not the other.

Oversight of the distribution chain

Having considered feedback, we are not introducing a requirement for each firm in the distribution chain to take steps to ensure that other firms comply with the rules. We confirm that the pricing remedy requires firms to be responsible only for the portion of the premium they set.

To guard against the risk of consumer harm, however, we are introducing a requirement for firms to notify us if they become aware that other firms in the distribution chain are not complying with the pricing remedy rules.

This requirement does not oblige firms to monitor other firms or to take steps to ensure other firms comply with the rules. However, if a firm becomes aware that another firm in the distribution chain is not, or may not be, complying with the pricing remedy, we would expect them to notify us.

We consider that this approach guards against the risks of consumer harm in a proportionate way, without adding inappropriate complexity to firms' oversight of the distribution chain.

Up-channelling

Having considered feedback, we are amending the rules to set out how firms should deal with up-channelling. Firms can use a different channel at renewal to calculate the ENBP, but only where: the customer has agreed to take out a different product; the new product is most frequently purchased via a different channel to the one the customer originally used; and it is in the customer's best interests to take out the new product. In these cases, the firm must assume the customer used the channel through which the product is most frequently purchased.

Firms should not attempt to sell customers superficially different products or services at renewal so they can raise prices and replicate the effect of price walking.

Additional products

3.73 In the consultation, we proposed to apply the pricing remedy both to the home or motor policy and to additional products, such as other types of insurance and premium finance that may be sold with them.

Q11: *Do you have any comments on our proposal to apply the pricing restriction rules to additional products?*

3.74 We received 42 responses to this question. Most agreed with the proposal to apply the pricing restriction rules to additional products.

3.75 Several respondents said that some products can be sold as cover extensions (ie as part of the core contract) or as additional products (ie as a separate contract to the core cover). Respondents argued the proposal to include additional products within the pricing remedy is likely to lead to inconsistent approaches for the same cover, depending on whether it is sold as a cover extension or as an additional product. For example, legal expenses cover may be sold as additional product or a cover extension. Where it is sold as an additional product, the renewal price would need to be no higher than the ENBP. But where it is sold as a cover extension, only the overall renewal price for the core product would need to be no higher than the ENBP.

3.76 Some respondents also pointed out that products commonly sold as additional products to home or motor policies can also be sold on a standalone basis (for example, breakdown cover). Some of these respondents said that our proposals would not prevent price walking where these products are sold separately, and this would lead to inconsistency. They suggested applying the rules to products sold as additional products, regardless of whether they are sold on a standalone basis or as an additional product.

3.77 We also received many requests for further clarity on how this proposal would work in practice. We were asked about:

Free products

- 3.78** Whether the rules will apply to free products, including insurance. Respondents also queried whether an additional product that was given to a customer for free at new business must continue to be given for free at renewal, even if the firm has subsequently started charging other new business customers for it.

Relationship to core product

- 3.79** Whether the rules would apply to products that are different from, and arguably unrelated to, the core home/motor policy, but which may be quoted for during the same sales process. Some respondents said that they will offer to provide a quotation for products such as travel and pet insurance alongside a home or motor quotation. Others said that they may market these products to customers shortly after selling a home or motor policy.
- 3.80** Whether the definition of additional products includes products offered to the customer during the same online sales process as well as the core motor/home policy, including where the firm subsequently markets them to the customer post-sale.

Application to all firms

- 3.81** Whether the rules apply to all firms or whether, for example, a PCW could add an additional product without being subject to the rules.

Application to premium finance

- 3.82** We were asked whether firms could charge different rates of interest for different brands.
- 3.83** Some respondents pointed out that when using premium finance, it is not uncommon for firms to take a deposit for new business, but not for renewing contracts. If the proposal stops this practice, it will result in higher charges for consumers.

Our Response

We have not made any changes to the rules consulted on in CP20/19. That means that additional products will be within the scope of the pricing rules. These rules will apply to all firms who are responsible for setting the prices of additional products, regardless of whether they are insurers or intermediaries.

Free products

The rules apply to additional products regardless of whether they are free or not. To comply with the rules, firms must offer the additional product at a price no higher than the ENBP. This means that firms can charge renewal customers for additional products if they are also charging equivalent new business customers for the same customers. If the additional product is given to new business customers for free, then it must be free for renewal customers.

We did not propose any changes to the Handbook definition of optional additional products in CP20/19. This definition has been used in our

ICOBS rules since 2016 and we do not believe that any amendment is required now. The fact that most respondents did not raise any concerns suggests that the definition is broadly understood within the industry.

Relationship to core product

We note the concerns raised about the different treatment of additional products and cover extensions, but we are not making any changes to the rules. The rules will require firms to ensure the total price the customer pays at renewal is no higher than the ENBP. For core products, firms can change the price of individual elements of the cover, the overall price cannot exceed the ENBP. As such, we do not consider the rules will give an opportunity for price walking through either cover extensions or additional products.

We recognise that some products sold as additional products may also be sold as standalone products. However, the proposals in CP20/19 were intended to address issues with pricing of home and motor insurance; in particular, to prevent price walking by ensuring that renewals are priced no higher than the ENBP. We are concerned that the prices of additional products sold alongside home and motor policies may be increased each year as a way of avoiding the pricing rules. For that reason, we think it is appropriate for these additional products to be subject to the pricing rules. However, the same avoidance risk does not exist with products sold on a standalone basis, so we do not propose to apply the pricing rules to these products. As a result, firms may have different pricing approaches when these products are sold as an additional product versus when they are sold on a standalone basis. However, we remind firms that the new fair value provisions in PROD apply to all general insurance products, including those sold on both an add-on and a standalone basis. We expect firms to be able to demonstrate that their approach to pricing delivers fair value to consumers as part of their product approval and review process, and to take action where issues are identified. This is an area we are likely to review in our interaction with firms.

The pricing rules will not apply directly to cover extensions which are optional parts of the core motor or home contract. However, the rules will apply to the overall price which includes the cost of the cover extensions.

Application to all firms

The rules will apply to all firms responsible for setting renewal prices.

Application to premium finance

We recognise that firms sometimes charge customers using premium finance a deposit at new business but not at renewal. This practice will be permitted under the rules provided the renewal price is no higher than the ENBP, and the APR on the premium finance is no higher than for an equivalent new business customer.

4 Product governance

- 4.1** Our consultation set out proposals to ensure firms focus on delivering fair value general insurance and pure protection products to customers and have strong governance and oversight arrangements in place to support this.
- 4.2** We proposed to achieve this by broadening the scope of the current regime in our Product Intervention and Product Governance Sourcebook (PROD) and enhancing it with new obligations on firms to address the harms identified in the interim report and wider concerns we have identified in the insurance market.
- 4.3** This chapter summarises the feedback received on these proposals and our response.

Enhancing the requirement to ensure products offer fair value to customers

- 4.4** We proposed to require manufacturers and distributors to consider whether products represent fair value for customers. This would build on the rules introduced as part of our work on value measures in PROD 4.5 and also build on and supersede GI distribution chain: [Guidance for insurance product manufacturers and distributors \(FG19/5\)](#).

Q12: *Do you have any comments on our proposal to enhance the product governance requirements concerning product value?*

- 4.5** Most respondents who answered this question supported our proposals; however, some raised questions or concerns. Some also asked for clarification or further guidance on some issues, including:

Commercially sensitive data and competition law

- 4.6** Some respondents were concerned that our proposed rules could be interpreted as requiring firms to share commercially sensitive data, such as fee or commission structures, profit margins or details of distributors' agreements with introducers. They felt that this could infringe competition laws.

Level of application

- 4.7** We were asked whether the PROD rules apply at product or individual contract level.

Compatibility with other requirements

- 4.8** We were asked how the proposed PROD rules fit with other requirements, in particular, how the PROD rules interact with the demands and needs rules in ICOBS 5 and the rules on general insurance value measures.

Our response

Most respondents agreed with our proposals, so we are introducing the rules broadly in line with our consultation. We have made some changes to address issues raised by respondents along with some other minor changes that do not affect the substance of the consultation. We have set out below details of the changes and our response to the issues raised by respondents.

Commercially sensitive data and competition law

PROD 4.2.29AG sets our expectations of the information manufacturers must share with distributors to comply with PROD 4.2.29R in light of the fair value requirements being introduced. We confirm that this does not specifically require manufacturers to share commercially sensitive information, such as their costs and profit margins. The guidance sets an expectation that manufacturers should be making sufficient information available for distributors to be aware of:

- All appropriate information to enable distributors to understand the intended value of the insurance product. Firms should consider the meaning of value as set out elsewhere in the PROD rules (*PROD 4.2.14E R*) when deciding what value-related information to share with their distributors.
- The possible impact of the distributor's actions on the intended value. For example, providing the information that may be relevant where a distributor intends to distribute the product with an additional product that could risk leading to duplicated cover, or where the distributor's remuneration could impact the price and lead to the product not offering fair value.
- Any type of customer for whom the insurance product is unlikely to provide fair value.

PROD 4.2.14 PR states that firms must obtain all necessary and relevant information in relation to the remuneration associated with the distribution arrangements so it can assess the ongoing value of the product. We have amended this rule in light of the feedback received to make clearer the minimum necessary information manufacturers will need to obtain, including:

- The type and amount of remuneration of each person in the distribution arrangement, where this is part of the premium or otherwise paid directly by the customer, for the core insurance product and in relation to any additional product (unless this is another non-investment insurance product not manufactured by the firm requesting the data). This will involve manufacturers obtaining information from the distributors on commissions and, if applicable, also fees paid by customers in respect of products they manufacture. However, it will not require insurers to obtain details of any separate commercial agreements between distributors and other firms (such as PCWs) which are paid by the distributor rather than being included separately in the premium or a breakdown of the distributor's costs or profit margins.

- An explanation of the services provided by each person in the distribution arrangement. This is to enable the manufacturer to identify the person's role in the distribution channel.
- Confirmation from any firm in the distribution arrangement that any remuneration is consistent with their regulatory obligations including SYSC 19F.2.

We have also added guidance (see PROD 4.2.14 QG) that firms should take into account what is necessary to satisfy PROD requirements together with any wider legal obligations, for example competition law, to which they are subject. We consider this balances the need for firms to obtain information to assess the effects of remuneration in the distribution arrangements on the value of product and the concerns raised by firms around commercially sensitive information.

Level of application

Firms wanted to know if they must carry out a fair value assessment every time they apply an individual contract level exclusion. The new and existing PROD rules apply at the product level, rather than to each individual insurance contract. Firms are not expected to carry out a fair value assessment each time they make an individual contract level change, such as adding an exclusion to an otherwise standard individual contract. However, where individual contract level exclusions or changes are frequently applied to contracts in the same way, this could become a product-level issue relevant to PROD and could amount to a significant adaptation of the product requiring re-approval of the product under PROD 4.2.

Compatibility with other requirements

We did not propose any change to the interaction between the requirements in PROD and other applicable FCA rules. For firms carrying on insurance distribution activities this includes the Principles, the customer's best interest rule (ICOBS 2.5 – 1R) and the demands and needs requirements in ICOBS 5.

From 1 January 2021 firms have been required to ensure that products subject to the general insurance value measures rules are providing fair value. We expect firms to take the value measures data into account when assessing fair value.

Reasonably foreseeable period

- 4.9** We were asked how firms should interpret the requirement for products to provide fair value for 'a reasonably foreseeable period'.

Our response

Reasonably foreseeable period

What is a 'reasonably foreseeable period' may vary depending on the type and length of the contract, and we expect firms to exercise their judgement to decide on this point. For example:

- Firms should consider the likelihood of customers renewing the policy and whether any expected changes in pricing or to the product would be likely to impact the value of the product.
- For certain pure protection products, the reasonably foreseeable period could be the customer's lifetime because these are long-term contracts and the benefits are payable only on death or in respect of incapacity due to injury, sickness or infirmity.
- For certain pet insurance products, identifying the reasonably foreseeable period could be linked to the life expectancy of the animal to which the insurance cover will relate, and whether there will be fair value may require consideration of any data the firm has which informs it on how the product is expected to perform over this period.

We have included new guidance (at PROD 4.2.14GG) to help firms when considering product value for a 'reasonably foreseeable period.' Firms should consider the value that a product (or package of products) is likely to offer throughout the life of the product – at inception, through the initial insured period and at subsequent anticipated renewals.

The new guidance includes factors firms should consider when determining the reasonably foreseeable period for a product. We expect that in many cases when manufacturing a new product, firms will have identified the relevant considerations including whether they expect customers to renew their policy, how they expect to price renewals, and whether there could be any significant changes to the nature or value of the insured risk or cover provided by the product.

Examples of what firms need to consider if a product is providing fair value for the reasonably foreseeable period include, but are not limited to:

Products where the premium stays the same, but the firm knows the benefits reduce over time. This could be due to a decrease in value of the insured asset or inflation reducing the value of the cover. Where a firm finds that for many customers the total amount paid in premium exceeds the maximum benefit they could receive from the product, then this would be an indicator of poor value that should be addressed.

In the case of products such as mobile phone or electrical goods insurance, premiums remain the same over time, but the value of the insured asset or cost of repair decreases. Firms may need to consider whether the premium being paid remains a fair reflection of the risk. Where such products require an excess to be paid, firms should also consider the extent to which that is relevant to the quality of the product where it substantively reduces the benefit the customer would receive.

In the case of some pure protection products, where the customer pays a premium per month until they die or reach 90. When the product is sold, firms know that some customers will pay more in premiums than the sum assured, and they are likely to know the precise month when a customer will reach that point. Firms also know that inflation will reduce the value of the sum assured over time. We expect firms to consider whether these products are likely to remain of fair value to customers throughout the whole life of the product, given the increased total

premium the customer will have paid and the reduced (or potentially negligible) benefit they will receive from it. As a result firms would need to consider if the price outweighs the benefits for the product and whether there would be fair value, especially where the customer in that scenario could be better served by an alternative option (such as making regular payments into a savings account).

Products where the nature of the cover and the likelihood of claims changes over time. This could include products where the firm knows the premium will increase or the cover will reduce, or where there is a risk of customers cancelling before the product has become most beneficial to them. For example, pet insurance where the insurer knows the premium will increase over the life of the pet. Increased premiums may reflect an increase in risk, although firms should ensure that the premiums charged bear a reasonable relationship to the cost of underwriting the policy and the benefits it provides. It is common in this market for firms not only to increase premiums but for additional restrictions on cover (such as a co-payment for claims or limits on cover for individual illnesses) to apply as the pet gets older. These changes are expected when the policy is sold. Firms need to think about whether the product offers fair value both to those customers who choose to renew after the premium increases and to those customers who choose to drop out because of the premium increases.

This could also include some life insurance and other pure protection products where there is a likelihood of the customer cancelling their contract before reaching an age where they are likely to make a claim or receive a benefit. Cancellation rates, and the reasons for cancellation, during the term of the contract are likely to be an important piece of data for firms to consider when determining if the product is providing fair value.

Assessing fair value

- 4.10** We were asked how fair value should be assessed and what would be acceptable remuneration or unfair price optimisation. Some respondents also suggested we introduce a standardised template for intermediaries to provide value-related data to manufacturers.

Metrics for measuring value

- 4.11** Some respondents questioned the extent to which the individual metrics for measuring value under the rules give a true indication of whether a product is providing fair value.

Our response

Assessing fair value

Our draft proposals set out in detail (amongst other things):

- that firms must identify fair value
- circumstances where we consider a product may not be providing fair value, and

- the need for firms to obtain all necessary information to consider product value

The insurance sector contains a wide variety of different products and distribution arrangements. The existing PROD requirements and the proposed new rules allow firms some flexibility in what processes they put in place in a way that best suits their products, business models and distribution arrangements. We do not consider it necessary to provide further guidance. Providing specific illustrations on what amounts to fair value or acceptable remuneration for every product, or a standardised template of value data would be impractical and would remove the flexibility for firms to make judgements based on their business. We do not consider either would be beneficial. PROD 4.2.35AR sets out information that firms may need to consider when conducting their ongoing product reviews, including the product's claims ratio. We believe that all this information considered together will enable firms to decide whether their product is providing fair value to their customers. PROD 4.2.14ME sets out certain pricing practices that would contravene PROD 4.2.14AR (and where relevant PROD 4.2.14BR).

Metrics for measuring value

A small number of respondents suggested that certain individual metrics may not in isolation give a true indication of whether a product is providing fair value. For example, the claims ratio for a low frequency/high severity product may fluctuate considerably from year to year. As set out above, firms will need to use all necessary and appropriate data and information available to it when assessing value. We have set out examples of the information that firms should consider using during their value assessment. Firms should consider the full range of information to form an accurate picture of whether their product offers fair value to their customers.

Co-manufacturers

- 4.12** We were asked to clarify the role of each party where, for example, intermediaries are co-manufacturers and determine their own commission.

Manufacturers' responsibility for distributors' compliance

- 4.13** We were asked whether we expect manufacturers to assume responsibility for the distributor's compliance with the PROD rules applicable to the distributors.

Application to PCWs

- 4.14** We were asked how the PROD rules apply to PCWs.

Finalised Guidance FG19/05

- 4.15** Some respondents queried whether this guidance would remain applicable once the new product governance rules came into force.

Our response

Co-manufacturers

Existing requirements in PROD apply in relation to who is considered a manufacturer (PROD 1.4.4 UK and the guidance in PROD 1.4.5G, PROD 1.4.6R) and where a product is manufactured by more than one firm (PROD 4.2.13 UK and PROD 4.2.14R). We remind firms that all co-manufacturers are responsible for meeting all the PROD rules and cannot share or contract out of that responsibility. Whilst one co-manufacturer may lead on operating a certain aspect of the product approval process, both are equally responsible for complying with the rules. This applies to the new rules being added into PROD 4 now, as well as to the existing rules.

Manufacturers' responsibility for distributors' compliance

The new PROD rules do not change the existing responsibilities of manufacturers and distributors, nor do they make manufacturers responsible for the compliance of other authorised firms. The manufacturer is responsible for selecting appropriate distribution arrangements. One of the new requirements on manufacturers is to ensure that, as far as reasonably possible, the distribution arrangement avoids or minimises the risk of negatively impacting the fair value of their insurance products. The existing PROD rules already require firms to monitor their products (including the distribution channels they have selected) and to take appropriate action to mitigate harm to customers.

Distributors remain responsible for complying with the rules in PROD 4.3, as well as their other obligations (such as ICOBS).

Application to PCWs

We have not proposed any change to how PROD 4 applies to firms. The rules will apply to firms (including PCWs) in the same way they already apply. PROD 4.3 will apply to PCWs where they distribute products they do not manufacture themselves.

Finalised Guidance FG19/05

We confirm that [FG19/05](#) will be revoked from the date that the product governance rules in this Policy Statement come into effect.

Additional features and products

We have amended PROD 4.2.14ER(3)(c) to remove the wording about 'add-ons or optional cover' in relation to how firms should consider the individual elements of the price for the insurance product and any additional products.

Application to products manufactured before 1 October 2018

- 4.16** Our current PROD rules apply to products manufactured or significantly adapted since 1 October 2018. We proposed extending the application of the PROD rules to all general insurance and pure protection products irrespective of when they were manufactured. We proposed that, within one year of the rules coming into effect, firms would be required to have applied a product approval process to any existing products that did not fall within the current PROD scope, and to update their approval for any in-scope products to take into account the new requirements on fair value.

Q13: *Do you have any comments on our proposal to apply the product governance rules to products regardless of when they were launched?*

- 4.17** Most respondents who answered this question supported our proposals. Some respondents commented that they already do this and consider it good practice.

Initial product approvals

- 4.18** However, a few respondents commented that 12 months was not enough to complete initial product approvals for products that have not previously been reviewed and to update approvals for products already in scope of PROD, particularly where they manufacture large numbers of products and have complex distribution chains.

Pure protection products and products in run-off

- 4.19** A few respondents also suggested that it would be disproportionate and/or costly to apply a product approval process for certain pure protection and healthcare products that were developed 10 or more years ago, and for products that are in run-off with a small number of customers. In particular, one respondent asked whether it added value to retrospectively define a target market for such products.

Our response

Most respondents have agreed with our proposals, so we are introducing the rules broadly in line with our consultation, but with some changes to address concerns raised by respondents. In the consultation we used the term 'RPPD non-investment insurance product' however we have now revised this term and refer to these as a 'legacy non-investment insurance product'.

Initial product approvals

We consider that 12 months is an appropriate and achievable amount of time both to apply PROD approval process to products that have not previously been reviewed and ensure that those products previously approved under PROD 4.2 meet the fair value requirements. We have amended PROD 4.2.14JR to provide that firms have more flexibility to identify what information they will need to consider when assessing a product for fair value. We have amended the rule so that it is no longer mandatory to use all the listed information. Rather firms will need to consider whether they should be using this (or any other relevant) information in the approval of the product in question. The information

that firms should be using during the approval will depend on the nature of product, type of distribution arrangement, the target market, the nature of the existing customer base and firm's existing information on customer outcomes.

We appreciate that many firms will already have regular monitoring and review in place for their products. These reviews may already produce some of the information needed for the product approval process.

Pure protection products and products in run-off

We do not consider that pure protection products, or products that are in run-off with few customers, should be excluded from the requirement that products are reviewed at least annually on an ongoing basis. Fair value and the other PROD requirements are equally important to consumers with these products.

Firms are already required to have approval processes in place under current PROD rules (for example, when manufacturing new products or when making significant changes to their existing products), so we consider that the cost of applying these processes to other products is unlikely to be disproportionately high. The requirements in PROD 4, together with the amendments and new guidance we are now making, provide firms with flexibility about their approval and review processes. Where firms are already conducting regular monitoring of their products, they may be able to use this information for their initial approvals and subsequent reviews.

We do not agree that there is little value in firms identifying a target market for pure protection products, or products that are in run-off with few customers, where this has not been done before. Identifying a target market is a requirement in PROD and was also an expectation set out in the RPPD guidance. However, the target market does not need to be re-defined or amended each year. The purpose of the product governance rules is to ensure products meet the needs, interests, objectives and characteristics of their target market. Firms will not be able to make this assessment if a target market has not been identified. Having a defined target market allows firms to identify existing customers whose interests might not be best served by the product and take steps to mitigate this customer harm (for example, by moving these customers to a different product). Also, reviewing long-term products and products in run-off will help inform those firms involved in the manufacturing and marketing of new products.

Application to non-investment insurance products and additional products

- 4.20** We proposed applying our PROD proposals to non-investment products and additional products sold alongside the core insurance product.

Q14: *Do you have any comments on how we propose to apply the product governance rules to non-investment insurance products and products sold as part of a package?*

Packages

4.21 Most respondents who answered this question supported our proposals. However, a few respondents asked whether a manufacturer of a core product is expected to assess the fair value of any package where a distributor includes additional products manufactured by other firms. A few respondents also asked if it is sufficient to establish that the core insurance product and each additional component product is providing fair value individually, on the basis that any combined package of fair value components should provide fair value in aggregate.

Commercial contracts

4.22 A few respondents asked us to consider excluding commercial contracts, particularly those close to being large risks, from the scope of the new rules. They suggested that these contracts were likely to be more complex and difficult to review and were also less likely to cause harm as larger organisations are more likely to have insurance and legal advisors representing them.

Our response

We will be introducing the rules on which we consulted as most respondents agreed with our proposals.

Packages

Our proposals contained separate rules around assessing value in relation to a package with the core non-investment insurance product where this is done by the manufacturer or a distributor. Manufacturers are responsible for meeting all the PROD requirements in connection with their own non-investment insurance products, including the rules on value assessment. In addition, where a manufacturer is designing a product with the intention that it is distributed with another non-investment insurance product from another manufacturer, they need to ensure that the intended package as a whole will provide fair value. However, a manufacturer is not required to assess the value of a component of a package where this is a product they have not manufactured. We have amended PROD 4.2.14BR to confirm this.

Where the distributor is selling products manufactured by different insurers, they must ensure the package of product is consistent with providing fair value. The manufacturer is required to make available to the distributor information about the product and its target market (including any customer groups to whom the product would not provide fair value). Distributors should use this information to consider any package of insurance products they put together including whether there is a risk the customer could be sold duplicate cover which could affect the fair value of the individual products.

Generally, where a package contains products that individually provide fair value, this may mean that the package would therefore also do so. However, there could be situations where this is not the case. For example, if a core motor policy includes breakdown cover, then a package which is sold with separate breakdown cover would not be providing fair value.

Commercial contracts

Contracts of large risks are excluded from the scope of PROD (both the new and existing rules). We do not propose to exclude other commercial non-investment insurance products from the scope of the PROD requirements, as we consider value to be equally important and relevant to these products. We consider that the rules give firms enough flexibility in relation to the product governance arrangements they put in place for these products.

Ongoing review and remedial action

- 4.23** We proposed to require firms to review all general insurance and pure protection products at least every 12 months, with more frequent reviews of products that have a higher risk of not delivering fair value to customers.

Q15: *Do you have any comments on our proposals for ongoing product reviews and remedial actions firms must consider where it is identified that the product is not providing fair value?*

- 4.24** Most respondents who answered this question supported our proposal. However, some felt that mandating a minimum annual review of all products would be disproportionate. Some raised concerns in respect of the review of niche commercial products that are complex or bespoke in nature, long term pure protection products and closed book products in run-off with few customers.

Our response

We will be implementing the rules on which we consulted, but with some changes to address concerns raised by respondents.

We do not consider commercial, pure protection or closed book products should be excluded from the ongoing review requirement, as value is equally important for consumers who purchase these products. We note the points made by respondents, but we do not consider they justify excluding these products, particularly considering where these products are within the scope of existing PROD requirements which already require that products are regularly reviewed. The amendments we have made (summarised below), should address the concerns raised by firms.

Similar to the change explained above about information to be considered when assessing value, we have also amended PROD 4.2.35AR to allow firms more flexibility in terms of the information

they consider during ongoing reviews. We have also included guidance at PROD 4.2.34 EG to explain how firms may group or bundle similar products together during the ongoing reviews.

We understand that some firms may already be carrying out some ongoing monitoring of products on a regular basis (for example considering complaints, claims rates, drop rates etc.). Where firms do this in a way that is consistent with the requirements we have proposed for the periodic review of the product, they may tailor the periodic reviews required by PROD to take account of their ongoing monitoring. In some cases, this might mean that the ongoing monitoring is relevant to some (or all) of the periodic review requirements. This may allow for the annual review to be more streamlined, as key issues may have been actively monitored as part of the ongoing process compared with firms that conducted less intensive periodic monitoring.

Requirements on product distributors

We proposed new value related requirements for distributors to complement the new requirements applicable to manufacturers.

Q16: *Do you have any comments on our proposed requirements for product distributors?*

Application

4.25 Most respondents who answered this question agreed with our proposals. A few respondents suggested that steps need to be taken to ensure consistent and robust application of rules across all distribution models (including where distributors applied varied commission rates at renewal and margin pricing), different products (including net rated products), and all distributors in a distribution chain including PCWs. A small number of respondents also asked whether the requirements apply where insurance is offered in a package with other services, including some non-insurance services.

Commercially sensitive data and competition law concerns

4.26 A few respondents also said distributors may be unwilling to share value-related information as they might view such data as commercially sensitive and that sharing this information could be in breach of competition law. One firm suggested an alternative to the provision of fair value assessment related data, would be to require firms to attest to each other that they meet the relevant requirements.

Our response

We are proceeding with the proposals in our consultation.

Application

The PROD rules for distributors apply to:

- all distributors of non-investment insurance products (that they do not manufacture), including to PCWs and other intermediaries
- all non-investment insurance product types that are in-scope of PROD
- all types of distribution models regardless of complexity.

Distributors who are responsible for putting together packages of products must ensure that these do not have a detrimental impact on the value of the products. Firms should consider the guidance we have added at PROD 4.3.6BG and our response to Question 14 above.

We have also added further guidance at PROD 4.3.6CG on how distributors should consider value in relation to the retail premium finance offered alongside insurance products.

Commercially sensitive data and competition law concerns

We have explained the amendments we have made to PROD 4.2.14PR in our response to Question 12 above. The rules do not require the sharing of commercially sensitive information. We do not consider that senior management attestation would be a sufficient alternative to the provision of appropriate and relevant remuneration information because we want firms to actively assess the value offered by their products and take steps to mitigate customer harm where it has identified that the product does not provide fair value.

Premium finance

- 4.27** In CP20/19, we reminded firms that retail premium finance is an optional additional product for the purposes of ICOBS 6A.2. We also clarified in the rules that where a firm arranges retail premium finance as part of its insurance distribution activities it must ensure its remuneration for this (including any associated incentives), is consistent with the firm's obligations under ICOBS 2.5.-1R to act honestly fairly and professionally in their customer's best interests.
- 4.28** In addition, we proposed to require that, where firms offer retail premium finance, they should give clear information about the cost of the premium finance arrangement and make clear that this makes the contract more expensive. We also proposed guidance to clarify our expectation that, when firms give customers a choice on whether to take out retail premium finance, they must do more than simply ask the customer to choose between paying monthly or annually. We also said firms' remuneration arrangements in relation to retail premium finance should not give an incentive to offer retail premium finance with greater costs to the customer where another arrangement better aligned with the customer's interest is available.

Q17: *Do you have any comments on our proposals for premium finance?*

4.29 Most respondents who answered this question agreed with our proposals. However, a few asked us to clarify some issues, including:

Application to premium finance credit providers

4.30 Whether the rules apply to premium finance credit providers directly.

Benchmarking

4.31 Firms asked us to clarify our expectations under ICOBS6A.5.7G, including whether firms should be benchmarking against competitors, whether we intend there to be a hard cap/ban on commissions, and what we mean by 'regular basis' (how often we expect firms to review their premium finance arrangements).

Exclusive premium finance arrangements

4.32 Firms asked us to clarify our expectations on exclusive premium finance arrangements, as we refer to them in Paragraph 4.23 of the consultation.

Active election

4.33 Questions firms should ask to ensure customers actively elect to obtain premium finance.

Pre-contract cost disclosure

4.34 We were asked to provide more prescriptive rules on the prominence to be given to cost-related disclosures. We were also asked to consider deleting the requirement in ICOBS 6A.5.2(2)R (that firms state that obtaining retail premium finance with the insurance product will be more expensive) as other disclosure rules make it clear to customers that using premium finance to pay for the insurance product would be costly

Value of retail premium finance sold alongside insurance

4.35 We were asked whether we could define value in relation to retail premium finance, and confirm that the responsibility to carry out a fair value assessment rests only with the firm offering premium finance to the customer, and not with the insurer of the underlying product (or other firms in the distribution arrangement).

Premium finance with no cost to the customer

4.36 Some respondents argued that the rules on premium finance should not apply where the finance has no additional cost (i.e. where the interest rate is 0%). They said that there would be little benefit to consumers receiving the additional disclosures, and that a no-cost premium finance product would always meet the needs for someone who wished to pay their premiums monthly.

Our response

We are introducing the rules broadly in line with our consultation, but with some changes to address issues raised by respondents.

Application to premium finance credit providers

The proposed rules are not intended to apply to premium finance credit providers directly where they are not carrying on insurance distribution activities. They only apply to insurers and insurance intermediaries who offer retail premium finance alongside insurance products, although we recognise there are some insurers who offer premium finance through companies in the same group.

Benchmarking

The rules do not specifically require firms to benchmark the arrangements they have with retail premium finance providers or distributors against their competitors. However, firms may wish to consider if doing so might support showing how they meet our rules and offer their customers fair value. Firms need to be mindful that consistency with market APRs and remuneration rates is unlikely in itself to demonstrate that their own remuneration is consistent with their obligations under the customer's best interest rule, or that the premium finance they are offering is not negatively impacting the value of the insurance product.

We have not proposed in the rules a specific cap or ban on commissions related to retail premium finance. Our proposals were intended to clarify that insurance distributors should be ensuring that where their insurance distribution activities include offering or arranging retail premium finance, they need to ensure they are not acting in a way that conflicts with the customer's best interest rule.

Following the consultation, we have included new guidance under ICOBS 6A.5.7G to clarify:

- The steps firms should take during regular reviews of retail premium finance arrangements. For example, firms should consider how the arrangement provides a fair outcome for the customer and why they selected the arrangement. Where the firm receives a greater level of remuneration compared with other arrangements available to it, they should consider whether this is consistent with their obligations under the customer's best interest rule.
- We do not define 'regular basis', however we expect reviews could be done in line with regular PROD reviews of the core insurance product (or package of products) and distribution arrangements, as this may be necessary to ensure the premium finance arrangements are consistent with fair value requirements.

Exclusive premium finance arrangements

Where firms have exclusive arrangements with premium finance providers, they need to consider whether these arrangements are consistent with existing requirements including the customer's best interest rule in ICOBS. In particular, they must review regularly their

arrangements with the retail premium finance firm to identify that it doesn't give an incentive to act in a way that is inconsistent with the customer's best interest rule or other provision in the FCA handbook.

In addition, a manufacturer (under PROD 4.2) or a distributor (under PROD 4.3) must consider these arrangements when meeting the new fair value requirements. Firms should consider the new guidance we have provided under ICOBS 6A.5.7G as summarised above.

Active election

The requirement on firms to obtain active election for optional additional products is not new. This is required under existing rules at ICOBS 6A.2.1R. Retail premium finance is an optional additional product for the purposes of this rule. In addition, the new guidance in ICOBS 6A.5.4G, clarifies that merely asking customers to choose between paying monthly or annually would not be sufficient to satisfy the requirement of active election under current rules. We expect firms to exercise their judgement in deciding what questions to ask customers in order to comply with the 'active election' rules and to ensure that the premium finance meets the customer's requirements.

Pre-contract disclosure

We consider the new guidance on pre-contract disclosures in relation to retail premium finance, and the existing rules on means of communication, are sufficient to prevent consumer harm by ensuring customers understand where paying the insurance premiums using retail premium finance is more costly than paying the premiums annually. The requirement in ICOBS 6A.5.2R(2), is an important part of this. We do not consider further prescriptive rules are required, as this would remove the flexibility firms have on how they communicate this message to customers in a way that suits their sales journey.

Value of retail premium finance sold alongside insurance

We have added further guidance at PROD 4.2.14IG and PROD 4.3.6CG that, when considering its value, firms should at least consider the relationship between the total price of the premium finance (including the applicable APR) paid by a customer and the quality and benefits. All premium finance provides the benefit of spreading the cost of the insurance premium and there are often no other benefits. In view of this, we expect that the price is likely to be the most significant factor in determining whether the premium finance provides fair value.

Premium finance with no cost to the customer

We have re-considered the position in relation to premium finance which charges no interest or additional costs. The purpose of the proposed rules was to make customers aware of the increased cost compared with paying another way, and to ensure that firms are not influenced by factors such as commission to offer customers products which are not in their interests or are poor value. As noted above, we consider that the price of the finance is likely to be the main indicator of value. We have also reflected on whether the other proposed rules are relevant given that:

- As there is no difference between the total cost of paying monthly or annually, the additional disclosures are unlikely to provide customers with any useful information.
- If there is no difference between monthly and annual cost, then simply asking how the customer wishes to pay would be sufficient to ensure the customer has actively chosen to take the premium finance, and to assess whether the premium finance met the customer's needs.
- There could be no improper influence by commission to sell a product that does not meet the customer's needs or is poor value.

For these reasons, we have decided to amend both the new SYSC and ICOBS rules to exclude premium finance arrangements from the definition of 'retail premium finance' which does not increase the price the customer is paying for the insurance policy. Firms will still need to comply with existing ICOBS rules (as premium finance will still be an 'optional additional product') by ensuring that the customer makes an active choice to pay through premium finance, and that this is consistent with their best interests. There are likely to be many customers who wish to pay annually irrespective of whether or not it has an additional cost.

Senior managers' responsibility

- 4.37** In CP20/19, we reminded firms that their governing body has ultimate responsibility to ensure the firm is complying with all relevant product level requirements whether in PROD 4 or elsewhere, including ICOBS 6B.

Q18: *Do you have any comments on our proposals for senior manager responsibility for compliance with our proposed remedies?*

- 4.38** All respondents who commented on this question broadly agreed with our proposals. A few firms had questions related to the pricing remedy. These were addressed in Chapter 3.

Our response

We are introducing the rules we consulted on as all respondents to this question have broadly agreed with our proposals.

5 Cancelling auto-renewing policies

- 5.1** Our consultation set out proposals to require firms to make a range of accessible and easy options available to consumers who want to cancel auto-renewal on their contract.
- 5.2** This chapter summarises the feedback we received on these proposals and our response.

Options to stop policies from auto-renewing

- 5.3** In the consultation, we proposed that firms must:
- provide consumers with a range of accessible and easy options to stop their policy from auto-renewing
 - as a minimum, allow consumers to opt-out of auto-renewal by telephone, post, and email or online
 - not place unnecessary barriers on consumers wanting to opt-out of or stop auto-renewal
 - allow consumers to opt-out of auto-renewal at any point during the contract term.

Q19: *Do you have any comments on our proposals to require firms to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing?*

- 5.4** Most respondents who answered this question expressed support for the remedy. However, many questioned the requirement for firms to offer so many methods of cancelling auto-renewal (telephone, post, and email or online), particularly if they operate an online-only model. They were also concerned about the complexities of updating their infrastructure, which would ultimately lead to increased costs for consumers. Some respondents considered that a more reasonable approach would be for firms to provide options which are proportionate to their business model or appropriate for their customer base.
- 5.5** We consulted on guidance which makes clear that an 'easy' method of stopping auto-renewal is one where consumers do not face unnecessary barriers to opt-out of auto-renewal, such as significantly longer call waiting times to cancel the automatic renewal feature than to purchase a new policy. Two respondents asked for clarification of the term 'significantly', suggesting instead that we refer to 'unreasonably' longer call waiting times.

Our response

We are introducing the rules we consulted on requiring firms to provide consumers with a range of easy and accessible methods for opting out of auto-renewal as most respondent supported our proposals.

However, as some firms do not operate via all the channels listed in our proposal, we are allowing greater flexibility than in the rules on which we consulted. Firms will need to allow consumers to opt-out of auto-renewal using at least the same methods by which they allow consumers to purchase a new policy.

We believe that this change addresses the main issue raised by respondents and should reduce the additional costs they identified. Consumers should still be able to cancel auto-renewal arrangements in a way that matches their usual method of communication with the firm.

When determining what cancellation methods to provide to consumers, firms must also consider their needs, including those who originally took out their policy using a channel they no longer offer for new business, or those whose product is closed to new business. We are not requiring firms to provide identical service standards (e.g. hours of operation) between each option. We also remind firms that they must consider Principle 6 (A firm must pay due regard to the interests of its customers and treat them fairly) and 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). As the Treating Customers Fairly (TCF) outcome 6 makes clear, we expect firms to ensure that consumers do not face unreasonable post-sale barriers. This includes any unreasonable barriers to cancelling auto-renewal for consumers wishing to do so.

When considering their approach to allowing consumers to opt out of auto-renewal, firms should also consider our [Guidance for firms on the fair treatment of vulnerable customers \(FG21/1\)](#). This guidance highlights that firms should consider the needs of vulnerable customers in their target market and customer base and ensure that staff across all aspects of the business have the skills and capabilities to respond to those needs, including when designing communications. The guidance includes the good practice of providing a choice of communication methods and using methods of communication that vulnerable customers can use effectively.

We expect firms to ensure that the average call waiting time to cancel auto-renewal is not unreasonably longer than the waiting time to purchase a new policy. In line with the feedback received, we are updating our guidance to refer to 'unreasonably', rather than 'significantly', longer call waiting times. We agree that this is a more common measure and more likely to be understood.

Communication of options

- 5.6** In the consultation, we proposed to introduce new rules requiring firms to explain to consumers whether a policy is set to renew automatically and what this means. They would also need to inform these consumers of their options to stop their contract from auto-renewing. This information would need to be given both at the point-of-sale and in good time before renewal.

Q20: Do you agree with our proposed rules and guidance in relation to auto-renewal?

- 5.7** Most respondents who answered this question agreed with our proposals. Some also asked for further detail, including on:
- *The content of the disclosures*
 - *When in the sales process the information should be provided*
 - *Presentation of information* (including suggestions for guidance to ensure firms give the information enough prominence)
 - *Cancellation requests* – where intermediaries are involved, which party should take them forward?
- 5.8** There was concern that the rules may leave scope for subjective interpretation which could result in inconsistent consumer experiences across the market. Further, some respondents said that any increase in documentation could make both the sales and renewal processes more complex.
- 5.9** A few respondents also suggested that auto-renewal should be offered on an opt-in basis only and that we should remove penalty fees during a 14-day cooling-off period. Some also suggested that firms should consider vulnerable consumers and provide simpler cancellation processes that cater to their needs when it would be helpful to do so.

Our response

Firms should neither hinder consumers from making informed choices, nor discourage them from looking for better deals at renewal. Our aim is to simplify the process for consumers to exercise the option to cancel auto-renewal where they choose to do so.

The content of the disclosures

We do not intend to specify the exact wording that firms must use when providing the information set out in our rules. We believe that firms should have the flexibility to tailor their communications to meet the needs of their customers. In doing so, we expect firms to comply with our new rules on product information as well as the customer's best interest rule (ICOBS 2.5.-1R), the appropriate information rule (ICOBS 6.1.5R(1)) and Principle 7.

When in the sales process information should be provided

Information about auto-renewal should be provided in good time before the conclusion of the contract, whether it is the original contract or at renewal. Where a consumer did not opt for auto-renewal at the point of sale, information can be provided, and a consumer can opt into auto-renewal at any point during the lifetime of the policy.

Presentation of information

We expect firms to communicate clearly the information on their right to cancel and the methods available.

We also remind firms of our:

- guidance on renewal transparency, to encourage more active consumer engagement at renewal. We expect information to be presented clearly, accurately and prominently in a place that makes it easy to compare with the renewal quotation. This will require information to be communicated in a way that is accessible and which draws the consumer's attention to it as key information.
- guidance for firms on the fair treatment of vulnerable customers. This includes ensuring that communications and information for these customers is presented in a way that is understandable for them.

Cancellation requests

Our rules do not specify each firm's role in cancelling a policy. Both insurers and intermediaries may have a role in responding to consumer requests to cancel auto-renewal. For example, a consumer could make the request to the intermediary, which then asks the insurer to remove the auto-renewal feature.

Firms must make clear to consumers wishing to cancel auto-renewal the process they must follow. We expect firms to consider whether they are imposing any barrier to cancellation that may be contrary to the new provisions and to Principle 6.

Other issues

We considered the possibility of requiring auto-renewal to be offered on an opt-in basis only in the [Final Report of the Market Study](#). We have not taken this forward due to the risk that it could lead to more consumers becoming inadvertently uninsured.

ICOBS 7.1 already gives a consumer a right to cancel, without penalty and without giving any reason, within 14 days of taking out a contract of general insurance or 30 days for a pure protection product. When a consumer exercises this right, firms can only charge for any service actually provided by the firm before the contract is cancelled. Any charges must be proportionate and should not be of an amount that could be construed as a penalty.

We are not proposing additional specific rules on auto-renewal for vulnerable customers. In line with the [Guidance for firms on the fair treatment of vulnerable customers \(FG21/1\)](#), firms should consider their customer needs at all relevant stages of the consumer journey. For auto-renewal, this could include, for example, building in relevant questions before renewal to ensure that vulnerable consumers understand what auto-renewal means and the impact it will have.

Product scope

5.10 We proposed to apply the auto-renewal measures to all types of retail general insurance products, not only to home and motor insurance.

Q21: *Do you agree with our proposal to apply the auto-renewal measures to all types of general insurance?*

5.11 Around half of the respondents that answered this question, including several consumer organisations, insurers and intermediaries, broadly supported the proposal. They suggested that consumers would benefit from a consistent approach across the market and should be encouraged to search for policies that best meet their needs. A few respondents said that requiring firms to enhance their communication about the terms and options for auto-renewal would lower the risk of consumers becoming uninsured by mistake.

5.12 A few respondents, however, including a trade body and some firms, suggested that we limit the scope to products that were included in the market study. They argued that our investigation into home and motor insurance markets isn't enough to understand the specific consumer needs and dynamics of other markets. A few firms further pointed out that the auto-renewal measures could lead to consumers becoming uninsured for compulsory policies, such as compulsory motor cover or buildings insurance required by a mortgage contract, if they opted out and forgot to renew.

5.13 Some respondents also raised issues about specific products, outlined below:

Private health, medical and pet insurance

5.14 Several respondents cautioned that applying the auto-renewal measures to these products could lead to consumer harm. For example, if consumers unintentionally opt out of auto-renewal during a period of treatment, this could result in the treatment terminating early. There is also a risk that consumers would lose cover for pre-existing conditions if they accidentally fail to renew their policy. Some respondents said that our requirements for firms to enhance communication about the impact of cancelling auto-renewal may not be enough to counteract these risks.

5.15 Several healthcare cash plan providers mentioned that the auto-renewal measures could lead to consumer detriment if applied to them. Firms advised that their business models and the benefits enjoyed by consumers rely on policies auto-renewing, as this gives consumers continued access to healthcare while supporting steady prices.

Travel insurance

5.16 A couple of firms suggested that the risk of harm would increase for consumers with pre-existing conditions which developed during the policy term. If they fail to continue their travel policy, it may be difficult to find new cover.

5.17 Some respondents also asked for clarity on whether the following are in scope of the auto-renewal rules:

- products sold to commercial customers;
- additional insurance products and insurance products contained in packaged bank accounts, and
- monthly insurance policies.

Our response

Our aim is to make it easier for consumers to stop their contract from auto-renewing if they choose to do so. We consulted on applying our proposals to all general insurance contracts because consumers should not face unreasonable barriers to exit any type of general insurance contract. We have considered the feedback to these proposals and we remain of this view.

Consumers already have the right to opt out of auto-renewal arrangements, so there is already a risk that, for example, they forget that their policy is no longer set to renew automatically. Generally, we would expect that, if a consumer chooses to opt out of auto-renewal, they are making a conscious decision that this is how they would like their contract to operate. So, we expect that they would take steps to renew their policy or take out alternative cover at the end of their contract term. We do not believe that our rules significantly increase the risk that some consumers become unintentionally uninsured.

Private health, medical and pet insurance

We recognise that there are potentially serious consequences if consumers don't renew these types of cover. Such policies cannot always be reinstated on the same terms, which could mean consumers lose cover for pre-existing conditions.

We also recognise that the nature of healthcare cash plans and the benefits available to consumers depend on the policies auto-renewing.

Considering these factors, we will not apply our auto-renewal rules to private health, medical insurance, or pet insurance, at this time. We will carry out further work before deciding whether to apply the measures to these products in the future.

Travel insurance

We do not believe that the need for continued cover for customers with pre-existing medical conditions (PEMCs) applies for travel insurance policies, to the same extent as private medical, health or pet insurance. The evidence available from our work introducing the signposting rules in travel insurance shows that most customers with PEMCs can find cover in the market. Therefore, travel insurance products will remain in scope of the rules.

Our new signposting rules and guidance aim to help consumers with pre-existing conditions find travel insurance appropriate for their needs and reduce the number of consumers who pay too much for this.

Retail general insurance

In Paragraph 5.10 of CP20/19, we proposed that the auto-renewal rules would apply to all types of 'retail' general insurance, where firms deal with consumers rather than commercial customers. However, under ICOBS 6A.5.3 R we incorrectly used the term 'customer', which would mean the rules would apply to commercial as well as retail customers. This was not our intention and we have updated these rules to refer only to 'consumer'.

Additional insurance and packaged bank accounts

The auto-renewal rules apply to policies whether they are sold as the core product or as an additional product.

Where a policy is arranged as part of a packaged bank account, firms must include the information specified under ICOBS 6.2.6R on the consumer's right to cancel auto-renewal within the consumer's annual eligibility statement. There is no requirement for banks to separate the insurance product from the bank account if the consumer requests to opt-out of auto-renewal.

Monthly insurance contracts

The auto-renewal rules only apply to contracts of 10 or more months as was previously the case. Monthly products remain out of scope.

6 Reporting requirements

6.1 In our consultation, we proposed a requirement for firms to submit regular information to us about their home and motor insurance business. The three objectives for the reporting requirements were to help:

- monitor compliance against our pricing remedy
- identify where customers may be suffering harm
- monitor the market

6.2 Many industry respondents argued that our proposals were disproportionate. They said that some data would be costly to report or the reporting would result in the same data being reported by more than one firm. Some firms expressed the view that some information we proposed to gather would not meet our reporting objectives. However, some respondents, including several consumer organisations, supported our overall reporting approach, and the level of reporting granularity.

6.3 In this chapter, we summarise the feedback we received on these proposals and our response. We are making some changes in response to the feedback, particularly to remove the requirements for:

- price-setting intermediaries to report gross-rated business
- duplicative reporting for add-ons
- firms to report the proportion of customers paying high or very high premiums
- insurers to report incurred claims ratios and reserve movements by tenure
- insurers to report large books of business
- the quarterly reporting in the first year, which we will replace with a single report for the 6 months ending 30 June 2022
- separate reporting at book-level for closed books below 10,000 policies. These can now be reported in aggregate.

6.4 We are also introducing a few additional reporting requirements, including for:

- price-setting intermediaries to report data on closed books
- insurers and price-setting intermediaries to report data on the average prior year premium for different cohorts of renewing customers

6.5 We consider these changes will reduce the burden on firms, while still providing data to allow us to meet our objectives. References to insurers in this chapter also include managing agents.

Scope of the reporting requirements

6.6 In CP20/19, we proposed to require firms to submit regular reports showing pricing information for retail home and motor insurance. We also proposed to gather information about add-on policies and premium finance sold alongside these insurance products.

Q22: *Do you agree with our proposed scope for the reporting requirements?*

- 6.7** Most respondents supported the principle that our reporting requirements should cover retail home and motor insurance as well as add-ons and premium finance sold alongside this insurance.
- 6.8** Several respondents queried our definitions of home and motor insurance, noting that they are drafted in a way that is slightly different to our definitions of home and motor insurance for the purpose of Value Measures reporting. One respondent stated that our definition of motor insurance (as set out in the draft rules) could bring some types of vehicles into scope that are not part of the traditional private car market.
- 6.9** In addition, some stakeholders queried whether certain types of homes and vehicles are in scope of the rules, including house boats, vans and caravans.

Our response

Given the level of support from respondents, we are retaining the scope proposed as set out in the consultation.

The definitions of the three different types of home insurance cover (buildings only; contents only; and buildings and contents) are slightly different from the corresponding definitions in the Value Measures rules. However, the meanings of these definitions are broadly the same and we are retaining our proposed home definitions.

The definition of motor insurance covers contracts of insurance that fall within the 'motor vehicle liability' and 'land vehicle' classes. Both of these terms are defined in law under the Regulated Activities Order 2001. We recognise this definition of motor insurance could capture more products than the corresponding definition in the value measures rules, which is limited to 'motor vehicle liability' and does not include the 'land vehicle' class. We consider this definition is broad enough to ensure that a wider range of consumers are protected by our pricing remedy and are therefore retaining the motor definition that we consulted on. We are adding an additional reporting category, in addition to cars and motorcycles, for 'motor – other'. Product types that fall within the definition of motor insurance but are not car or motorcycles (including tricycles) products, must be recorded under the 'motor – other' category on the reporting form.

Our response at Paragraph 3.33 covers the application of the rules, including reporting rules, in relation to particular products, including those covering different types of homes and vehicles.

Reporting granularity – overall

- 6.10** We proposed to require firms to submit data for a range of metrics split by sales channel and tenure for each core product (motor car, motorcycle, home buildings and contents, home buildings only and home contents only). We also proposed that insurers and price-setting intermediaries would be required to split out their reporting between net rated business (ie where the price setting intermediary sets the final retail premium) and for gross-rated business (ie where the insurer sets the final retail premium).
- 6.11** We have split the feedback on reporting granularity and our response into two subsections, one covering high-level comments about the overall level of granularity (Paragraphs 6.12 to 6.16) and the other covering the specific categories that firms have to report data by (Paragraphs (6.17 to 6.29).

Q23: *Do you agree with our proposed reporting granularity?*

- 6.12** Some respondents, including a few firms, recognised the need for regular reporting to ensure markets are operating as intended and the desired outcomes are achieved. Some also expressed support for the proposed granularity to help identify to what extent sales channels and tenure may be impacting prices. The two respondents who commented on our approach not to request transactional level data supported this.
- 6.13** However, many respondents were concerned that the volume and breadth of the reporting requirements would create a significant burden on firms that was disproportionate to the benefits of our collecting the data. Some noted that reporting for some of the metrics would need to be created especially to meet our rules, leading to a substantial increase in work for firms to ensure complete and accurate data from multiple systems and databases and ensure further controls are in place to check the data before submission. Others noted there would be a need for increased communication between firms and supervisors to help us understand the data, potentially increasing costs to firms and us. Other respondents also raised the risk that the reporting could discourage new entrants and innovators and reduce competition in the market. There were a few firms who additionally claimed that the increased costs would be likely to lead to increased premia for customers.
- 6.14** Some respondents considered that the reported data would be unlikely to provide us with insight into compliance with the pricing remedy or help to identify consumer harm. They noted that the reporting cannot or does not take into account environmental factors or unforeseeable events, or the business mix of firms which will drive differences in premiums. Some respondents asked us to provide further details about how we will assess and supervise the use of the data and also how we will ensure consistency in our supervisory approach.
- 6.15** Some respondents questioned the need for the data reporting, suggesting that the pricing and product governance rules, including attestations and fair value assessments, would provide assurance of compliance with the pricing remedy and so reporting should be simplified or removed.
- 6.16** One consumer organisation was concerned that the proposed reporting does not take into account particular groups of consumers or vulnerable consumers, and so we would not be able to assess whether outcomes for these consumers were different, including where consumers are paying a disproportionately high premium that does not correlate to the level of risk.

Our response

We have considered the potential cost burden of our proposals for firms against the usefulness of the data in helping us to achieve our objectives. We propose to make some changes to our proposals. Overall, we consider that the changes will make our proposals proportionate.

Although our rules will not require firms to report separate data on vulnerable consumers, the reported data will help highlight where there may be pockets of harm, including for vulnerable consumers. For example, data on the distribution of expected claims ratios will show where some customers are expected to have a low proportion of premiums paid out in claims.

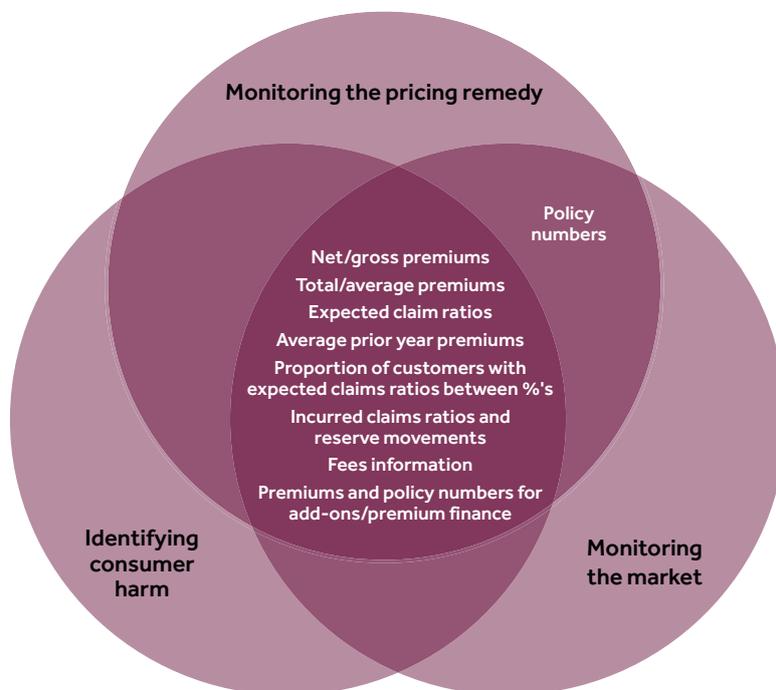
The reporting is not intended to be a detailed examination of firms' pricing models but should highlight where further investigation or follow up might be needed. In addition, the reporting is just one part of our overall package with the pricing remedy, product governance and attestation also contributing to better outcomes for consumers, including vulnerable consumers.

We consider that our refined set of metrics will provide indicators of where firms may not be complying with the pricing remedy, and where consumers may be suffering harm, as well as data about how firms have responded to the pricing remedy. The value of the data will increase over time as we begin to get a series of data points so that we can compare firm data year on year and by tenure, as well as considering data across firms.

We will use the data in a range of ways to monitor the effectiveness of the pricing remedy, help identify consumer harm and the impact on the market, for example to assess by product group, tenure and channel:

- changes in premiums over time
- whether prices are higher for some groups of customers, including relative to the expected claims costs
- whether there may be potential value issues (indicated by a lower expected claims ratio).

The diagram below sets out the main reporting metrics and how they link to our objectives. However, in practice, we may consider data on all the metrics against all three objectives.



Reporting granularity – categories on which we require data to be reported

6.17 We proposed that the product reporting would be split by sales channel, tenure, net and gross-rated business, and that closed books and large books of business would be reported separately, in addition to the aggregated reporting.

Net and gross-rated business

6.18 Net rated business is business where a price-setting intermediary sets the price paid by the consumer, and gross rated business is business where the insurer sets the customer's price. Some firms raised concerns about the need for both insurers and price-setting intermediaries to report both net-rated and gross-rated business resulting in duplicated reporting and higher reporting costs with low additional benefit.

6.19 One firm opposed the splitting of data between net and gross pricing, claiming that the differences in risks and commission levels would drive differences, rather than pricing issues. Another firm noted that where firms needed to obtain data from other firms to report the required GI Pricing Practices (GIPP) data, this could require process changes and thus additional costs. Several intermediaries questioned the value of reporting data on business where they do not set the price.

Channel

- 6.20** We proposed that firms would report data for the core motor and home products by sales channel with the channels being direct, intermediated, PCW and affinity/partnership business.
- 6.21** Some respondents sought clarity on how to report certain arrangements under the different channels, for example where a customer receives a quotation from a PCW but concludes the sale via a call centre, or if another product is added to the policy but was purchased via a different channel to the original product. One firm suggested we further separate channels by brand as well as product.

Tenure

- 6.22** We proposed that firms would report data split by tenure from T0 (new business), and one-year intervals from T1 (one year) to T9 years, and then a category for T10 or more years.
- 6.23** A few respondents requested clarification of how to measure tenure in different circumstances, for example where intermediaries may move a renewing consumer to a different insurer.
- 6.24** One firm highlighted that there are different definitions of renewal in ICOBS 6B and in the reporting requirements.

Large books of business (with over 100,000 policies)

- 6.25** We proposed that, in addition to the aggregated reporting, insurers would additionally report data on each large book of business.
- 6.26** Some respondents questioned the benefits of this and highlighted the high costs of doing so. One respondent argued that, given the flexibility of treatment around what is a large book, some firms may be able to manipulate their reporting. Another respondent asked why brokers would be exempt from this reporting. One respondent suggested that large books should consider a monetary value threshold as well as policy count.

Closed books of business

- 6.27** We proposed that insurers would additionally report data for each closed book of business.
- 6.28** Several firms reported the challenge and cost of reporting data on closed books. One firm noted that this is not data they currently produce. Some insurers raised the issue that the proposed definition of a closed book would capture a lot of active business increasing the reporting cost further. One respondent questioned why price-setting intermediaries would not be required to report data for closed books, and another respondent recommended that data on closed books is reported in aggregate rather than separately for each closed book.
- 6.29** A further respondent asked for clarification on when a book should be considered 'closed' for reporting purposes.

Our response

We recognise the need to remove any unnecessary duplicative reporting by firms. However, in some circumstances we consider that there will be a benefit to requiring firms to report data on business that is also reported on a different basis by another firm. There are two main reasons for this:

- The reporting is split by tenure, which is based on the length of the relationship between the firm and the customer. If a customer has renewed their motor insurance with a price-setting intermediary for seven years but in the sixth year the intermediary placed the business with a new insurer, then the same business would be reported under T6 for the intermediary reporting and under T0 for the insurer reporting.
- As the data would be aggregated by the reporting firm, we would not be able to link the insurer reporting back to specific intermediaries and vice versa. By requiring both the insurer and price-setting intermediary to report we get a clearer insight on whether there are potential issues for specific insurers and price-setting intermediaries.

Net and gross-rated business reporting

The gross price of insurance that consumers pay will either be set by an insurer or a price-setting intermediary. Where only the insurer sets the price, this is referred to as gross-rated business. Where the price-setting intermediary sets the gross price, this is referred to as net-rated business. For net-rated business, the insurer will charge the intermediary a net price and the intermediary will typically increase this net price to the gross price that the consumer pays.

We are removing the requirement for price-setting intermediaries to report data on gross rated business (ie where they do not set the price). Hence, insurers would be the only type of firm reporting gross-rated motor and home business. While this will give us less insight into gross-rated pricing distributed through price-setting intermediaries, it will reduce the burden on price-setting intermediaries to obtain data from insurers to report to us. This approach will remove some of the overlapping reporting.

For net-rated business, obtaining information on both the net and gross price provides insight about where there may be pricing issues at different points in the distribution chain and highlights the uplift between the net and gross price (including where commissions are high). Therefore, it would give us insight into potential issues with the setting of the net price (set by the insurer), the gross price (charged to the consumer) or both.

Therefore, we are retaining our approach of requiring both insurers and price-setting intermediaries to report data on both the net price (charged from the insurer) and the gross price (charged to the consumer). This is reported from the perspective of the reporting firm. For example, if a price-setting intermediary has a customer that is renewing for the first time, but the intermediary places the business with a different insurer, then the insurer would report the data as new business and the intermediary would report the business as having a tenure of 1 year.

As well as knowing the net price they charge, insurers should already know the gross price to help ensure products offer fair value to customers in the target market (eg PROD 4.5.4 R), as well as for accounting for Insurance Premium Tax (IPT) and value measures reporting.

For price-setting intermediaries, for net rated business, the firms will already have both the net and gross price information to report to us.

Tenure

The measurement of tenure is linked to the definition of renewal. We are clarifying that the definition of a renewal, applied to the core pricing remedy, also applies to the reporting remedy. This will align the reporting rules with the pricing rules and ensure that tenure is calculated on a more consistent basis.

We are also clarifying that where a customer renews a product, tenure is calculated based on the length of the relationship between the reporting firm and the consumer, from when the customer originally purchased the product. This approach will mean that firms do not have to share information about tenure with other firms and can simply consider the length of their relationship with the customer.

Channel

We consider the data will be clearer if firms treat renewing business as being via the channel by which the customer originally approached the firm when they first purchased the new policy. This will help improve the value of the data year on year, as we could see a clearer trend than if firms reported renewals which potentially are through a different channel year on year.

We consider that we will get sufficient insight from the reporting by channel, without requiring firms to report by brand.

Large books of business

We recognise the potential costs to insurers of having to report data for each large book of business. We consider that we will get sufficient insight if we collect data solely by channel and tenure, so we are removing the requirement for insurers to separately report data on large books of business.

Closed books of business

We consider that there is a higher risk for closed books that customers will be price walked. It is important that we collect data separately on closed books to help identify where there may be potential issues and follow up action may be required. Therefore, we are extending the requirement to report data on closed books to include price-setting intermediaries, although, as for other reporting, price-setting intermediaries would not be required to report closed book data for expected claims costs/ratios or the proportion of customers where the expected claims ratio is 10/30% points below the average.

We recognise that the reporting of closed book data could be costly for certain firms and we are making two changes to reduce the burden of reporting on closed books.

Under our revised approach for the pricing remedy we have amended the definition of a closed book to reduce the risk that actively marketed books would be classified as closed books. This will reduce the number of closed books on which firms need to report.

For reporting purposes, we are also introducing a de minimis threshold so that closed books with fewer than 10,000 policies, can be reported in aggregate rather than split by book. Closed books with over 10,000 policies must be reported separately.

We are also clarifying that firms need to report data for closed books with effect from the date that the book is assessed to be closed. This is consistent with the pricing remedy.

Reporting metrics – monitoring compliance against the pricing remedy

6.30 In CP20/19 we proposed some metrics to help monitor compliance with the pricing remedy. These included: total and average premiums charged to customers, net and gross price information (as covered above), number of policies sold/renewed during the reporting period, number of policies in force at the reporting data, expected claims costs and expected claims ratio.

Q24: *Do you agree with the list of metrics we propose to ask firms to report?*

6.31 Respondents raised concerns both about the cost of the reporting requirements and about the potential benefits from the reported data. Some respondents also suggested simplifying the proposed metrics and highlighted the potential overlap or duplication with value measures or PRA data, fair value assessments and attestation requirements.

Premium reporting

6.32 We proposed that firms would report core product data on total and average premiums split by product, channel and tenure.

6.33 Some respondents argued that the proposed premium data will not provide an indication of compliance with the core pricing remedy, for example reporting on average prices does not mean that individual prices are set in accordance with the pricing rules. Respondents also pointed to the impact of the business mix on differences in the premiums. Some firms suggested they would need to provide additional commentary to explain the differences.

The number of policies sold/renewed during the reporting period

- 6.34** In CP20/19 we proposed that firms would report data on the number of policies sold/renewed in the reporting period. This metric is also used to help calculate the average premium data.
- 6.35** Several firms sought clarification about whether the reporting of the data should be based on sold policies or incepted policies and one firm suggested we should also collect data on quotations.
- 6.36** One respondent asked us to clarify whether the premium finance reporting on number of policies is based on the number of insurance policies with premium finance or the number of premium finance contracts.
- 6.37** We received requests for clarification about how to treat cancellations, policies that were sold but subsequently not taken up and mid-term adjustments.

Expected claims costs and expected claims ratio

- 6.38** The expected claims ratio is the expected claims cost as a proportion of the premium paid by customers. This metric can indicate where consumers may not be receiving fair value for their products. Observing changes in the expected claims ratio for customers of different tenure can also give an indication of whether firms are complying with the pricing remedy.
- 6.39** A few respondents flagged that firms would have different calculation approaches. There were mixed views on how prescriptive the definition for expected claims costs should be. Two respondents requested clarity on the definitions and two recommending we are not more prescriptive. Concerns were also raised by a few respondents that this metric would not help to monitor the pricing remedy. A few also highlighted the potential duplication with the value measures reporting.

Our response

As set out earlier in the chapter we have considered both the burden on firms and the potential benefit of collecting data for different metrics.

Premium reporting

Collecting premium data would show whether, on average, longer standing customers are paying higher prices. This could indicate firms are not complying with the core pricing remedy. We would also look at premium over time in relation to the expected claims costs ie expected claims ratio. This would allow us to see if there are differences between the expected claims ratios for new business customers and longstanding customers.

We acknowledge that there are limitations to the data we propose to collect in assessing compliance with the pricing remedy, as we are not capturing differences in the risk profile/customer mix over different tenures which could account for some differences in premiums between customers and over time. Furthermore, the aggregated nature of the reporting means we will not get comfort about compliance at an individual level, but instead indicators of where there may be issues.

We consider that there is an additional metric that would enhance the value of the data we collect in helping to monitor the core pricing remedy. We are requiring firms to report 'average prior year premium' for each reporting category of customers renewing. This would give us a better indication of how prices had changed year on year for renewing customers and help mitigate the issue of changing business mix for different tenure points.

While this represents a small expansion of our reporting requirements, we expect firms to have the relevant pricing data as part of the information needed for renewal notices, and this improves our insight of compliance with the pricing remedy and differences in premiums over time.

The number of policies sold/renewed during the reporting period

We consider that there is unlikely to be a significant difference in the data reported if this metric is based on incepted rather than sold policies, as long as firms adopt a consistent approach year on year. However, we are amending this metric to be the 'number of policies incepted/renewed', as excluding policies which were sold but not subsequently incepted will provide clearer insight about the scale of their business. For premium finance reporting, this will be the number of policies incepted/renewed with premium finance.

We do not consider there is a need to capture policy cancellations or mid-term adjustments (MTAs) in the reported data, as the pricing rules focus on the prices quoted to consumers (including at renewal) and does not cover MTAs. For MTAs, in particular, we expect these to be relatively neutral with some increasing cover and others reducing cover. Therefore, firms are not required to adjust the data for cancellations or MTAs, but as stated elsewhere in this chapter, we expect firms to report on a consistent basis year on year.

Expected claims cost and expected claims ratio

The expected claims ratio will provide insight into the value that consumers get from their products as well as be an indicator of potential non-compliance with the pricing remedy. We accept that there will be some differences in how firms calculate these metrics. However, an important aspect of our assessment of the reported data for these metrics would be whether this varies between different tenures within the same firm (and over time) rather than as a comparison across firms. We are clarifying the definitions of these two metrics as follows:

- Expected claims cost means the expected risk cost when calculating the policy's premium excluding IPT. This should be the pure risk price and exclude any loading for expenses (including claims handling) and profit.
- Expected claims ratio means the expected claims cost as a percentage of the gross written premium, based on the premium charged to the end consumer net of IPT.

With regards to the potential for duplication with value measures reporting, the value measures data is reported at product level only, while the pricing remedy data provides additional granularity with the

data split by tenure or channel. This additional granularity will provide insight on value by tenure and also indicate whether a firm may not be complying with the pricing remedy, for example, a lower claims ratio for longer standing customers could be an indicator. We do not consider the data duplicates PRA data.

Reporting metrics – identifying consumer harm

- 6.40** In CP20/19 we proposed metrics to help identify where there may be pockets of harm. These were 'The proportion of customers with expected claims ratio 10 percentage points and 30 percentage points below the average', 'Gross incurred claims ratio', 'Total prior year's reserve releases and strengthening' and 'The proportion of customers paying high and very high premiums'.

The proportion of customers with average expected claims ratio 10% points and 30% points below the average

- 6.41** We proposed insurers would be required to report the proportion of customers with average expected claims ratio 10%/30% points below the average for the reporting category. We expected the data would identify where there may be pockets of consumer harm compared with other consumers in the same product/channel/tenure reporting category.
- 6.42** Two respondents noted the business mix on a particular product would impact on differences in claims ratios between customers, resulting in misleading comparisons between products, with one of these respondents noting that it would not help monitor compliance with the pricing remedy.
- 6.43** A few respondents considered that a requirement to report the proportion of customers with an expected claims ratio 10% points below the average to be a low or very low threshold, resulting in firms reporting that a significant proportion of their business is greater or equal to 10% points below the average.
- 6.44** One respondent noted this metric would be burdensome for firms to report and that it is not clear whether it relates to the percentage of customers within each channel/tenure combination separately, or whether it is looking across tenures.

Gross incurred claims ratio and prior year reserve releases and strengthening

- 6.45** We proposed to collect data on the gross incurred claims ratio for current and previous periods at an aggregated level split by tenure. This is to help us understand the actual claims experience of firms over time. This metric would provide insight into firms' pricing practices as it could be an indicator as to why firms may be increasing/decreasing prices, as firms tend to change their pricing due to actual claims experience. It would help us to understand firms' actual claims experience compared to their best estimate of the risks being underwritten.

- 6.46** We also proposed to collect data on prior years' reserves releases and strengthening to show how much of prior years' reserves is included in the current year gross incurred claims ratio.
- 6.47** A few respondents highlighted the potential different calculation methods firms may use in the calculation of the claims ratio, resulting in reduced comparability of data between firms. Firms also sought clarification on the gross incurred claims ratio.
- 6.48** Some respondents noted that the incurred claims ratio would not help identify harm or monitor compliance with a few of these respondents saying that it does not add value to the expected claims reporting. In addition, concerns were raised about interpreting the data and that the results would be impacted by factors such as large claims and weather events. Furthermore, some respondents also raised concerns that the results by tenure would be even more volatile. We also received feedback that the data would be relatively undeveloped and would not provide a reliable position on the ultimate margin.
- 6.49** Many respondents noted it would be extremely costly and difficult or impossible to report these incurred claims ratio and reserve metrics by tenure in any meaningful way, as these metrics are calculated at product, books of business or heads of damage/peril level rather than by tenure. Two respondents suggested that if these metrics are retained, they are separated from other GIPP reporting to fit with firms' existing reserving timetable and results disclosure.

The proportion of customers paying high and very high premiums

- 6.50** We proposed that insurers and price-setting intermediaries report the proportion of customers paying high or very high premiums (1.5x or 2x more than the product average) to identify where there may be pockets of harm, and whether this harm is linked to tenure.
- 6.51** Many respondents were concerned that this metric would not help identify where there are pockets of harm or help monitor compliance with the pricing remedy, resulting in misleading conclusions being made. This was because respondents considered that the business mix would drive differences in premiums within any particular reporting category and hence customers paying higher premiums relative to other customers is not necessarily the result of unfair pricing practices. However, one trade body noted that the information for this metric would be relatively straightforward to provide.

Our response

We set out below the changes to the metrics for identifying consumer harm. Overall, these changes will reduce the reporting burden on firms.

The proportion of customers with average expected claims ratio 10% points and 30% points below the average

We accept that the 10% below the average claims cost would be too low a threshold. We also recognise that the business mix could impact on the expected claims ratio between individual customers or groups of customers. However, it is important to understand the distribution of the expected claims ratio by product for each channel and tenure

as this would be a helpful indicator of where there may be value issues. We are amending requirements to capture the whole distribution of expected claims ratio in 10 percentage points intervals for each product broken down by channel and tenure. We do not consider that this change will materially increase the cost of reporting for firms, as firms would simply be required to report more splits of the data that would have been collected to report the proportion of the customers with average expected claims ratios 10% and 30% points below the average.

Gross incurred claims ratio and prior year reserve releases and strengthening

While there could be a range of factors (including external factors such as weather) that impact the gross incurred claims ratio, this metric provides an indication of the actual value of the product to consumers and how it compares to the expected claims ratio over time. This will help us to understand whether firms are potentially systemically over or underestimating their expected claims cost. The prior years' reserve adjustments will enable us to see whether provisions for claims have been sufficient.

We recognise the difficulty to firms of reporting these metrics by tenure and the limited benefit that additional granularity would provide. Therefore, we are removing the requirement for firms to split their data for these metrics by tenure. Furthermore, we will allow firms to report the incurred claims ratio and reserves metrics in line with their own financial year end (reported within three months of that year end). These changes will reduce the reporting burden on firms, without reducing the benefit of the data to us.

We are also clarifying in the rules that the gross incurred claims ratio is the proportion of the earned premiums (gross of reinsurance) recorded as incurred claims cost (gross of reinsurance). Incurred claims cost is the cost of all claims reported for the period plus any other changes in the claims' reserves including for incurred but not reported (IBNR)/incurred but not enough reported (IBNER) losses and prior years' reserve adjustments. Hence, we expect the current year gross incurred claims cost would be calculated in the same way as that reported in a firm's financial statements. This also applies to earned premiums, and as for the claims incurred and reserve metrics, this metric is not required to be split by tenure.

We are also clarifying that the reserves metrics are based on the total prior years' reserve movements, rather than only the prior year.

Proportion of customers paying high and very high premiums

We accept the concerns raised by respondents that the data for this metric could be misleading, and recognise the differences in prices will, in some cases, be the result of differences in the business mix. We consider that the other metrics set out in this chapter, and especially the expected claims ratio metrics, will provide better indicators of consumer harm, and therefore we are removing the requirement on firms to report data for this metric.

Reporting metrics – monitoring the market

- 6.52** In CP20/19 we proposed some reporting metrics to help us monitor the market, through insight about whether firms had responded to the pricing remedy by changing the prices of add-ons or premium finance or fees. We proposed that these metrics would be reported separately from the core motor or home reporting and reported at an aggregated level not split by channel.
- 6.53** A few respondents raised concerns about the need to share potentially commercially sensitive data, such as premium and claims cost information, with other firms for reporting purposes.
- 6.54** One respondent asked for confirmation about whether the reporting for add-on and premium finance products would be split by product or aggregated across products (ie not split between motor and home).

Add-on products (total charged, and number of add-on policies sold)

- 6.55** Several respondents requested clarification about the treatment of cover extensions, optional extras and add-ons, and what should be reported as part of the core home or motor reporting or as part of the add-on reporting. A few respondents also flagged the potential different treatment of add-ons between GIPP and GI Value Measures reporting.

Premium finance

- 6.56** We proposed that firms provide us with information on the total charged (£) for retail premium finance during the reporting period and number of policies with a breakdown by APR ranges. This information would provide insight on the total charged, the number of customers who use premium finance, the range of APRs and how these may change over time.
- 6.57** One respondent questioned whether there should be an additional APR reporting category of 0%, in addition to the range 0% to 9.9%. Several respondents sought clarification on reporting by tenure, where the customer continues to pay for their insurance by premium finance but does not renew their insurance. For example, a customer may not renew a policy and instead purchase a new insurance product and decide to pay for that by premium finance.

Fees

- 6.58** There were similar concerns or clarification requested for fees as those raised for add-on products, including:
- clarification on reporting responsibility
 - clarification on the level of aggregation ie whether the data should be reported separately for home and motor
 - whether certain types of fees should be excluded
 - the required what level of granularity (for example whether the fees be split by type).

Our response

We accept the concern raised by respondents about the potential duplication of reporting. We are seeking to minimise any duplication of reporting where appropriate.

Reporting responsibility for add-ons and premium finance

For the reporting of premium finance, add-ons, and fees, we are simplifying the reporting so that for any add-on product, only one firm would be responsible for reporting data. We consider that the firm setting the price would be in the best position to report data to us. We are amending the requirements so that:

- The firm setting the price of the add-on and premium finance products to consumers is required to report add-on product pricing data.
- Where the product is premium finance and the firm setting the price is a premium finance provider, then the insurer, insurance intermediary or managing agent which has the direct relationship with the consumer must report the pricing data for that business.
- Only the firm charging the fee to the customer is responsible for reporting those fees.

The changes outlined above will reduce the reporting burden, remove duplicated reporting and the need to share information between firms.

Level of aggregation for add-ons and premium finance

We consider that the data for add-ons and premium finance would provide significantly more benefit by being split between motor and home and we are making this change in our rules. This aligns with our policy intent set out in Paragraph 6.16 of CP20/19 where we stated that we proposed to collect data for all add-on products sold with the core product. This approach will enable us to monitor the extent to which the pricing remedy has driven changes in the premiums charged for the add-ons and premium finance in the home and motor markets. We do not consider that this change will materially increase the cost of reporting for firms, as reporting firms should know what core product the add-on products are sold alongside.

Treatment of optional extras and cover extensions

To align with our value measure reporting, we are clarifying the following terms:

- Cover extension to the core product – to be treated as part of the core product reporting
- Optional extras (ie not a separate contract/policy to the core motor or home policy) – treated as part of the core product reporting, reported by the insurer of the core product
- Add-on policy (ie a separate contract/policy to the core motor or home policy) – treated as an add-on for reporting purposes
- Premium finance sold as an additional product to the motor or home policy – treated as an add-on product for reporting purposes and reported in section 6 of the reporting form.

This approach should make it easier for firms to report the data to us on a consistent basis. The only difference in approach from value measures is for legal expenses insurance, which in all circumstances is reported separately to the core product for value measures. For value measures this reduces the risk of the claims data for legal expenses distorting the claims data for the core product. Firms should report data on legal expenses insurance as part of the core product (where included as part of the same contract/policy) or as part of the add-on reporting.

Premium finance

We have added in a separate category for reporting of 0% APR as this would tell us how many customers are paying by instalments but do not pay extra for doing so.

To calculate the tenure for the premium finance, the tenure of the insurance policy should first be considered and then the tenure of premium finance. For example, if a customer cancels an existing policy with premium finance and takes out a new policy with premium finance, then the tenure for both the new policy and the premium finance would be T0. If a customer has the same policy for four years and paid by premium finance for the first two years and for the third year does not use premium finance but for the fourth year uses premium finance again, the tenure would be as follows:

	Tenure of the Policy	Tenure of the premium finance
Year 1	T0	T0
Year 2	T1	T1
Year 3	T2	No reporting
Year 4	T3	T0

Fees

As set out above all fees, including administration and cancellation fees, must be reported broken down by pre-contractual and post-contractual. The data for fees will not provide in depth data on the different types of fees, but rather insight about scale of these fees relative to the core motor and home products. Hence there is no requirement to report by type of fee. We clarify that the average fee is calculated based on the number of customers charged a fee.

Reporting metrics – definitions and clarifications

- 6.59** There were mixed views about the level of prescription for the various definitions. Several respondents recommended that we should produce a list of clearly defined data definitions to ensure reporting consistency or provide more clarity on certain metrics. Other respondents recognised that there are likely to be some inconsistencies in the way that firms interpret and calculate certain metrics reducing comparability and did not recommend more prescription, reminding us to be aware of the limitations of comparing data between firms. One trade body requested more clarity on what information would be requested from firms to support the evaluation of the remedy.

Our response

We recognised and accepted ahead of the consultation that for certain metrics (such as expected claims costs) there would be differences in how firms calculate these metrics. Furthermore, as the firm data to be reported is for FCA supervision, and market analysis rather than intended to be published, there is a reduced need to be more prescriptive on the reporting definitions. We expect firms to report their data on a consistent basis, year on year, as trend analysis of individual firm's data over multiple years will be an important source of insight for us.

The reporting data will support the evaluation of the pricing remedy but will not enable us to assess fully how outcomes have changed as a result of the pricing remedy. To inform our post implementation evaluation, we are likely to collect a sample of data similar to the policy-level data covering the period 2019-2023. The type of data requested is likely to be similar to the data collected during the market study. We do not envisage the data collected will be as detailed or will cover as many policies. We may also ask further questions in light of findings from the year one monitoring.

The table below sets out feedback on some specific definitional and clarification points and our response.

Clarification sought	Our response
<p>Scope</p> <p>How should firms differentiate between commercial users of vans and consumers, eg a builder using the van for work is excluded but a builder using it for leisure purposes is included. Is it fair for the former to be treated differently, just because of their use of the vehicle?</p>	<p>Our rules do not require firms to report on commercial business.</p> <p>Our ICOBS rules already require firms to distinguish between commercial and consumer business, and where there is uncertainty treat the business as consumer business. We expect firms already have processes in place to meet existing rules and to adopt a similar approach for our reporting rules.</p>
<p>How should products which cover both motor and home be treated for reporting purposes?</p>	<p>We have clarified in the rules that where a policy is a multi-product policy, covering both motor and home then it should be split between motor and home and treated as two separate policies.</p>

Clarification sought	Our response
<p>Granularity</p> <p><i>Channel</i></p> <p>A few respondents asked for clarification of whether channel should be split by specific intermediaries, brands, partnership schemes or whether these would be considered in aggregate.</p> <p>Price-setting Intermediaries also asked us to clarify the meaning of the 'direct' channel for them.</p>	<p>Reporting by channel includes:</p> <ul style="list-style-type: none"> • Direct – which for insurers is where the customer and insurer communicate directly without a third party present. This could include telephone, online and branch sales. Where price-setting intermediaries sell directly to consumers these sales are classified as direct sales for price-setting intermediary reporting. • Price comparison website – sales through PCWs • Intermediated – sales through an intermediary, and for price-setting intermediary reporting these would be sales through a further intermediary. • Affinity/partnership scheme – sales through an affinity/partnership scheme. <p>Reporting is aggregated by type of channel, rather than reporting by specific distribution arrangement.</p>
<p>Is closed book business also included in the aggregated reporting in sections 2 and 5 of the reporting form?</p>	<p>Yes, closed book reporting is additional reporting, such that the business for closed books is reported in the wider aggregated reporting as well.</p>
<p>Metrics</p> <p>For add-on products, is the reporting based on both insurance and non-insurance products?</p>	<p>The add-on product reporting includes premium finance and general insurance add-ons only, sold alongside home and motor insurance.</p>
<p>What date is the metric 'number of policies in force at the reporting date' based on?</p>	<p>This is the number of policies at the end of the reporting period, which, for annual reporting, will be 31 December each year.</p>
<p>For premium reporting does this include the broker fee?</p>	<p>If the broker fee is included in the premium paid by the customers, then it would be treated as part of the premium reporting and not reported under fees.</p> <p>If, however, it is an additional fee charged separately then it would be reported as part of the aggregated reporting for fees.</p>
<p>For premium finance please confirm that the additional charge for increased underwriting risk of monthly payers should not be included in the APR</p>	<p>If a customer's credit rating is used in calculating the insurance risk premium, we do not expect this to be reported under premium finance.</p>
<p>For premium finance is the charge based on earned or written?</p>	<p>The total charged (£) for premium finance should be reported on a written basis.</p>
<p>How should insurers calculate the average earned premium?</p>	<p>We are clarifying that insurers should calculate this average based on how they calculate this metric internally.</p>
<p>Please confirm that the gross written premium, gross written price and gross price are based on the premium (net of IPT) charged to the end consumer.</p>	<p>This is correct.</p>

Clarification sought	Our response
Other reporting matters	
When the rules come into force do firms have to report 10 years' worth of data or do firms only report new business and renewals from the date the rules come into force?	Firms only need to report data on policies inception or renewed during the reporting period.

Consideration of alternative and additional metrics

Q25: *Are there any other metrics we should consider asking firms to report?*

6.60 Respondents suggested some other metrics, which are summarised below along with our response.

Our response

Our view is that the options suggested would not help us achieve our reporting objectives or provide sufficient benefits to warrant the potential costs associated with collecting this additional information. In reaching this conclusion, we have considered the potential cost of re-consulting on new metrics and the increased consumer harm this could cause by delaying the introduction of our package of remedies.

- *Collect data from PCWs, including income per policy data:* We will be collecting data from insurers and price-setting intermediaries on policies taken out via PCWs. We think this is sufficient to meet our reporting objectives and we do not think that requiring PCWs to provide further information on a regular basis would provide significant additional benefits.
- *Spot check renewal notices, prices or review entries on review websites (eg Trustpilot or Feefo):* We may consider collecting this type of information on an ad-hoc basis in the future as part of our ongoing supervisory work if we think it would provide useful insight.
- *Revisit reporting requirements in a year:* We do not think there would be any significant benefits in revisiting the reporting requirements after a year. This might be considered as part of the post-implementation evaluation of the pricing remedy as we will have a clearer understanding of how the market has changed and whether we can better monitor the market.
- *Collect data including a comparison with the previous year and the ENBP:* We will be collecting data on a new metric for prior year premium. We will also collect total and average premium data split by product, channel and tenure. We consider that this will be sufficient to help meet our reporting objectives.
- *Collect data on the percentage of customers that have opted in/out of auto-renewal (AR), or opted in and then decided against this before renewal:* We do not think that this would help us to deliver on our reporting objectives. The take-up of auto-renewal is not necessarily

an indicator or poor consumer outcomes. We may consider gathering information on this on an ad-hoc basis in the future if we think it would be helpful to do so.

- *Split out distribution costs (eg marketing and administration) or PCW income in the reporting:* We consider that our existing metrics provide better insight about pockets or harm and differences between net rated prices and gross prices, and are not intended to highlight the level of income of every firm involved in the distribution of motor and home insurance.
- *Collect data on the number of quotations declined to see if there are any unintended consequences of our package of remedies, such as an increase in firms declining to quote for business:* We do not think that collecting this would help us to achieve our reporting objectives.
- *Collect data on introductory offers including free add-on products:* Data on introductory offers could be difficult to capture as we would need to understand the number and length of introductory offers as well as the standard premiums after the offer has expired. We do not think the insight that could be offered by this information outweighs the challenges associated with collecting it. The add-on product reporting is based primarily on the levels of premiums to understand how firms have responded to the core pricing remedy. We are also collecting data on the number of add-on sales. We do not consider that we need additional granularity of data in this area from all firms on a regular basis, although we are requiring firms to report data on the number of contracts with a premium finance APR of 0%. There may be instances where we need to conduct further investigation into a firm's approach to offering incentives including free add-on products or negotiating individual discounts and in those cases we may request data on an ad-hoc basis.
- *Monitor the number of brands and products across the market:* We do not consider this information would provide any material benefits and we already intend to collect data on the number of policies across the market and by channel.
- *Require firms to produce a short report showing how firms' senior management has been able to attest that the pricing remedy is being complied with:* We think this is sufficiently addressed by our attestation requirements.

Reporting responsibility

- 6.61** We proposed that reporting for the core motor and home products would fall on insurers and price-setting intermediaries, and that reporting on add-on products (such as add-on policies and premium finance) would be required from insurers and intermediaries.
- 6.62** Price-setting intermediaries would be responsible for reporting on contracts of insurance where the firm carried on or was responsible for insurance distribution and acted as a price-setting intermediary, including where they set the gross price of the core product, or any element of the core product or the price of add-on products.

Q26: *Do you agree with our proposals on reporting responsibility for insurers and intermediaries?*

- 6.63** Some respondents broadly agreed with the proposals and the distinction between price and non-price setting intermediaries, subject to caveats based on what firms considered they could report. Some also supported reporting by different firms in the distribution chain as some firms may not have sight of all the relevant information held by different firms in the distribution chain or for all reporting categories in all circumstances. As set out elsewhere in this chapter a significant number of respondents raised concerns about the duplication of reporting by different firms. A couple of respondents suggested that firms should be responsible for reporting their own data or data available to them. Some respondents also highlighted that there would likely be challenges for firms that co-manufacture products as they would have to place reliance on the other manufacturers to provide metrics for a potentially high volume of reporting data.
- 6.64** A few PCWs requested clarification that they would not be required to submit data as they would not have the data to report, not necessarily having sight of the final price or add-ons or optional extras sold alongside the core product.
- 6.65** Some respondents raised concerns about whether the reporting would result in firms being required to share commercially sensitive information with other firms – although respondents were not specific about the data they had most concern about.

Our response

We consider that it is important to require both insurers and price-setting intermediaries to report GI Pricing Practices data to us. This will help us understand potential issues at different points in the distribution chain. However, as set out earlier in this chapter, we have taken steps to reduce the overall level of data reporting.

We are further reducing the price-setting intermediary reporting requirements so that only the price-setting intermediary that sets the final price is responsible for reporting data for that business, rather than also requiring the price-setting intermediary responsible for setting the price of an element of the core product. This will further reduce the burden on firms, without having a material impact of the benefit of the collected data to us.

Based on the changes we have made in this chapter the reporting responsibility is as follows:

- Core products (including cover options and optional extras): The insurer of the core product and price-setting intermediary (where they set the final price) are responsible for reporting the data.
- Add-on products: Only the firm setting the price of the add-on product to consumers is required to report add-on product pricing data. Where the add-on product is premium finance and the price is set by a retail premium finance provider then the insurer, insurance intermediary or managing agent which has the direct relationship with the consumer must report the pricing data for that business.

- Fees: Only the firm charging the fee to the customer is responsible for reporting the fees for that business

The approach outlined above will mean that the only data that would need to be shared is for core product reporting on net rated business where the price setting intermediary would need to provide aggregated gross price data for the core product to the insurer. As noted earlier in the chapter, insurers should already have this information for other purposes (for examples, for value measures reporting, to meet obligations under our PROD rules and for IPT reporting), and hence we do not consider there are issues with the data being commercially sensitive. The reporting firms would have, or have access to, the remaining data needing to be reported to us.

Reporting period and frequency

6.66 In CP20/19 we proposed that firms would report data to us annually on a calendar basis, with reporting by 31 March following the end of the reporting period. We also proposed that, in addition to the annual reporting, firms would additionally report quarterly in the first year.

Q27: *Do you agree with our proposals on reporting periods and frequency?*

6.67 There was broad agreement with our proposals on reporting periods and frequency. However, many respondents raised concerns around the burden of quarterly reporting in the first year, and the associated complications, for example, reporting items such as gross claims incurred ratios that would require further actuarial input. A few respondents supported the quarterly reporting in the first year.

6.68 Respondents considered that the implementation period will be challenging with other remedy changes underway and the implications of the Covid-19 pandemic, noting that new infrastructure and systems will need to be developed and appropriate governance structures put in place to ensure effective implementation. It was also highlighted that the new rules had not been finalised so there would remain some uncertainty and limits in the preparations that firms could make before the publication of the Policy Statement.

6.69 Some respondents suggested that the quarterly reporting in the first year should be on a best endeavours basis and that we should ensure the data is sufficiently robust before moving to annual reporting. Another suggestion was made that a single report could be made encompassing the first report at the date of implementation with the first annual report.

6.70 There was additional concern that the reporting timescales could put firms under further pressure around an already busy time of year with renewal activity.

Our response

As set out earlier in the Policy Statement we have extended the implementation period from four to seven months. Nevertheless, we recognise the challenges faced by firms developing the reporting capabilities ahead of the rules coming into force and the additional challenges associated with the quarterly reporting.

We are retaining our approach of requiring data to be reported annually by calendar year.

However, we are replacing the requirement for firms to report GI Pricing Practices data on a quarterly basis in the first year with a requirement to report a single interim report covering the six months ended 30 June 2022. This will be reported by firms by 30 September 2022 and will allow them more time to make the necessary changes to their systems and reporting processes. This interim report will provide us with data at an earlier stage, than the annual reporting, to help us with our engagement with firms. We are also excluding the reporting on current and developed gross incurred claims ratios and reserve movements from this interim report. We do not consider that it would be appropriate for reporting to be on a best endeavours basis.

We are retaining the requirement for firms to submit attestation three months after the rules come into force (ie 31 March 2022) confirming compliance with the core pricing remedy and sales practices. This will provide insight about the level of compliance with the core pricing remedy.

Other reporting matters

Reporting threshold

- 6.71** Several respondents recommended that either we set reporting thresholds to exclude smaller firms or initially requiring larger firms to report data before deciding to extend the reporting requirements to all firms.

Publication of data

- 6.72** In CP20/19 we said that we were not proposing to publish any data we collect through monitoring requirements on a regular basis, but in future could consider doing so if we feel this would be valuable.
- 6.73** Some respondents supported our approach to not publish collected data on a regular basis, flagging the potentially commercially sensitive nature of the data and that the publication of data was unnecessary and could create competition law risks, as well as the risk of published data being misleading. Several respondents requested clarity about the circumstances under which we would publish the pricing practices data, and that we should engage with firms ahead of any publication. A few respondents suggested that we should publish data to improve standards where necessary, and one respondent asked how firms would be held to account if we do not publish the data.

Our response

Reporting threshold

While a reporting threshold could reduce the burden on small firms, we consider that smaller firms are less likely to be price-setting firms. Hence the reporting for these firms is likely to be low. There would be a consumer protection issue if we excluded some firms who are price-setting, and so we do not consider that it is necessary to introduce a reporting threshold for pricing practices. We have taken steps to reduce the reporting burden on all firms, including removing duplicated reporting and reporting by non-price setting intermediaries.

Publication of data

As set out in CP20/19 the purpose of the reporting remedy is to provide data to us, to help us monitor the effectiveness of our remedies package and its impact on the market, rather than publish firm-specific data. We may publish aggregated, non-firm-specific data along with commentary and contextualisation, for example in an article published on our website, and in addition to the supervision of firms the data will also be used as part of our evaluation of the package of remedies.

7 Cost benefit analysis

7.1 In this chapter we summarise the responses to our questions in CP20/19 on the cost benefit analysis (CBA) and our view on these responses.

7.2 In consultation we asked the following four questions about our CBA.

Q28: *Do you have any comments on our CBA?*

Q29: *Do you have any comments on the way we have estimated the impact of the pricing remedies?*

Q30: *Do you have any comments on the way we have estimated the impact of the non-pricing remedies?*

Q31: *Do you agree with the assumptions we have made in our analysis?*

7.3 We received responses to these questions from 33 respondents. Respondents generally provided their views on the first question about the CBA so rather than address each question individually we have addressed responses by theme.

7.4 In the consultation period we received a request from a regulated firm to provide access to certain data to consultants hired by the firm. The request was for access to the data required to replicate the simulation and switching analysis. As a result, we made it known that we were open to requests to access to the data from other firms. After considering the requirement to hold a fair consultation and the need for the firm to have access to this data to ensure they could respond to the proposals, we provided the simulation code and anonymised data to the firm's consultants. We also heard representations from other firms who requested access to the data, and in these cases were able to address their questions about the data and methodology through meetings rather than disclosure of the data.

7.5 The firm whose consultants were given access to the data provided a response to the consultation including a report produced by the consultants (the consultants' report). The consultants' report included comments about the methodology, the implementation of policy, and alternative estimates of the impact of the pricing remedy. We have considered the consultants' report alongside responses to the consultation. We also address the consultants' more technical responses at the end of this chapter.

Key assumptions and proportionality

7.6 One respondent suggested that the proposals could not be justified given the impact of Covid-19 pandemic and the related lockdowns on firms and the economy.

7.7 One respondent suggested that the 10-year time horizon was too long and the 3.5% discount rate too low given the uncertainty in the estimates.

- 7.8** One firm said that implementation costs will be passed on to consumers in the form of higher premiums in a competitive market. This would call into question whether the proposals are net-beneficial.

Our response

Our CBA considered how the Covid-19 pandemic affects the general insurance and protection markets. Our analysis suggests our proposals will still result in significant benefits to consumers.

We used a 10-year time horizon as this is a standard assumption for conducting a CBA (see [How we analyse the costs and benefits of our policies](#)) and is in line with the approach taken by central government. We used a 3.5% discount rate as this is the social time preference rate recommended in the [HM Treasury Green Book](#). The discount rate adjusts for social time preference, defined as the value society attaches to present, as opposed to future, consumption. Research undertaken in 2018 suggests a range of plausible estimates for the discount rate but concludes that the overall discount rate of 3.5% remains within that range and is justifiable. We have attempted to account for the uncertainty of the impact through the approach we took to the modelling rather than in the discount rate.

We would expect that some, but by no means all, of the costs incurred by firms in implementing the regime will be passed on to consumers. Such pass-through of costs would not change our assessment of the overall proportionality of the proposals.

Cost estimation

- 7.9** Several respondents suggested that the CBA underestimated the cost of our proposals. The following points were made to support this view:
- The scale of work to change pricing models, operations and systems and distribution arrangements would be greater than we had estimated.
 - The cost of identifying the comparator new business price for the pricing remedy would be greater than estimated in the CBA.
 - The cost of providing the attestation and for 'appropriate independent oversight' may be underestimated, especially when considering intermediaries who don't set prices.
 - The proportion of brokers that are price-setters may be greater than indicated as the CBA assumes most brokers are not price-setting intermediaries when this might not be true, so the compliance costs of the pricing remedy, such as attestation costs, may be greater as a result.
 - The number of firms affected by the reporting requirements may be greater (as there are 12,875 firms in the General Insurance Mediation fee block rather than the 2,100 firms estimated in the CBA).

- The cost of reporting did not take into account the quarterly reporting in the first year. This first quarter reporting will increase costs along with ongoing costs for firms to check, understand and quality assure the data and reply to follow on questions.
- The familiarisation and gap analysis costs were too low.
- The CBA did not include costs for Appointed Representatives (ARs).
- The costs of the fair value assessments may be higher, as some product. Manufacturers might not have previously gathered detailed costs associated with the fees charged by distributors. Further, as the underwriters of optional insurance products are often different from motor and home insurance manufacturers, the costs associated with assessing fair value for additional products would not previously have been captured by the underwriter of the core product.
- Costs for PCWs may be more significant than for a single insurer (eg for premium finance) as, for a PCW to provide a single, unified journey, would require negotiation and implementation with many brands.

7.10 In contrast, one firm suggested that the average per-firm cost seemed high compared to their expected costs. Another said that they agreed with the broad assumptions in the compliance costs associated with the new rules.

7.11 One firm acknowledged that it is not reasonably practicable to estimate the costs for the distribution chain from our remedies.

Our response

We acknowledge that there is some uncertainty around our estimate of the overall costs of our package of proposals. We undertook the survey to estimate the costs of our policy proposals before our policy was fully developed. This approach helps us to refine our policy thinking but does not lead to a situation where the policy on which we collect costs does not perfectly align with the one consulted upon. We attempted to ensure that we did not underestimate the costs of our package of proposals by using assumptions that had the effect of inflating costs. We note that while some firms thought the cost estimates were too low, one said they were too high.

We estimated familiarisation and gap analysis costs using a standard approach. These costs are in addition to the cost estimates from our CBA survey. In the survey, we asked firms to estimate all costs, including familiarisation and gap analysis costs. We may therefore be double-counting costs rather than underestimating them in the CBA.

Our approach to estimating the compliance costs was to collect costs at group level and so our pricing remedy cost estimates will include the cost incurred by intermediaries as well as insurers. In identifying all the groups affected we used internal intelligence to ensure that we included all price setting intermediaries. It is possible that we did not identify all the firms affected but we do not think we have materially underestimated the numbers affected.

We are removing the requirement for quarterly reporting in the first year and therefore we remove the risk that we have underestimated the reporting costs.

We do not believe that costs of the reporting remedy by ARs need to be included separately in the CBA. This is because anything that the AR has done, or omitted to do, is treated as having been done, or omitted to be done, by the principal itself (see SUP 12 in the FCA Handbook). Principals should have all the necessary information from their ARs and therefore no additional costs should be incurred by the ARs. We do not include the costs of complying with existing requirements in CBAs, otherwise we would double count costs. Costs that ARs incur from our reporting proposals fall outside the scope of our CBA as the costs are incurred in meeting existing rules rather than the reporting remedy itself.

We are not requiring independent oversight, which therefore removes any risk of underestimation of costs. Attestation only applies to firms setting prices and therefore we would not expect many intermediaries to incur cost of attestation.

We did not estimate costs for the compliance with the rules around premium finance with our governance remedies for PCWs. There may be some incremental costs for PCWs as disclosure on premium finance rules is amended, but we do not think this disclosure will materially affect our overall estimate of costs.

We do not think that we have materially underestimated the costs of the fair-value assessment. In Chapter 4, we have explained how we have clarified and amended the rules around fair value. We do not expect manufacturers to assess products they do not manufacture to determine whether they are offering fair value to consumers. The existing PROD rules already require firms to monitor their products (including the distribution channels they have selected) and to take appropriate action to mitigate harm to customers. Therefore, we expect firms will already have some of the data required to assess fair value and will have processes in place to obtain information from others in the distribution.

We would also expect firms to have access to this information for commercial reasons. For example, insurers will already have information on the final price paid by customers and the remuneration of distributors because this will impact their insurance premium tax calculations. We also expect that manufacturers will receive data on things like performance metrics and complaints. But manufacturers and distributors will incur costs collecting any additional information required to assess value. We think these costs are captured in our assessment of the cost of the fair-value rules in the CBA.

If an intermediary foregoes commission to reduce the end price for a new business consumer this would be considered a discount. This has the effect of bringing more intermediaries within the pricing remedy. We do not think that this will affect a significant number of intermediaries. Nor do we think that the cost for affected intermediaries will be particularly large as they can either stop offering these discounts or relatively easily formalise discounts or incentives to comply with the rules.

Impacts on consumers

- 7.12** One respondent said that they would be interested in whether the CBA reflected the costs of the poverty premium (the extra costs people on low incomes and in poverty pay for essential products and services).
- 7.13** One firm argued that we did not address distributional effects, including intergenerational effects, of the remedy.
- 7.14** One respondent suggested that the expected benefits of our proposals needed further analysis to better understand the different benefits that could be felt by different consumer segments. Another said that the average market prices presented in the CBA make it hard to assess the impact on individual customers. One firm said that the CBA presents average prices and shows a reduction in these average prices, but it is not clear whether most consumers will be paying slightly lower prices or whether the fall is caused by a large fall for some consumers.
- 7.15** One respondent suggested that we had not fully considered the impact on consumers that switch each year who will find insurance less affordable, or unaffordable, and hence become underinsured or not insured at all.

Our response

In our market study, we investigated whether vulnerable consumers (including those on low incomes) were affected positively or negatively by the pricing practices we observed. There is some evidence that consumers who display characteristics of vulnerability pay higher prices relative to their risk for home insurance. However, we did not find evidence of this for motor insurance. Given the weak evidence that those on lower incomes are more likely to be price walked, we did not weight benefits by consumer income as we have done in some other CBAs where the impact on low income groups was an important consideration for the overall assessment of the impact of the remedy. We do not think the broad findings in the CBA would have been meaningfully affected if we had weighted low income consumers benefits (and costs) more highly.

While in our CBAs we often consider how groups of consumers are affected, the main aim of the analysis is to assess the overall impacts of the policy. We did provide some information on how prices are impacted for different consumers, but this is not straightforward. We did provide an indication of how the prices paid by different cohorts of consumers change in Paragraphs 165-175 of the CBA.

Higher prices for consumers that switch each year may make insurance less affordable and, in theory, lead consumers to buy less insurance. We do not expect this to be material as the ENBP changes, or the fluctuations consumers may see in their insurance year to year, are not particularly large, compared to the level of the premium. Consumers that switch each year may also be less likely to receive the lowest prices currently as firms will not offer large discounts if they predict a consumer is likely to switch.

Benefits

- 7.16** One respondent said that we did not fully assess the uncertainty around the benefits.
- 7.17** Another suggested that the benefits presented in the cost benefits analysis from lower average premiums are a transfer from firms to consumers, rather than a benefit. Additionally, the firm suggested that, while in the short run there would be a redistribution from provider to consumers, in the long run the redistribution would be entirely from consumers who shop around to those that do not.
- 7.18** One firm was concerned about how the savings are communicated to consumers to avoid consumer complaints and any unnecessary mistrust in the market.

Our response

To include some uncertainty in our estimates of the impact of the pricing remedies, we used two scenarios. Modelling the impact of the reforms and estimating the uncertainty is not possible as we cannot predict how insurance firms will interact in the complicated market for motor and home insurance. Our modelling of the two scenarios attempts to provide some indication of the potential effects of the rules.

We acknowledge that removing price walking will directly result in transfers between different consumers as new business prices rise and renewal prices fall. However, we expect greater competition from our pricing remedy and the effects of this competition will result in lower prices for all consumers. We also note that existing consumers at implementation will receive a transfer from firms (as their renewal prices will be reduced with no countervailing price increase).

Consumers should not use our CBA as a guide on how their prices may change under the pricing remedy. Our modelling has been undertaken to provide an indication of the overall impact of our changes. The analysis does not provide any indication of how any individual's price will change as there is no 'average consumer' and so price changes will not perfectly align with average price changes.

Switching

- 7.19** One respondent said they were glad that the CBA included a reduction in inefficient switching and saving in consumer time in the calculation.
- 7.20** One firm highlighted that while switching may be inefficient in some examples it offers the customer the opportunity to find a product that may be better suited to their demands and needs, and an opportunity to reassess these demands and needs, which in many cases could save the customer money.
- 7.21** One respondent said that most customers shop around before renewing their policy and therefore have a propensity to shop around. These customers are unlikely to

change their behaviour under the renewal remedy. This respondent also said that price comparison websites are increasingly identifying ways to encourage customers to utilise their website at renewal. Where consumers search PCWs before the renewal, this reduces the assumed cost savings relative to time estimated in the CBA.

- 7.22** Another respondent said that we had underestimated the reduction in switching and this would lead to less engaged consumers and hollowing out of products.
- 7.23** One firm agreed that switching would reduce in the long-term but would spike in the first year of the pricing remedy.
- 7.24** One firm raised concerns that in our estimation of the benefits of lower switching we equated the effort of search and switching to £40. They said that the average earnings of consumers would imply an hour of consumer's time be worth £13.50, and therefore that it takes 3 hours on average for a consumer to switch.
- 7.25** One firm suggested that the model does not consider a scenario where the market sees increased switching costs for firms. This firm was also worried that there may be a disproportionate focus on price rather than quality as firms compete more intently for new business.
- 7.26** One firm said that the pricing remedy, by removing price differentials between new business and renewal premiums, may make it harder to attract new customers with better offers, pushing up the cost of acquisition and reducing rather than increasing the number of customers who shop around each year so the market will become less competitive.
- 7.27** The consultants' report also argued that the reduction in switching could be larger than we say because comparable prices will be closer to the customer's current prices, if the customer has not been price walked.

Our response

We agree that switching and the threat of switching can help ensure that consumers get good value insurance. Our modelling suggests that while switching will fall, many consumers will still switch; however, they will not need to switch every year to obtain good value insurance.

Our assessment of the cost savings from less switching is based on information we have collected in the market study. While some consumers may behave differently, we think the data we have collected provides a holistic view of the market. We do not expect that our pricing remedy will materially affect the incentive to hollow out insurance products. The incentive to reduce the coverage of insurance products to attract consumers with lower prices exists regardless of the pricing remedies.

Our estimate for consumer time, and the value they place on that time, used for searching and switching was obtained from a survey of consumers. The survey asked consumers about searching and switching in different ways to obtain as robust an estimate as possible. While the estimate of the value of search and switching for consumers seems high, we think this is reflective of the fact that consumers do not enjoy

searching for and buying insurance in their leisure time. We do not believe the average earning per hour is the appropriate way to value consumer's time in this context. The survey suggests consumers clearly place more value on time spent switching insurance compared to time spent working.

We do not expect that average switching costs will rise materially in a situation where switching falls. The extent to which costs change depends on the extent to which costs are proportional to switching rates. While we expect a significant decrease in switching rate, there will still be material switching in the market. Hence, even if all the costs associated with switching were fixed, there would not be a material increase in average costs.

We acknowledged that the reduction in switching rates could be greater than modelled in the final report (Paragraph 2.22 of Annex 2 to the Final Report). However, we note that the model we used still captures much of the impact of a smaller differential between renewal prices and new business prices through the mechanism of reduced year-on-year premium changes for customers.

We do not agree that the proposals lead to a disproportionate focus on price rather than quality as we are not affecting the way consumers choose insurance. The PROD rules seek to ensure that firms offer fair value, which means that there is a reasonable relationship between price and quality.

Difficulty in predicting market changes

- 7.28** Several respondents acknowledged the effort we had made to assess the impact of the proposed rules. Others noted how difficult it is to predict the impact of the changes with any certainty. Two respondents said that it is easy to make errors or apply false assumptions as shown by the amendments to the original CBA.
- 7.29** One respondent said that it is possible that consumers moving around less would lead to higher overall prices for consumers. Another firm said that it is unlikely that switching and prices will both fall simultaneously, and, if it did it would lead to stagnant market with disengaged customers. One respondent said that customers cannot easily assess what their premiums will be in the future from the price being charged today. As a result, it is likely that these customers will remain with an insurer who ceases to be competitive because they are now less inclined to shop around and less shopping around.
- 7.30** One firm said that the cost benefit analysis does not provide a full assessment of how firms will react to these changes. The firm did agree however that, changes to the assumptions would not improve the impacts assessed, given how difficult it is to predict firms' responses.

- 7.31** One firm said that, given the fundamental change to the market, there is significant uncertainty about the extent and speed of change. This uncertainty should be reflected in the estimated costs and benefits.
- 7.32** Another firm said that the analysis could be improved by including a full analysis of the impact of competition under the rules. In addition, they felt that the removal of introductory offers would reduce competition. Another firm suggested that they would have liked to have seen a more thorough assessment of the dynamics of competition under the proposals.
- 7.33** One firm said that, given the fundamental change to the market, there is significant uncertainty about the extent and speed of change. This uncertainty should be reflected in the estimated costs and benefits.
- 7.34** One respondent suggested that the proposals might lead to some insurers no longer offering motor insurance and therefore reducing choice and competition. Another respondent was worried that the pricing remedies could stifle innovation. One firm said that insurers may choose to exit because of lower premiums.
- 7.35** One firm argued that our second scenario, where 80% of gross profit for new policies is maintained, would not be sustainable due to the lower profits it implies, and would result in firms dropping out of the market, resulting in higher prices.
- 7.36** One firm considered it plausible that there would be consolidation of underwriters. This is because those with large back books may not make sufficient profits.
- 7.37** One firm was worried about the extent of competition should consumers' use of comparison services fell.
- 7.38** One provider said that the remedies may reduce the incentive to discover new sources of pricing data. This is because discounts will have to be offered to existing customers as well as used to attract new ones.
- 7.39** One respondent argued that 'strategic interaction' means that lower incentives could mean less pressure to keep prices low and so average prices could rise. In particular, if switching rates fall substantially then there could be less incentive to maintain low front book prices to attract customers.

Our response

We acknowledge that it is possible that lower switching rates will lead to higher average prices. However, we would expect that many consumers will continue to compare their renewal quotations with those available in the market and that our modelling finds that significant switching will remain in the market. We also expect there will continue to be variability in prices between providers that make it worthwhile for consumers to shop around regularly.

We have not provided a full assessment of the new equilibrium, including competitive dynamics, in the market as firms respond to the pricing remedy. This is because we do not believe it is practicable to do so.

We have attempted to build uncertainty into our assessment of impact using the two scenarios presented. The scenarios reflect the uncertainty in the simulation. Greater uncertainty could have been simulated by adjusting the scenarios, but we believe that the scenarios presented are plausible estimates of the potential effect of the pricing remedy.

While we would expect in any well-functioning market to see new entrants and exits, we do not expect significant or widespread exits as a result of our pricing or other remedies. Our 80% scenarios assume that competition increases and therefore prices fall. Prices would not fall to this level if it meant that it would result in significant exit. Increased competition leads to the price falls, rather than price falls affecting the level of competition. Further, we do not expect the incentives to innovate to reduce. If anything, greater competition will drive firms to innovate in the interests of consumers.

We do not think that there will be a reduced incentive to discover new sources of pricing data. New data that helps discriminate risks would enable better pricing of that risk. This will result in lower prices for some consumers but higher prices for others. Such price changes will enable firms to retain better risks (and have higher risk consumers switch away) and so earn firms higher margins. Consequently, the incentive to use new data remains under our pricing remedy.

We accept that there are a variety of choices for firms in the strategies they can adopt. Our model predicts is that there will be a small reduction in the level of switching but we expect that there will still be strong incentives for firms to compete at new business.

Simulation and revenue effects

- 7.40** Several firms questioned the two scenarios ie the 100% and 80% profit recovery scenarios used in our simulation model. One firm noted that changing the scenarios would change our estimate of average prices, with the consequence of a scenario with a higher profit margin being that average prices will be higher. Two firms said that given the lack of excess profits it expects the measures to be redistributive rather than result in a fall in average prices. Another firm also took this position and therefore that the CBA overstated the potential benefits. Other firms said that they disagreed with the estimate of a potential transfer from industry to consumers of £11bn. As noted below in the section on the consultants' report, the report estimated that the overall benefit to consumers would be £1.4bn in the 100% competitive scenario compared with £4.2bn reported in our CBA.
- 7.41** One firm said that the modelling did not make sense as lower prices arose even though profit retention was 80% and 100% in the two scenarios. They questioned how this would work in practice as a reduction in premiums would lead to a reduction in profit, but the scenarios imply no (or relatively little) lost profit.
- 7.42** One firm said that our scenarios were presented as a range when it was said they were two alternative scenarios.

- 7.43** A firm also said that the modelling showed limited evidence of price walking.
- 7.44** One firm suggested that we should have used an undiscounted value for calculating the uplift used to create the scenarios in our simulation.

Our response

We acknowledge that altering the two scenarios we used in our modelling would affect the level of average prices. We believe that the two scenarios are plausible outcomes under the pricing remedy. The 100% scenario maintains profits for new policies and therefore leaves profits broadly unchanged for new policies. However, for existing policies, prices will fall, and this is where the bulk of the consumer savings arise.

Our market study found that while motor and home insurance are profitable, there was no evidence of excess profits. However, that is not to say a more competitive market cannot lead to more efficient provision of insurance. We also expect that lower switching costs will feed through into lower average prices.

The reduction in revenue observed in the modelling arises from a number of different effects. Firstly, in both scenarios existing consumers at implementation will receive price reductions without a countervailing increase for other consumers. This is a pure transfer from firms to consumers. The level of competition or firm profits on sales does not directly affect this redistribution. Secondly, the 80% scenario implies a reduction in profits and average prices for new policies. For new policies under the 100% scenario revenue increases: this effect mainly arises as income for these new policies is brought forward into the 10-year period looked at in the CBA. For example, a consumer who buys a new policy in the last year will pay a higher new business price under the pricing remedy than compared to the baseline.

We acknowledge that different modelling approaches or assumptions will lead to different market outcomes, including can lead to different changes in revenues for firms and benefits to consumers. Even with lower levels of revenue redistribution from firms to consumers (as suggested in the consultants' report) the proposal still remains proportionate.

We accept that the two scenarios are often presented as a range in the CBA but this was for ease of presentation in the document. We reiterate that the two scenarios do not represent an upper and lower bound.

The simulation was not developed to demonstrate the harm we identified in the market study but to illustrate the potential impact of the pricing remedy.

We did not use an undiscounted value for calculating the uplift as this would have a similar effect to changing the proportion of margin recovered in the scenario (ie 80% or 100%). Using undiscounted rates for the simulation would have the effect of increasing average prices

(and reducing the reduction in revenue) relative to those presented in the CBA. We would expect firms to discount future revenues when setting new business prices and so we believe that some element of discounting is appropriate.

Assessment of impact on other markets

7.45 Several respondents were concerned that little evidence was gathered to analyse the impact of the proposals on policy lines other than motor and home. One provider noted regarding the auto-renewal proposals that they had never had a complaint regarding auto-renewal. Another provider was worried that conclusions for simpler markets were applied to more complex markets (eg applying annual product reviews to large commercial insurance). Another said that the increase in administrative expenses would result in higher premiums without any evidence of a reduction in consumer harm.

Our response

While the survey we used to inform the costs was sent to groups of firms that manufacture motor and home insurance, these insurance groups typically manufacture and distribute a wide array of insurance products. For the auto-renewal and governance remedies we asked firms to estimate costs for all their general insurance business, not just motor and home. We then applied these costs to the population of insurance groups. We therefore believe that our costs are reasonable estimates for the industry costs from our proposals.

Private medical and pet insurance have now been removed from the auto-renewal remedy. This has the effect of lowering the discounted benefits of the auto-renewal component from £20.9m over the first 10 years to £12.4m, a reduction of £8.5m. This reduction, though substantial, does not materially affect the overall proportionality of our proposals. There is also a reduction in the costs of the policy as a result of this change, but we cannot remove these costs from our estimates. This is because we did not estimate costs on a per-product basis. We do not think that the overall costs will be materially reduced as these products are a relatively small proportion of the products affected by the remedy.

Contracts of large risks are excluded from the scope of PROD (both the new and existing rules). We expect there to be material benefits to applying the governance rules to smaller-risk commercial insurance.

The consultants' report

7.46 During the consultation period we received a request from a regulated firm to give their consultants access to the data required to replicate the simulation and switching analysis. The firm then provided a response to the consultation including a

report produced on the consultants ('the consultants' report'). This report included comments about the methodology as well as comments on specific details of the implementation of the policy. It also provided alternative estimates of the impact of the proposed pricing remedy on average premiums and consumer savings as well as providing alternative estimates of the level of switching implied under the proposed pricing remedy.

7.47 We have considered the more technical points raised in the consultants' report about the simulation and switching analysis.

The impact of changing the model

7.48 The consultants' report estimated that the overall benefit to consumers would be £1.4bn in the 100% competitive scenario compared with £4.2bn reported in the consultation paper. The difference in these figures is largely due to differences in the model assumptions.

7.49 When we undertook our scenario analysis in the simulation for our CBA, we calculated the potential increase in new business prices by using the expected gross profits for policies which started after the introduction of the remedy. That is, we assumed that firms were forward-looking when setting new business prices.

7.50 The consultants' report instead calculated prices on the basis that average prices across renewing and new customers would be unaffected on the year when the remedy was introduced. This resulted overall in a greater increase in predicted new business prices and reduced the headline benefit of the policy from £4.2bn to £1.4bn.

7.51 These alternative estimates reflect a different set of assumptions about how firms will set prices going forward. Under the consultants' assumptions a firm with a large back-book that currently charges renewal customers significantly higher prices will respond the remedy by raising new business prices substantially. While this may in the short term maintain the firm's profits in the longer term it would risk losing substantial sales at new business, so does not appear to be the most appropriate assumption when considering the long-term implications of the remedy. This approach is also inconsistent with our observation in the market study that many firms undertake lifetime value modelling, and so set new business prices in a forward-looking way.

7.52 The consultants' report correctly highlights that there are alternative methodologies and assumptions that can be used to estimate the impacts of the remedy. With an intervention like the pricing remedy being introduced it is hard to predict exactly how firms will price under the remedy and how competitive dynamics evolve. For the reasons set out above we believe that simulating the markets on the basis of forward-looking pricing is more appropriate. However, as indicated above in our response in the section on simulation and revenue effects, whether the estimated benefits to consumer are £1.4bn or £4.2bn we consider that the remedy package remains proportionate.

Firm heterogeneity in scenario modelling

7.53 The consultants' report argued that a limitation of our model was that we assumed an even impact across firms. For example, our 80% recovery scenario is defined as assuming that all firms set new business prices to target 80% recovery of their gross profits for new policies, which can be interpreted as assuming all firms have the

same level of efficiency savings they can make. Similarly, the 100% scenario can be interpreted as all firms having a limited ability to make any efficiency savings under increased price competition.

7.54 Our CBA presents the results of the two scenarios produced in the simulation. The first scenario is where firms are not expected to make efficiency savings, the 100% scenario. The other scenario simulated a situation in which greater competition, due to consumers being better able to compare premiums for longer tenures, drives a reduction of the average profit of new contract. We use these scenarios to illustrate the potential effects of our proposed pricing intervention. The use of the 80% scenario does not mean we believe that all firms can make such savings, nor that this is the most likely outcome from our remedy, but is a scenario for assessing the impact on prices under reasonable assumptions of efficiency savings across the whole market.

Expected claims costs and premium models

7.55 The consultants' report commented on the form of our expected claims costs (ECC) and premium walking models. These comments related in particular to our decision not to include interaction dummies between tenure and firm, in contrast to our decision to use dummies for both, but not interacted.

7.56 We developed and considered these alternatives but decided against them. This was primarily because our goal was to model market level effects. We are controlling for differences between firm, not trying to get accurate firm level responses, which will vary on individual business decisions. We consider using firm effects in the way we have is sufficient to estimate market level effects.

The switching model

7.57 The consultants' report commented on the form of our switching model. One comment was why we used 2017 data for the switching model rather than 2018 and earlier years. We did not directly use data from 2018 as that is the last year of data we had, and therefore we did not know if these customers would have renewed. Our decision not to use earlier data was a result of both the computational complexity in imputing the data, and a belief that using 2017 only would not introduce a material level of bias into our results.

7.58 Another comment on the form of our model was on the decision not to have firm and tenure interaction effects. We note that such firm tenure interactions were addressed by estimating a separate model for each tenure, and a firm dummy within those models, which produces the same effects.

Annex 1

List of non-confidential respondents

AA

Ageas

Allianz Insurance plc

Ardonagh Group

Association of British Insurers (ABI)

Association of Financial Mutuals (AFM)

Association of Mortgage Intermediaries (AMI)

Association of Professional Compliance Consultants

Atlanta Group

AXA UK Group

Barrow Cadbury Trust

Bennetts Motorcycling Services Limited

Bexhill UK

BGL Group

BHSF Ltd

BISL

Brightside Insurance Services Limited

British Insurance Brokers' Association

Bryan Cave Leighton Paisner LLP

By Miles

Carraig Insurance Company Limited

Chris Walker

Christopher Whitfeld

Citizens Advice

Citizens Advice Scotland

Clare Allen

Compare the Market

Confused.com

Consumer Council for Northern Ireland

esure

Europa Group Ltd

Fairer Finance

Financial Inclusion Commission

Financial Services Consumer Panel

Gibraltar Insurance Association (GIA)

Global Risk Partners Limited

Hastings Insurance Services Limited

HSF health plan Limited

Institute and Faculty of Actuaries

Intelligent Advisory Services Limited

Investment & Life Assurance Group (ILAG)

Lloyd's Market Association (LMA)

Magnet Insurance Services Ltd

Money and Pensions Service

MoneySavingExpert

MoneySupermarket

Mrs J Davies

NatWest Group

Open GI

Paul Jackson

Paycare

Phil Smith

Post Office Management Services

Practitioner Panel

Prakash Shah

Premier Insurance Company Limited

Premium Credit Limited

Provisional Marmalade Limited

Sabre

Saga plc

Sainsbury's Bank

Severn Bay Corporate Solutions Limited

Smaller Businesses Practitioner Panel

Somerset Bridge Insurance Services Limited

Sovereign Health Care

The GI Consultant

The Money Charity

University of East Anglia Centre for Competition Policy

Viaduct I.S. Limited

Westfield Health

Willis Limited

Annex 2

Abbreviations used in this paper

Abbreviation	Description
APR	Annual percentage rate
AR	Appointed Representative
CBA	Cost benefit analysis
CMA	Competition and Markets Authority
CP	Consultation Paper
ECC	Expected claims costs
ENBP	Equivalent New Business Price
FCA	Financial Conduct Authority
GFSC	Gibraltar Financial Services Commission
GI	General insurance
GIPP	General Insurance Pricing Practices [reporting]
IBNR/IBNER	Incurred but not (enough) reported
ICOBS	The Insurance Conduct of Business Sourcebook of the FCA Handbook
IDD	Insurance Distribution Directive
IPT	Insurance Premium Tax
MFN	Most favoured nation
MTA	Mid-term adjustment
NRC	Non-resolicitation clause
PCW	Price comparison website
PEMC	Pre-existing medical condition
PROD	The Product Intervention and Product Governance Sourcebook of the FCA Handbook

Abbreviation	Description
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers guidance in the FCA Handbook
SM&CR	The Senior Managers and Certification Regime in the FCA Handbook
SMF	Senior Management Function
SUP	The Supervision manual of the FCA Handbook
SYSC	The Senior Management Arrangements, Systems and Controls Sourcebook of the FCA Handbook
TCF	The FCA's Treating Customers Fairly initiative

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Appendix 1

Made rules (legal instrument)

NON-INVESTMENT INSURANCE: PRODUCT GOVERNANCE, PREMIUM FINANCE, GENERAL INSURANCE AUTO-RENEWAL AND HOME AND MOTOR INSURANCE PRICING INSTRUMENT 2021

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) 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);
 - (3) section 138C (Evidential provisions); and
 - (4) section 139A (Power of the FCA to give guidance).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 October 2021, except for Part 2 of Annex A, Part 2 of Annex C, Part 2 of Annex D and Annex F which comes into force on 1 January 2022.

Amendments to the 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)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
General Provisions (GEN)	Annex C
Insurance: Conduct of Business sourcebook (ICOBS)	Annex D
Product Intervention and Product Governance sourcebook (PROD)	Annex E
Supervision manual (SUP)	Annex F

Notes

- E. In this instrument, the notes shown as “Note:”, “**Note:**” or “*Editor’s note:*” are intended for the convenience of the reader but do not form part of the legislative text.

Citation

- F. This instrument may be cited as the Non-Investment Insurance: Product Governance, Premium Finance, General Insurance Auto-Renewal and Home and Motor Insurance Pricing Instrument 2021.

By order of the Board
27 May 2021

Annex A

Amendments to the Glossary of definitions

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

Part 1: Comes into force 1 October 2021

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

additional product an *optional additional product* or *mandatory additional product*.

Gibraltar-based firm has the same meaning as in the *Gibraltar Order*.

mandatory additional product a good, service or right of any description, whether or not financial in nature, that a customer is required to obtain in connection with or alongside a *non-investment insurance contract*.

non-investment insurance product an insurance product sold or underwritten as individual *non-investment insurance contracts*.

[Note: *PROD* 1.4.2G indicates that an insurance product may be read as being a reference to the product for distribution to *customers* generally and is not intended to refer to each individual contract of insurance being sold or underwritten (unless the context indicates otherwise).]

optional additional product (in *ICOBS* and *PROD* 4) 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 their election in connection with, or alongside, a *non-investment insurance contract*. This includes *retail premium finance*.

retail premium finance a credit agreement (whether a *regulated credit agreement* or not) entered into with a view to its use, by a *customer* who is a *consumer*, to finance all or part of the *premium* for a *non-investment insurance contract*, excluding a credit agreement where the total price to the *customer* (including any *APR*, interest, repayments, fees and charges) does not result in the *customer* paying any amount in addition to the price of the *policy*.

legacy non-investment insurance product (in *PROD*) a *non-investment insurance product*:

- (1) that was *manufactured* prior to, but not significantly adapted on or after, 1 October 2018; and

- (2) is either:
- (a) still being marketed or is available to be *distributed to customers* (including in the form of a renewal of an existing *policy*); or
 - (b) not still being marketed or distributed but there are *policies* under the product that remain in force.

Amend the following definitions as shown.

- APR*
- (1) ...
 - (2) ...
 - (3) (in *CONC* for all other *credit agreements*, *retail premium finance*, *ICOBS* 6A.5 and *PROD* 4) the *annual percentage rate of charge* for credit determined in accordance with the rules in *CONC* App1.2 and *CONC* 3.5.13R.
- customer*
- (A) ...
 - ...
 - (B) in the *FCA Handbook*:
 - (1) (except in relation to *SYSC* 19F.2, *ICOBS*, *retail premium finance*, a *credit-related regulated activity*, *regulated claims management activity*, *MCOB* 3A, an *MCD credit agreement*, *CASS* 5, *PRIN* in relation to *MiFID* or *equivalent third country business*, *DISP* 1.1.10-BR, *PROD* 1.4 and *PROD* 4)...
 - ...
 - (3) (in relation to *SYSC* 19F.2, *ICOBS*, *retail premium finance*, *DISP* 1.1.10-BR, *PROD* 1.4 and *PROD* 4) a *person* who is a *policyholder*, or a prospective *policyholder*, excluding a *policyholder* or prospective *policyholder* who does not make the arrangements preparatory to the conclusion of the *contract of insurance*.
 - ...
- distribute*
- (1) ...
 - ...

- (2) (in relation to ICOBS 1, *PROD 1.4* and *PROD 4*) advising on or proposing a *contract of insurance* to a *customer*.

...

remuneration

...

- (3) (in *SYSC 19F.2*, *PROD 4*, *ICOBS* and, in relation to a *life policy*, in *COBS 6.1ZA*) any commission, *fee*, charge or other payment, including an economic benefit of any kind or any other financial or non-financial advantage or incentive offered or given in respect of *insurance distribution activities*.

[Note: article 2(1)(9) of the *IDD*]

...

Part 2: Comes into force 1 January 2022

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

affinity/partnership scheme

where a *firm* forms a scheme with another business (usually a brand whose main business is not insurance) to *distribute home insurance* or *motor insurance* products to *consumers* under the partner's brand name. Examples of partners include *banks*, *building societies*, trade associations, charities, membership organisations and franchise networks.

channel

(in *ICOBS 6B* and *SUP 16.28*) the distribution method through which the *customer* purchases a *policy*. Examples of *channels* include:

- (a) direct sales where the *customer* and *insurer* communicate directly without a third party's involvement. This would include (as separate *channels*) sales:
 - (i) by telephone;
 - (ii) via the internet;
 - (iii) through a branch;
- (b) sales through a specific price comparison website;
- (c) sales through a specific *insurance intermediary*; and
- (d) sales via a specific *affinity/partnership scheme*.

<i>close matched product</i>	a <i>home insurance</i> or <i>motor insurance</i> product which provides a <i>customer</i> with core cover and benefits which are broadly equivalent to the core cover and benefits enjoyed by the <i>customer</i> under their existing <i>policy</i> .
<i>closed book</i>	(in <i>ICOBS 6B</i> and <i>SUP 16.28</i>) an individual <i>home insurance</i> or <i>motor insurance</i> product which meets the following criteria: <ul style="list-style-type: none"> (a) its <i>policies</i> may be <i>renewed</i> by existing <i>customers</i>, and (b) either: <ul style="list-style-type: none"> (i) its <i>policies</i> are not available for purchase by other <i>customers</i>; or (ii) (where the product has been on sale for 5 or more years) the <i>firm</i> has not sold, or does not expect to sell, on an annualised basis, more than 7.5% of active <i>policies</i> under the product to <i>new business customers</i>; or (iii) (where the product has been on sale for less than 5 years) the <i>firm</i> has not sold, or does not expect to sell, on an annualised basis, more than 15% of active <i>policies</i> under the product to <i>new business customers</i>. <p>A <i>home insurance</i> or <i>motor insurance</i> product is not in a <i>closed book</i> if the <i>firm</i> sells or expects to sell at least 10,000 <i>policies</i> on an annualised basis to <i>new business customers</i>.</p>
<i>equivalent new business price</i>	the price a <i>firm</i> would offer to a <i>customer</i> to purchase a particular <i>policy</i> if the <i>customer</i> were a <i>new business customer</i> .
<i>gross incurred claims ratio</i>	the proportion of the premiums (gross of <i>reinsurance</i>) earned, that is paid out as claims (gross of <i>reinsurance</i>).
<i>gross price</i>	(in <i>ICOBS 6B</i> and <i>SUP 16.28</i>), the total <i>premium</i> charged to a <i>consumer</i> (excluding insurance premium tax).
<i>gross-rated business</i>	business where the <i>premium</i> paid by the <i>consumer</i> is set by the <i>insurer</i> or <i>managing agent</i> .
<i>home insurance</i>	(in <i>ICOBS 6B</i> and <i>SUP 16.28</i>) a <i>contract of insurance</i> that provides insurance against loss of or damage to, or cover against the risks of incurring loss of or damage to, any of the following: <ul style="list-style-type: none"> (a) the structure of domestic properties; (b) the contents of domestic properties; (c) liabilities to third parties where:

- (i) the liabilities arise out of injuries sustained within the boundary of a domestic property; and
- (ii) the cover is provided in relation to either the structure or contents of a domestic property.

<i>motor insurance</i>	(in <i>ICOBS 6B</i> and <i>SUP 16.28</i>) a <i>contract of insurance</i> within the <i>motor vehicle liability</i> or <i>land vehicle</i> class, where the <i>contract of insurance</i> was purchased by a <i>consumer</i> .
<i>net-rated business</i>	business where the <i>premium</i> paid by the <i>consumer</i> is set by an <i>insurance intermediary</i> .
<i>net-rated price</i>	(in <i>ICOBS 6B</i> and <i>SUP 16.28</i>) for <i>net-rated business</i> , the price set by an <i>insurer</i> or <i>managing agent</i> which includes the risk price and the <i>insurer's</i> or <i>managing agent's</i> profit margin.
<i>new business customer</i>	a prospective <i>customer</i> for a <i>policy</i> where the <i>policy</i> being taken out is not a <i>renewal</i> .
	For the purposes of this definition, <i>renewal</i> has the same meaning as in <i>ICOBS 6B</i> .
<i>renewal price</i>	the <i>premium</i> offered by a <i>firm</i> to <i>renew</i> a <i>home insurance</i> or <i>motor insurance policy</i> . This includes where more than one <i>policy</i> is sold together as part of a package.
<i>tenure</i>	the number of years a <i>customer</i> has held their <i>policy</i> , including any <i>renewal</i> .
	For the purposes of this definition, <i>renewal</i> has the same meaning as in <i>ICOBS 6B</i> .

Amend the following definitions as shown.

<i>APR</i>	(1) ...
	(2) ...
	(3) (in <i>CONC</i> for all other <i>credit agreements, retail premium finance, ICOBS 6A.5, ICOBS 6B, and PROD 4 and SUP 16.28</i>) the <i>annual percentage rate of charge</i> for credit determined in accordance with the rules in <i>CONC App 1.2</i> and <i>CONC 3.5.13R</i> .

- distribute*
- (1) ...
- ...
- (2) (in relation to *ICOBS 1*, *ICOBS 6B*, *PROD 1.4* and *PROD 4*) advising on or proposing a *contract of insurance* to a *customer*.
- renewal*
- (1) (except in *ICOBS 6B*, *SUP 16.28* and *SUP 16 Annex 49BG*) carrying forward a contract, at the point of expiry and as a successive or separate operation of the same nature as the preceding contract, between the same contractual parties.
- (2) (in *ICOBS 6B*, *SUP 16.28* and *SUP 16 Annex 49BG*) the entry by a *customer* into a *general insurance contract* which:
- (a) is of the same product type as that *customer's* existing *general insurance contract*;
- (b) is obtained from the same *firm* (including an *insurer*, *insurance intermediary* or *managing agent*) as that *customer's* existing *general insurance contract*; and
- (c) will take effect following the termination or expiry of the *customer's* existing *policy*.

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

19F Remuneration and performance management

...

19F.2 IDD remuneration incentives

...

Retail premium finance

19F.2.3 R The requirement in SYSC 19F.2.2R applies to remuneration an insurance distributor receives in relation to retail premium finance.

19F.2.4 G ICOBS 6A.5 includes further guidance on remuneration in relation to retail premium finance.

Annex C

Amendments to the General Provisions sourcebook (GEN)

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

Part 1: Comes into force 1 October 2021

2 Interpreting the Handbook

...

2.2 Interpreting the Handbook

...

Guidance applying while a firm has temporary permission

...

2.2.35A G A *TP firm* should refer to the provisions listed below, which identify the *rules* and *guidance* in their sourcebooks that came into force after *IP completion day* and in respect of which special provision has been made to apply them to *TP firms*.

...

and *COBS* 22.6.1R₂

ICOBS 1, Annex 1, Part 1, Who? (paragraph 7)

~~*ICOBS* 1, Annex 1, Part 2, What? (paragraph 5) [deleted]~~

...

PROD 1.4.-1AR

Part 2: Comes into force 1 January 2022

2 Interpreting the Handbook

...

2.2 Interpreting the Handbook

...

Guidance applying while a firm has temporary permission

...

- 2.2.35A G A *TP firm* should refer to the provisions listed below, which identify the *rules* and *guidance* in their sourcebooks that came into force after *IP completion day* and in respect of which special provision has been made to apply them to *TP firms*.

...

PROD 1.4.-1AR

SUP 16.28.7R

Annex D

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.

Part 1: Comes into force 1 October 2021

1 Application

...

1 Annex Application (see ICOBS 1.1.2R)

1

Part 1: Who?			
Modifications to the general application rule according to type of firm			
...			
6	...		
...			
<u>7</u>	<u>Gibraltar-based firms and TP firms</u>		
<u>7.1</u>	<u>R</u>	<u>(1)</u>	<u>In addition to the general application rule in ICOBS 1.1.1R, the provisions in (2) also apply to:</u>
			<u>(a) TP firms and Gibraltar-based firms which carry on business from an establishment in the United Kingdom; or</u>
			<u>(b) (i) TP firms and Gibraltar-based firms that provide services from an establishment outside the United Kingdom; or</u>
			<u>(ii) firms operating from an establishment overseas; and</u>
			<u>with a customer in the United Kingdom.</u>
		<u>(2)</u>	<u>The provisions specified for the purposes of (1) are:</u>
			<u>(a) ICOBS 6.1.7-AG, ICOBS 6.5.1AG and ICOBS 6A.4 (Travel insurance and medical conditions) (except for TP firms or Gibraltar-based firms in (1)(b)(i) where the state of the risk is an EEA State or</u>

				Gibraltar, and to the extent that the <i>EEA State</i> in question or Gibraltar imposes measures of like effect); and
			(b)	<u>ICOB 6A.5 (Retail premium finance: disclosure and remuneration).</u>

Part 2: What?				
Modifications to the general application rule according to type of firm				
...				
5				Travel insurance contracts
5.1	R			In addition to the general application rule in <i>ICOB 1.1.1R</i> , the provisions in <i>ICOB 6.1.7 AG</i> , <i>ICOB 6.5.1AG</i> and <i>ICOB 6A.4</i> also apply to:
		(1)		<i>TP firms</i> and Gibraltar-based firms which carry on business from an establishment in the <i>United Kingdom</i> ; or
		(2)	(a)	<i>TP firms</i> and Gibraltar-based firms that provide services from an establishment outside the <i>United Kingdom</i> , (other than where the <i>state of the risk</i> is an <i>EEA State</i> or Gibraltar, and to the extent that the <i>EEA State</i> in question or Gibraltar imposes measures of like effect); and
			(b)	<i>firms</i> operating from an establishment overseas; and
				with a <i>customer</i> in the <i>United Kingdom</i> . <u>[deleted]</u>
5.2	G			Unless the contrary intention appears, a reference to Gibraltar-based firm in paragraph 5.1 above has the same meaning as in the <i>Gibraltar Order</i> . <u>[deleted]</u>

6A Product specific rules

...

6A.2 Optional additional products

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

6A.2.1 R (1) ...

...

- (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*. [deleted]~~

...

...

6A.2.5 G *Firms are reminded that retail premium finance is an optional additional product for the purposes of ICOBS 6A.2.1R.*

For “optional additional product”, substitute “*optional additional product*” in the following provisions. Where the term is used in the plural, maintain the pluralised form in the substituted italicised term. The new text is not shown as underlined and the deleted text is not shown as struck through.

6A.2.1R(1)	one instance
6A.2.1R(2)	one instance
6A.2.1R(3)	two instances
6A.2.1R(5)	one instance
6A.2.1R(8)	one instance
6A.2.1R(9)	one instance
6A.2.1R(10)	three instances
6A.3.5G	one instance

Insert the following new section, ICOBS 6A.5, after ICOBS 6A.4 (Travel insurance and medical conditions). The text is not underlined.

6A.5 Retail premium finance: disclosure and remuneration

Other requirements in the Handbook

6A.5.1 G This section does not affect the application of other requirements in the *FCA Handbook* applying to *firms* in relation to a *regulated credit agreement*.

Pre-contract information

6A.5.2 R In good time before the conclusion of a *policy* including on any *renewal*, a *firm* offering *retail premium finance* in relation to that *policy* must give the *customer*:

(1) price information about:

- (a) the total cost of the *policy* if purchased without *retail premium finance*;
 - (b) the total cost of the *policy* with *retail premium finance* including costs of, or associated with, the *retail premium finance*; and
 - (c) any difference in the costs in (a) and (b),
- alongside each other;
- (2) a description that the use of *retail premium finance* arrangements will be more expensive for the *customer* compared to paying for the *policy* upfront;
 - (3) details of any difference between the duration of the *policy* and that of the *retail premium finance*; and
 - (4) where the price information is presented on any basis other than annually, an explanation alongside that information of any difference between the total price to be paid by the *customer* when buying with or without *retail premium finance*.

6A.5.3 R The information in *ICOBS* 6A.5.2R must be communicated:

- (1) in a way that is accessible and which draws the *consumer's* attention to it as key information; and
- (2) in accordance with *ICOBS* 4.1A.

Active election

6A.5.4 G For the purposes of *ICOBS* 6A.2.1R, providing the *customer* with the choice between paying monthly or annually will not be sufficient to show the *customer* has made an active election to obtain the *retail premium finance*.

Premium finance related remuneration

6A.5.5 R A *firm* must not propose or arrange the use of any particular *retail premium finance* where that would be inconsistent with the *firm's* obligations in the *FCA Handbook*, including the *customer's best interest rule*, *SYSC* 19F.2 or *CONC*.

6A.5.6 G (1) *Firms* are reminded of their obligations elsewhere in the *FCA Handbook* including:

- (a) *Principles* 1 and 6 to act with integrity and treat customers fairly;
- (b) *Principle* 8 to manage conflicts of interest fairly, both between itself and its *customers* and between a *customer* and another

client. This principle extends to the *remuneration* a *firm* receives including soliciting or accepting inducements where this would conflict with a *firm's* duties to its *customers*;

- (c) conflicts of interest requirements in SYSC 3.3 (for *insurers*) or SYSC 10 (for *insurance intermediaries*);
 - (d) the *customer's best interests rule*, and SYSC 19F.2 to ensure remuneration arrangements do not conflict with their duty to comply with the *customer's best interests rule*.
- (2) An inducement is a benefit offered to a *firm*, or any *person* acting on its behalf, with a view to that *firm*, or that *person*, adopting a particular course of action. This can include, but is not limited to, cash, cash equivalents, commission, goods, hospitality or training programmes.
- 6A.5.7 G (1) *Firms* should consider, at inception and then on a regular basis, their arrangements with providers or distributors of *retail premium finance* and whether they could give an incentive to act in a way that is inconsistent with the *customer's best interests rule* or otherwise could risk breaching any of the provisions referred to in ICOBS 6A.5.6G above. For example, a *firm's* *remuneration* arrangements should not provide an incentive to offer *retail premium finance* having greater costs to the *customer* (including a higher *APR*) where another *retail premium finance* arrangement, better aligned with the *customer's* interests, is available to the *firm* in the market.
- (2) For the purposes of (1) a *firm* would be considering its arrangements with providers or distributors of *retail premium finance* on a regular basis where these arrangements are assessed as part of the *firm's* compliance with *PROD 4.2.35AR* (for a *manufacturer*) or *PROD 4.3.6AR* (for a *distributor*) to consider if these arrangements are consistent with providing fair value.
- (3) When considering its arrangements with providers or distributors of *retail premium finance*, both before entering into any arrangement and on a regular basis, a *firm* should be able to demonstrate:
- (a) how the arrangements provide a fair outcome for the *customer*; and
 - (b) why that arrangement was selected.

For example, where the *firm* receives a greater level of remuneration, whether through a higher commission rate or otherwise, compared to other arrangements available to it, including any monthly payment arrangement where the price to the *customer* is not greater than where the policy is sold on a standalone basis, it will need to demonstrate how this selection was consistent with the *customer's best interests rule*.

- (4) Where the *remuneration firms* receive in relation to *retail premium finance* conflicts with the duty to comply with the *customer's best interests rule* they will need to take appropriate actions to address the situation including, where necessary, changing *retail premium finance* providers.

Part 2: Comes into force 1 January 2022

Amend the following as shown.

1 Application

...

1 Annex Application (see ICOBS 1.1.2R)

1

Part 1: Who?			
Modifications to the general application rule according to type of firm			
...			
6	...		
...			
7	Gibraltar-based firms and TP firms		
<u>7.1</u>	<u>R</u>	(1)	...
		(2)	The provisions specified for the purposes of (1) are:
			...
		(b)	<i>ICOBS 6A.5 (Retail premium finance: disclosure and remuneration)</i> ;
		(c)	<u><i>ICOBS 5.1.3CR(1A), ICOBS 6.2.6R, and ICOBS 6.2.7G, ICOBS 6.5.1R(3)(d) and ICOBS 6A.6 (Cancellation of automatic renewal); and</i></u>
		(d)	<u><i>ICOBS 6B (Home and motor insurance pricing).</i></u>

...

5 Identifying client needs and advising

5.1 General

...

Eligibility to claim benefits: policies arranged as part of a packaged bank account

...

5.1.3C R (1) ...

- (1) Where any *policy* (except for private health or medical insurance, and pet insurance) included in a *packaged bank account* renews automatically, the statement must include the information the *firm* is required to provide under *ICOBS 6.2.6R* on the right to cancel the automatic *renewal* element of the *policy* at any time.
- A) Where any *policy* (except for private health or medical insurance, and pet insurance) included in a *packaged bank account* renews automatically, the statement must include the information the *firm* is required to provide under *ICOBS 6.2.6R* on the right to cancel the automatic *renewal* element of the *policy* at any time.

...

6 Product information

...

6.2 Pre-contract information: general insurance contracts

...

6.2.5 R ...

Auto-renewal

6.2.6 R (1) A *firm* must:

- (a) inform a *consumer* whether the terms and conditions of their *policy* provide for the *policy* to automatically *renew* at the end of the term;
- (b) provide the *consumer* with an explanation of the effect of automatic *renewal* for them; and
- (c) provide the *consumer* with information on the right to cancel the automatic *renewal* element of the *policy* at any time.

(2) The information on the right to cancel the automatic *renewal* element must include:

- (a) the existence of the right;
- (b) the conditions for exercising it;

- (c) the consequences of exercising it; and
- (d) the practical instructions for exercising it.

(3) The information in (1) and (2) must be provided:

- (a) in good time before conclusion of the contract; and
- (b) in writing or in another *durable medium*.

(4) Paragraphs (1) to (3) do not apply in the case of a contract for private health or medical insurance, or pet insurance.

6.2.7 G In the case of a *packaged bank account* ICOBS 5.1.3CR(1A) provides that the information required by ICOBS 6.2.6R should be provided in the eligibility statement.

...

6.5 Renewals

Renewals

6.5.1 R ...

(3) ...

...

(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; and

(d) a statement informing the *consumer* whether the contract will automatically renew or whether the *consumer* needs to take action to accept the renewal offer.

...

...

Insert the following new section, ICOBS 6A.6, after ICOBS 6A.5 (Retail premium finance: disclosure and remuneration). The text is not underlined.

6A.6 Cancellation of automatic renewal

Application

- 6A.6.1 R This section applies in relation to all *general insurance contracts* entered into with *consumers* which have an automatic *renewal* feature except for:
- (1) private health or medical insurance; and
 - (2) pet insurance.

Purpose

- 6A.6.2 G The purpose of this section is to support Treating Customers Fairly outcome 6 – “Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint”, by making it easier for *consumers* who wish to prevent their *policy* from automatically *renewing* to cancel this feature of their *policy*.

Requirement for a range of cancellation methods

- 6A.6.3 R A *firm* must provide a *consumer* with easy and accessible methods for cancelling the automatic *renewal* feature in the *consumer’s* contract.
- 6A.6.4 R (1) The methods provided by a *firm* in accordance with ICOBS 6A.6.3R must include at least all the methods by which a *consumer* is able to purchase a new *policy* with the *firm*.
- (2) A *firm* must consider the needs of its *customers* when determining what cancellation methods it provides.
- 6A.6.5 G An easy and accessible method for cancelling an automatic *renewal* feature is a method that does not place any unnecessary barriers on the *consumer* who uses it. Unnecessary barriers may include one or both of the following:
- (1) unreasonably longer call waiting times to cancel the automatic *renewal* feature than to purchase a new *policy*; and/or
 - (2) unnecessary questions or steps before the *consumer* is able to confirm their instructions to cancel the automatic *renewal* feature.

Times a consumer may cancel

- 6A.6.6 R A *firm* must allow the *consumer* to exercise their right to cancel the automatic *renewal* feature:
- (1) at the time the *consumer* purchases the *policy* and at any time during the duration of the *policy*; and
 - (2) free of charge.

Insert the following new chapter, ICOBS 6B, after ICOBS 6A (Product specific rules). The text is not underlined.

6B Home insurance and motor insurance pricing**6B.1 Application and purpose**

Application

What?

6B.1.1 R This chapter applies where a *firm* carries out any of the following activities in relation to a *home insurance* or *motor insurance policy* or any related *additional product* sold to a *consumer*:

- (1) setting the *renewal price*; or
- (2) setting the price for any *additional product* offered to the *customer* at *renewal*; or
- (3) determining the level of *remuneration*, including in particular any *fees* earned by the *firm* when distributing a product at *renewal*.

6B.1.2 R This chapter also applies where a *home insurance* or *motor insurance policy* is sold on a subscription basis and at any point during the lifetime of the *policy*, the *firm* increases the price of the *policy*.

Exclusions

6B.1.3 R This chapter does not apply to *group policies* where these include, or are sold alongside, *home insurance* or *motor insurance* products.

Purpose

6B.1.4 G The *rules* in this chapter:

- (1) promote competition through ensuring *consumers* have a realistic picture of the long-term cost of their chosen product when purchasing it and incentivising *firms* to compete for *consumer* business on this basis; and
- (2) protect *consumers* through ensuring that they are placed in a position where they can understand the long-term cost of their product.

6B.1.5 G The *rules* in this chapter are not intended to affect how risk is priced for *home insurance* and *motor insurance*.

6B.2 Setting renewal prices

Renewal price

6B.2.1 R (1) A *firm* must not set a *renewal price* that is higher than the *equivalent new business price*.

- (2) Paragraph (1) applies at the point the *renewal* notice is prepared.

Combined home and motor insurance packages

- 6B.2.2 R In the case of a combined *home insurance* and *motor insurance* package, the *renewal price* for each of the following must be no higher than the *equivalent new business price*:
- (1) the *home insurance* element;
 - (2) the *motor insurance* element; and
 - (3) the bundled price for the package.

Net-rated business

- 6B.2.3 G *ICOBS* 6B.2.1R does not distinguish between *firms* writing *gross-rated business* or *net-rated business*. *Insurers* or *managing agents* writing *net-rated business* should apply the *rules* in this section to arrive at a *net-rated price* which is the *equivalent new business price* on a *net-rated price* basis.

Renewal price of retail premium finance

- 6B.2.4 G Where a *customer* pays for their *policy* through *retail premium finance*, the *renewal price* of the *policy* should be set in accordance with *ICOBS* 6B.2.1R and the renewal price for the *retail premium finance* should be set in accordance with *ICOBS* 6B.2.37R.

Assumptions regarding channel used by customer

- 6B.2.5 R (1) In determining the *equivalent new business price*, a *firm* must assume that the existing *customer* has approached the *firm* through the same *channel* as they used when they first purchased their *policy*.
- (2) Where the *firm* no longer accepts new business through the *channel* that the *customer* originally used to purchase the *policy*, or where the *channel* can no longer be identified, the *firm* must assume that the *customer* approached the *firm* through the *channel* most commonly used by *new business customers* of the *firm*.
- (3) If the *customer* used more than one *channel* when they first purchased their *policy*, the *firm* must determine the *equivalent new business price* using the *channel* or combination of *channels* that was used to determine the price of the *customer's policy* at new business.
- 6B.2.6 G For the purposes of the assumptions in *ICOBS* 6B.2.5R, a *firm* should treat each intermediary chain, price comparison website or *affinity/partnership scheme* through which it sells *policies* as a separate *channel*.
- 6B.2.7 R (1) A *firm* may calculate the *equivalent new business price* on the basis that the *customer* is using a different *channel* than they used when they first purchased their *policy* where:

- (a) the *customer* has agreed to take out a different product to the one they took out in the last insurance period;
 - (b) the product the *customer* is taking out is most frequently purchased via a different *channel* to the one the *customer* used to take out their original product; and
 - (c) it is in the *customer's* best interests to take out the new product.
- (2) Where a *firm* calculates the *equivalent new business price* according to (1), it must assume that the *customer* approached the *firm* using the *channel* that the product is most frequently purchased through.

Changing to a different policy with the same firm at renewal

- 6B.2.8 G (1) Where a *firm* offers a *customer* a different product at *renewal* the *firm* should be able to demonstrate how it has met:
- (a) the *rules* in *ICOBS* 5.2 (Demands and needs); and
 - (b) *ICOBS* 2.5.-1R (customer best interests).
- (2) *Firms* are reminded that *ICOBS* 5.2 includes requirements for a *firm*, before conclusion of any *contract of insurance*, to
- (a) specify, on the basis of information obtained from the *customer*, the demands and needs of the *customer*; and
 - (b) ensure that any *contract of insurance* proposed is consistent with the *customer's* insurance demands and needs.

Before proposing a different product at *renewal*, a *firm* will need to take all necessary steps to meet these requirements which may include contacting the *customer* and obtaining all necessary information from that *customer* so the *firm* can conduct a demands and needs assessment.

- (3) A *firm* should not offer or propose a different product to the *customer* at *renewal* if:
- (a) the different product is more commonly *distributed* through a more expensive *channel* than the *channel* or *channels* the *customer* originally approached the *firm* through; and
 - (b) the primary purpose of *distributing* the alternative product is to enable the *firm* to charge the *customer* a higher *renewal price*.

Incentives

- 6B.2.9 R When calculating the *equivalent new business price*, a *firm* must include any cash or cash-equivalent incentives that it gives to *new business customers* and

that the *renewing customer* would be eligible for if they were a *new business customer*.

- 6B.2.10 R (1) *ICOBS* 6B.2.9R applies to any cash or cash-equivalent incentive that is wholly or partially funded by the *firm*.
- (2) For the purposes of (1), it does not matter if the incentive is funded directly by the *firm* or if the *firm* provides funding to a third party contingent on that third party providing an incentive to the *customer*.
- 6B.2.11 R Incentives that are not cash or cash-equivalent are excluded from the scope of these rules.
- 6B.2.12 R A cash or cash-equivalent incentive is any incentive that can be readily expressed as having a monetary value including, but not limited to, the items listed in column 1 of the table at *ICOBS* 6B.2.14R.
- 6B.2.13 R Non-cash incentives are any incentives that are not capable of being readily expressed as having a definite monetary value.
- 6B.2.14 R The following table gives examples of cash and non-cash incentives for the purposes of *ICOBS* 6B.2.12R and *ICOBS* 6B.2.13R.

Cash or cash-equivalent incentives	Non-cash incentives
A percentage discount on the premium	Toys
A monetary discount on the premium	Carbon off-setting
Part of the insurance term given for free (e.g. one month free)	A percentage chance to win back the premium
A free <i>additional product</i>	
Cashback	
Retail vouchers	
Points in a retail loyalty scheme	

- 6B.2.15 G *Firms* are reminded that *Principle 7* and *ICOBS* 2.2.2R apply to the communication of incentives in the same way as they apply to all communications with their *customers*. *Firms* should present incentives in a way that makes clear both the overall price of the product, not including the incentive, and (if different) the price the *customer* will actually pay.

New business discounts

- 6B.2.16 R The *equivalent new business price* must take account of any individually negotiated discounts the *firm* agrees with an *equivalent new business customer* for the product.
- 6B.2.17 G In taking account of individually negotiated discounts agreed with *new business customers*, a *firm* should be able to demonstrate that:
- (1) the *equivalent new business price* does not discriminate on grounds of *tenure* contrary to *ICOBS* 6B.2.40R; and
 - (2) the *firm* has taken account of the best interests of its *customers* (*ICOBS* 2.5.-1R) in determining its method for calculating the *equivalent new business price* in compliance with *ICOBS* 6B.2.16R.

Calculating the equivalent new business price - missing information

- 6B.2.18 G
- (1) Where a *firm* does not have the same information for an existing *customer* as it has when quoting for a *new business customer*, it may determine its own approach to how it takes account of any missing information when calculating the *equivalent new business price*.
 - (2) Examples of situations where a *firm* may have missing information when calculating the *equivalent new business price* are:
 - (a) where the *firm* uses behavioural factors in calculating the price a *new business customer* pays, such as the length of time between the quote and the inception date; and
 - (b) where a *firm* has changed the information it obtains from *new business customers* when providing a quote.
 - (3) *Firms* are reminded that where factors such as those described in (2) are taken into account in determining the *renewal* price, they must still be able to demonstrate compliance with:
 - (a) the requirement to not discriminate on grounds of *tenure* in *ICOBS* 6B.2.40R; and
 - (b) the requirements to provide fair value in relation to *non-investment insurance contracts* in *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR.

Calculating the equivalent new business price - information acquired during the term of the customer's current policy

- 6B.2.19 R
- (1) A *firm* must include in its determination of a *customer's equivalent new business price* any risk information acquired during the term of the *customer's current policy* that has the effect of either increasing or decreasing the *equivalent new business price*.

- (2) Paragraph (1) includes risk information that the *firm* would not normally have in relation to *new business customers*, such as telematics data or fraud risk indicators.

Changes to contractual parties

- 6B.2.20 G A *firm* only needs to comply with the rules in this chapter where it *arranged* the contract or was a party to the contract with the *customer* in the previous year. For example, where an *intermediary* operates a panel of *insurers* and re-brokers the *customer's insurance* to another member of the panel, the *customer* should be treated as a *renewal* by the *intermediary* but a *new business customer* by the *insurer* who did not underwrite the *customer's policy* in the previous year.

Subscription policies

- 6B.2.21 R Where a *firm* increases the price of a *policy* sold on a subscription basis, it must apply the *rules* in this chapter on setting a *renewal price*.
- 6B.2.22 R A *firm* that sells *policies* on a subscription basis must review the pricing of their subscription *policies* at least annually.
- 6B.2.23 R The annual review must assess whether the price of the *policy* sold on a subscription basis is no higher than the *equivalent new business price*.
- 6B.2.24 G The *rules* in this chapter do not require a *firm* selling *policies* on a subscription basis to back date any price reductions that the *firm* may implement as the result of any review under *ICOBS 6B.2.21R*.

Closed books

- 6B.2.25 R Where a *customer's policy* is in a *closed book*, the *firm* must determine the *customer's equivalent new business price* according to the following *rules*.
- 6B.2.26 R The *firm* must identify from the *home insurance* and *motor insurance* products that it currently actively markets or distributes, whether it has a *home insurance* or *motor insurance* product that is a *close matched product*.
- 6B.2.27 R Where the *firm* no longer actively markets or distributes any *home insurance* or *motor insurance* product which is a *close matched product* but it is part of a *group* which does actively market or distribute *home insurance* or *motor insurance* products, it must identify whether the *firm's group* actively markets or distributes a *close matched product*.
- 6B.2.28 R Where there is more than one product which is a *close matched product*, the *firm* must select:
- (1) the *close matched product* which is the most similar to the *customer's* existing *policy*; or

- (2) where it is not possible to identify the most similar *close matched product*, the *close matched product* which will lead to the most favourable pricing outcome for *customers* who hold a *policy* in the *closed book*.
- 6B.2.29 R Where a *close matched product* is identified or selected, the *equivalent new business price* for a *customer* in the relevant book is the price set out in (1), taking account of the permitted adjustments set out in (2) below.
- (1) The *equivalent new business price* for the *close matched product*.
- (2) The permitted adjustments are those which fairly and proportionately reflect the difference in costs for the *firm* arising from differences between the cover or benefits (including any compulsory excess) or other costs of providing services or benefits under the contract (such as additional telephone support) provided by the *policies* in the *closed book* and the *close matched product*.
- 6B.2.30 R In calculating the *equivalent new business price* for a *close matched product*, a *firm* must assume that the *customer* approached the *firm* using the *channel* most commonly used by *new business customers* of the *close matched product*.
- 6B.2.31 R A *firm* must set the *renewal price* in accordance with ICOBS 6B.2.39R if either (1) or (2) apply:
- (1) the *firm* is unable to identify a product which is a *close matched product*; or
- (2) the *firm* is unable to determine an *equivalent new business price* because the *firm* would not offer a *policy* to a *new business customer* of the same risk profile as the existing *customer*.
- 6B.2.32 R A *firm* must assess whether any of its *home insurance* or *motor insurance* products are in *closed books*:
- (1) at least annually; and
- (2) whenever the *firm* makes a material change to the distribution or marketing of the product that could change the book from being an open book to a *closed book*.
- 6B.2.33 G (1) The calculation of whether a book meets the *closed book* definition should be carried out on the basis of the product as a whole across all the *channels* used by the *firm* for distribution of the product.
- (2) A *firm* should apply the *closed book* definition on the basis of its own book of business, without reference to other *firms* involved in *distributing* or underwriting the product. This means:

- (a) an *insurer* should apply the *closed book* definition only to those products that it underwrites; and
- (b) an *insurance intermediary* should apply the *closed book* definition only to those products which it has *distributed*.

Intermediaries' remuneration and involvement in setting price

- 6B.2.34 R An *insurance intermediary* that is involved in the setting of any portion of the *renewal price* of the *policy* must ensure that the portion they set or their contribution to that portion is set at a level that is no higher than it would be set for a *new business customer*.
- 6B.2.35 R Where an *insurance intermediary* forgoes its commission in whole or in part when selling to a *new business customer*, it must apply *ICOBS 6B.2.9R* to *ICOBS 6B.2.15G* when determining the *equivalent new business price* at *renewal*.

Additional products

- 6B.2.36 R A *firm* that has responsibility for setting the price of an *additional product* that is available to a *customer* in connection with a *home insurance* or *motor insurance policy* must ensure that the price of the *additional product* at *renewal* is no higher than the price at which the *additional product* would be offered to the *customer* if they were a *new business customer*.
- 6B.2.37 G Where the *additional product* is *retail premium finance*, the price referred to in *ICOBS 6B.2.36R* is the *APR* if the *retail premium finance* is a *regulated credit agreement* or in all other cases the amount paid by the *customer* for *retail premium finance* for the amount of *premium* to be financed by the *retail premium finance*.
- 6B.2.38 R Where a *firm* no longer offers to *new business customers* an *additional product* which is available to a *customer* in connection with the *renewal* of a *home insurance* or *motor insurance policy*, the price for that *additional product* must be set as follows:
- (1) where the *additional product* is a *policy*, the *firm* must:
 - (a) apply the rules for *closed books* in *ICOBS 6B.2.25R* to *ICOBS 6B.2.33G* (and references in these rules to *home insurance* or *motor insurance* should be read as '*additional product*'); or
 - (b) if the *additional product* has no *close matched product*, apply *ICOBS 6B.2.39R*;
 - (2) where the *additional product* is not a *policy*, the *firm* must apply *ICOBS 6B.2.39R*.

Firms' assurance over customer outcomes

- 6B.2.39 R A *firm* must ensure that it does not systematically discriminate against *customers* based on their *tenure*, when determining:
- (1) an *equivalent new business price*;
 - (2) the *renewal price* for *customers* in *closed books* where a *firm* is unable to identify a *close matched product*;
 - (3) the price for any *additional products* offered to the *customer* at *renewal* of a *policy*; and
 - (4) the level of any *remuneration* earned by the *firm*, including in particular any *fees* charged to a *customer*, at *renewal* of a *policy*.
- 6B.2.40 E (1) A *firm's equivalent new business price* for *customers* of longer *tenure* should not systematically exceed the new business price for *new business customers*.
- (2) A pricing model used by the *firm* to determine the *equivalent new business price*, or *renewal prices* for *customers* in *closed books* where a *firm* is unable to identify a *close matched product*, should not generate prices which are systematically higher the longer a *customer's tenure* is.
- (3) A *firm's renewal price* for *customers* of longer *tenure*, or the price for any *additional products* offered to *customers* of longer *tenure* at *renewal* of a *policy*, should offer fair value to the *customer* taking account of the prices offered to *customers* of shorter *tenure*. In particular, a *firm* should avoid the following outcomes:
- (a) the price of any of the following materially exceeding the new business price which a *customer* of longer *tenure* would pay to obtain the cover and/or benefits offered by the product if the *customer* were to shop around as a *new business customer* approaching another *firm* or *firms*:
 - (i) the *firm's renewal price* for *customers* in a *closed book* where no *close matched product* is identified;
 - (ii) the *firm's price* for any *additional product* offered at *renewal* where that *additional product* is a *policy* and no *close matched product* is identified; or
 - (iii) the *firm's price* for any *additional products* offered at *renewal* where the *additional product* is not a *policy* and is no longer available to *new business customers*;
 - (b) the quality of service or cover enjoyed by *customers* of longer *tenure* is lower than that enjoyed by *customers* of shorter *tenure* for the same product; and

- (c) relevant and appropriate value measures, or the *gross incurred claims ratio*, for *policies* held by *customers* of longer *tenure* indicate that the value provided by these *policies* is lower than that for *policies* held by *customers* of shorter *tenure*.
- (4) A *firm* should not systematically charge higher *fees* to a *customer* who is *renewing a policy* than to a *new business customer*.
- (5) A *firm* should not selectively close individual *channels* in order to take advantage of the premium difference between *channels* when setting an *equivalent new business price*.
- (6) A *firm* should not fund an incentive offered by a third party in a way that results in the *equivalent new business price* systematically exceeding the new business price actually paid by *new business customers* who receive the incentive.
- (7) Contravention of any of (1) to (6) may be relied on as tending to establish contravention of *ICOBS 6B.2.39R*.
- 6B.2.41 G When comparing a *firm's* new business price with the *renewal price* for individual *customers*, we would not expect to see that the longer a *customer's tenure* is, the greater the difference between:
- (1) in the case of an *insurer*, the risk price and the *net-rated price* or *gross price*; or
- (2) in the case of an *intermediary*, the *net-rated price* and the *gross price*.
- 6B.2.42 R A *firm* must not make arrangements that are designed to enable it to treat existing *customers* as *new business customers* unless:
- (1) the *firm* can demonstrate that the proposed arrangements are in the best interests of the *customers* that will be treated as *new business customers* under the arrangements; and
- (2) the price of the products distributed to these *customers* does not adversely impact on the product offering fair value according to *PROD 4.2.14AR* and, where relevant, *PROD 4.2.14BR*.
- 6B.2.43 E A *firm* should not participate in or carry out any of the following steps where the primary impact on existing *customers* affected by the steps is to increase the price these *customers* pay for their product:
- (1) establish a new entity or entities (whether this is done by the *firm* or a member of its *group*) that will be responsible for arranging *policies* for existing *customers* at *renewal*;
- (2) transfer the business of existing *customers* to existing entities in the *group* or existing subsidiaries; and

- (3) sell to existing *customers* at *renewal* a product that is only superficially different from the *customer's* current product.

Contravention of any of (1) to (3) may be relied upon as tending to establish contravention of *ICOBS* 6B.2.42R and *ICOBS* 2.5.-1R.

- 6B.2.44 R It is not a contravention of *ICOBS* 6B.2.39R or *ICOBS* 2.5.-1R for a *firm* to offer a *customer* a *renewal price* that is lower than the *equivalent new business price* based on any factor, including the *customer's tenure*.

Notifications to the FCA

- 6B.2.45 R A *firm* must notify the *FCA* if it becomes aware that any other *firm* in the distribution chain is not or may not be complying with the *rules* in this chapter.
- 6B.2.46 G Under *Principle 11*, *firms* should notify the *FCA* of any change in their pricing model where there is a material risk of harm for *customers*.

Sales practices

- 6B.2.47 R When communicating a *renewal price* to *customers*, or when contacted by *customers* to discuss a *renewal price*, a *firm* must not systematically discriminate against *customers* based on *tenure*.
- 6B.2.48 R When communicating a price for any *additional product* at renewal of the *policy*, or when contacted by *customers* to discuss the prices of *additional products* at *renewal* of their *policy*, a *firm* must not systematically discriminate against *customers* based on *tenure*.
- 6B.2.49 E
- (1) A *firm* should not communicate with a *customer* of longer *tenure* in a manner which is objectively likely to discourage a *customer* of longer *tenure* from shopping around for an alternative *policy* offered by another *firm*.
 - (2) A *firm* should not communicate with *customers* of longer *tenure* with the intent, or in a way that might reasonably be expected to have the effect, that these *customers* are less likely than other *customers* to contact the *firm* to negotiate the *renewal price* of the *policy*.
 - (3) A *firm* should not interact with *customers* of longer *tenure* with the intent or the effect that these *customers* are more likely than other *customers* to accept the *renewal price* of the *policy*.
 - (4) Contravention of any of (1) to (3) may be relied on as tending to establish contravention of *ICOBS* 6B.2.47R or *ICOBS* 6B.2.48R.
- 6B.2.50 G Where a *firm* has communicated a *renewal price* to a *customer* in compliance with the *rules* in this chapter, a *firm* may subsequently agree a discount to a *renewal price* in individual negotiations with the *customer*.

Records

- 6B.2.51 R A *firm* must make and retain written records of how it continues to satisfy itself that it does not systematically discriminate against *customers* based on *tenure* in contravention of *ICOBS* 6B.2.39R, including details of:
- (1) the assessment undertaken by the *firm* to evaluate whether the *equivalent new business price* for, or the margin earned from, *customers* of longer *tenure* systematically exceeds that for *new business customers*;
 - (2) the controls put in place by the *firm* to ensure that any pricing model it uses to generate its *equivalent new business prices*, or the *renewal prices* for *customers* in *closed books* where a *firm* is unable to identify a *close matched product*, does not generate prices which are systematically higher the longer a *customer's tenure* is;
 - (3) the evidence gathered and the assessment undertaken by the *firm* to evaluate whether its *renewal prices* or prices for *additional products* at *renewal* offer fair value to *customers* of longer *tenure*;
 - (4) the assessment undertaken by the *firm* to evaluate whether the *fees* it charges to *customers* of longer *tenure* systematically exceed those charged to *new business customers*; and
 - (5) any appropriate independent oversight of the assessments and controls in (1), (2), (3) and (4).
- 6B.2.52 R A *firm* must make and retain written records of how it satisfies itself that any arrangements it makes to enable it to treat existing *customers* as *new business customers* are consistent with *ICOBS* 6B.2.39R, including details of:
- (1) the assessment it has undertaken to assure itself that the *customer* best interests rule in *ICOBS* 2.5.-1R is met; and
 - (2) the assessment it has undertaken of the likely effect of the arrangements on the price *customers* will pay for their product after the arrangements have taken effect as compared to the price *customers* would pay if the arrangements did not take effect.
- 6B.2.53 R A *firm* must also make and retain written records of its consideration of the extent to which material decisions which it takes in relation to its compliance with the *rules* in this chapter are consistent with:
- (1) the objectives of these *rules* as set out in *ICOBS* 6B.1.3G;
 - (2) the requirement not to discriminate against *customers* based on *tenure* in *ICOBS* 6B.2.39R, *ICOBS* 6B.2.47R and *ICOBS* 6B.2.48R; and
 - (3) the requirements in *ICOBS* 6B.2.42R around making arrangements to treat existing *customers* as *new business customers*.

- 6B.2.54 R The records in *ICOBS* 6B.2.52R must set out clearly:
- (1) the basis on which the *firm* is complying with the *rules* in this chapter;
 - (2) how the *firm* has resolved any areas of discretion, ambiguity or potential uncertainty in its determination that the pricing of its *home insurance* and *motor insurance renewal* business, including *additional products* available to *customers* in connection with this business, is in compliance with the *rules* in this chapter; and
 - (3) appropriate expert input and advice on which the *firm* relies in satisfying itself as to its compliance with the *rules* in this chapter.
- 6B.2.55 G The material decisions referred to in *ICOBS* 6B.2.53R include, but are not limited, to:
- (1) launching, discontinuing or materially varying any aspect of a product which is, or could be, relevant to setting an *equivalent new business price*;
 - (2) taking action which would result in a book becoming a *closed book* for the purposes of the *rules* in this chapter;
 - (3) identifying or selecting a *close matched product* or determining that it is not possible to identify a *close matched product*;
 - (4) making any adjustments to the *equivalent new business price* for a *close matched product* as a result of applying the assumptions in *ICOBS* 6B.2.29R and *ICOBS* 6B.2.30R;
 - (5) making changes to the *firm's* business structure or to the business structure of a *firm's group* to the extent that this may affect the basis on which an *equivalent new business price* is set;
 - (6) determining the *firm's* approach to ensuring that it does not systematically discriminate against *customers* based on their *tenure* in accordance with *ICOBS* 6B.2.39R, *ICOBS* 6B.2.43R and *ICOBS* 6B.2.44R; and
 - (7) arranging for another entity or entities to offer the *renewal* product to the *customer*.
- 6B.2.56 G (1) The following are examples of the types of records that *firms* should retain under *ICOBS* 6B.2.51R to *ICOBS* 6B.2.53R:
- (a) records of minutes of any pricing committee;
 - (b) any analysis showing whether similar *customers* face different pricing outcomes;

- (c) where the *firm's* data indicates any potential issues under *ICOBS* 6B.2.40R, any analysis demonstrating that the *firm* has not discriminated against *customers* of longer *tenure*.

- 6B.2.57 R The records compiled by the *firm* in accordance with *ICOBS* 6B.2.51R to *ICOBS* 6B.2.53R must be provided as soon as reasonably practicable after the record is prepared or updated to the *person* responsible for the attestation in *ICOBS* 6B.2.60R, and to the *FCA* on request.
- 6B.2.58 G *Firms* are reminded of their obligations under *SYSC* 3.2.20R and *SYSC* 9.1.1R in relation to the keeping of records and the guidance in *SYSC* 3.2.21G and *SYSC* 9.1.5G regarding the nature of the systems and controls a *firm* should have in place and the general principle that records should be retained for as long as is relevant for the purposes for which they are made.

Policies and procedures

- 6B2.59 G A *firm* should have in place policies and procedures to ensure its ongoing compliance with the *rules* in this chapter following any material changes to the *firm's* pricing practices, pricing models or products which could affect a *firm's* compliance with rules in this chapter or fair outcomes for *customers* of longer *tenure*.

Attestation requirements

- 6B.2.60 R Every *firm* subject to the *rules* in this chapter must provide the attestation set out at (1) for the reporting period set out in (2) at the time set out in (3) by a person in (4) below.

- (1) The attestation is that the *firm*:
- (a) is and has been complying with the *rules* in this chapter throughout the reporting period; and
 - (b) is satisfied that the pricing of its *home insurance* and *motor insurance renewal* business and related sales practices are consistent with the objectives of the rules as set out in *ICOBS* 6B.1.4G and does not discriminate against *customers* of longer *tenure* as set out in *ICOBS* 6B.2.39R, *ICOBS* 6B.2.47R and *ICOBS* 6B.2.48R.
- (2) The reporting period is the 12-month period beginning 1 January and ending 31 December.
- (3) The attestation must be provided annually, on or before 31 March in the year following the end of the reporting period.
- (4) The attestation must be provided by:
- (a) a single person, who holds a *senior management function* in the *firm*; or

(b) where a *firm* is not an *SMCR firm*, by a *director* of the *firm*.

Format and method of submission of attestation

- 6B.2.61 R The attestation must be submitted online through the appropriate systems accessible from the *FCA*'s website.
- 6B.2.62 R The attestation will not be considered as submitted to the *FCA* unless it has been accepted by the relevant *FCA* system.
- 6B.2.63 G If the *FCA*'s information technology systems fail and online submission is unavailable for 24 hours or more, the *FCA* will endeavour to publish a notice on its website confirming that online submission is unavailable and will confirm what methods of submission should be used instead.

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
...					
<u>5</u>	<u>ICOB</u> S <u>6A.6</u>	<u>R</u>	<u>A firm need not comply with ICOB</u> S 6A.6 for contracts entered into before 1 January 2022.	<u>From 1 January 2022</u>	<u>1 January 2022</u>
<u>6</u>	<u>ICOB</u> S <u>6B.2.60R</u>	<u>R</u>	(1) <u>This transitional rule applies to a firm which is required to provide an attestation under ICOB</u> S 6B.2.60R. (2) <u>The first attestation must be submitted on or before 31 March 2022.</u>	<u>From 1 January 2022 to 1 April 2022</u>	<u>1 January 2022</u>

			(3) <u>The first attestation relates only to a <i>firm's</i> compliance on the date when <i>ICOBS 6B</i> comes into force (and not to a reporting period).</u>		
7	<u><i>ICOBS 6B</i></u>	<u>R</u>	<p>(1) <u>This transitional rule applies to a <i>firm</i> which is required to comply with <i>ICOBS 6B</i>.</u></p> <p>(2) <u>Where a <i>firm</i> so elects, it need not implement the rules in <i>ICOBS 6B</i> by 1 January 2022, but the <i>firm</i> must:</u></p> <p>(a) <u>implement the rules by 17 January 2022; and</u></p> <p>(b) <u>comply with paragraphs (3) and (4).</u></p>	<u>From 1 January 2022 to 1 April 2022</u>	<u>1 January 2022</u>
			<p>(3) (a) <u>This paragraph applies to all <i>home insurance</i> and <i>motor insurance</i> renewal notices prepared between 1 January 2022 and 16 January 2022 inclusive.</u></p> <p>(b) <u>A <i>firm</i> must by 28 February 2022 calculate the equivalent new business price in accordance with <i>ICOBS 6B</i> for all renewal notices that this paragraph applies to which were accepted by the customer.</u></p>		

				<p>(c) <u>Where the <i>equivalent new business price</i> is lower than the price the <i>customer</i> was offered to <i>renew</i> their product, the <i>firm</i> must automatically repay the difference between what the <i>customer</i> actually paid and what the <i>customer</i> should have paid to the <i>customer</i>, using, wherever practical, the same method as the <i>customer</i> used to pay for the <i>policy</i>.</u></p>	
			<p>(4) <u>The first attestation provided by a <i>firm</i> under <i>ICOBS</i> 6B.2.60R and <i>ICOBS</i> TP.2.6R must include the following:</u></p>		
			<p>(a) <u>a statement of whether the <i>firm</i> made the election in this transitional <i>rule</i>;</u></p>		
			<p>(b) <u>if the <i>firm</i> made the election, a statement that the <i>firm</i> has made all repayments required by this transitional <i>rule</i>; and</u></p>		
			<p>(c) <u>if the <i>firm</i> made the election, the number of <i>customers</i> affected and total amount of repayments made.</u></p>		
8	<u><i>ICOBS</i> 6.2.6R and</u>	R	(1) <u>This transitional <i>rule</i> applies to a <i>firm</i> which is required to comply with</u>	<u>1 January 2022</u>	

	<u>ICOBS 6.5.1R.</u>			<p><u>ICOBS 6.2.6R or ICOBS 6.5.1R.</u></p> <p>(2) <u>Where a firm so elects, it need not comply with the rules in ICOBS 6.2.6R or ICOBS 6.5.1R by 1 January 2022, but the firm must:</u></p>	<p><u>From 1 January 2022 to 1 March 2022</u></p>	
				<p>(a) <u>implement the rules by 17 January 2022; and</u></p> <p>(b) <u>comply with paragraph (3).</u></p>		
				<p>(3) (a) <u>This paragraph applies to all general insurance contracts entered into between 1 January 2022 and 16 January 2022 inclusive, except private health or medical insurance and pet insurance.</u></p> <p>(b) <u>A firm must, by 28 February 2022, provide the information required by ICOBS 6.2.6R to all customers who have entered into contracts to which this rule applies.</u></p> <p>(c) <u>The information must be provided in writing or another durable medium.</u></p>		

...

Sch 1 Record keeping requirements

G Notes

...

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...				
<i>ICOB</i> S 5.3.2BR	...			
<i>ICOB</i> S <u>6B.2.51R</u> , <u>6B.2.52R</u> and <u>6B.2.53R</u>	<u>Record of compliance with non-discrimination requirements and treatment of existing customer requirements</u>	<u>Details of the firm's assessments and controls that ensure that the firm is not systematically discriminating against customers of longer tenure and that its treatment of existing customers is in their best interests</u>	<u>Not specified</u>	<u>Not specified</u>

Annex E

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

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

1 Product Intervention and Product Governance Sourcebook (PROD)

...

1.4 Application of PROD 4

1.4.1 R *PROD* 4 applies to:

- (1) an *insurance intermediary*; and
- (2) an *insurer*,

with respect to:

- (3) *manufacturing* insurance products; ~~and~~
- (3A) product governance and distribution arrangements for legacy non-investment insurance products (see PROD 4.6); and
- (4) *distributing* insurance products.

[**Note:** articles 1(2) and 25 of the *IDD*]

1.4.-1A R A *TP firm* and a ~~Gibraltar-based firm~~ Gibraltar-based firm must also comply with the provisions in:

- (1) *PROD* 1.4 and *PROD* 4.5 (Additional expectations for manufacturers and distributors in relation to value measures data);
- (2) *PROD* 1.4 and *PROD* 4 in relation to a *pathway investment*;
- (3) *PROD* 1.4, *PROD* 4 and (where applicable) *PROD* TP 1 in relation to non-investment insurance products (including legacy non-investment insurance products) that are, or will be, marketed or distributed, or there are policies under the product that remain in force, in the United Kingdom.

...

1.4.3 R *PROD* 4 does not apply in relation to ~~the manufacturing or distributing of an insurance product that is:~~ an insurance product that is:

- (1) a *contract of large risks*, or
- (2) a *reinsurance contract*.

[**Note:** article 25(4) of the *IDD*]

...

When an intermediary may be considered to be manufacturing

...

- 1.4.5 G The effect of *PROD 1.4.4UK* and *PROD 1.4.6R* is that an *insurance intermediary* needs to consider if it is *manufacturing* an insurance product or if it would be a *manufacturer* for a *legacy non-investment insurance product* for *PROD 4.6*, and, if so, should comply with *PROD 4.2* (Manufacture of insurance products).

Scope of ‘manufacturing’

- 1.4.5A G (1) *PROD 4.2* applies to *firms* that *manufacture* insurance products. The terms ‘firm’ and ‘manufacturer’ are used in that section interchangeably to refer to such persons.
- (2) The *Glossary* term ‘manufacture’ includes ‘designing, developing, creating and/or underwriting’ which cover activities prior to the insurance product being approved for marketing and *distribution*, and on a continuing basis after such approval.

Effect of provisions marked “UK” for certain manufacturers and distributors of insurance products

- 1.4.6 R (1) Subject to (2) and *PROD 1.4.3R*, provisions in this section and in *PROD 4* marked “UK” apply to *firms*:
- (a) *manufacturing* or *distributing* insurance products, but to whom the *IDD POG Regulation* does not apply;
 - (b) in relation to product governance and distribution arrangements for *legacy non-investment insurance products*,

as if they were *rules*.

...

- (4) In relation to a *legacy non-investment insurance product*, the reproduced provisions of an article of the *IDD POG Regulation* must be read to be consistent with the application of product governance and distribution requirements in *PROD 4.2* and *PROD 4.3* to a *legacy non-investment insurance product*.

Where?

- 1.4.7 R *PROD* 4 applies to a *firm* with respect to activities carried on from an establishment maintained by it, or its *appointed representative*;
- (1) (for all insurance products and *pathway investments*) in the *United Kingdom*; and
- (2) (in addition, for *non-investment insurance products*) overseas, in relation to an insurance product that is, or will be, marketed or distributed, or there are policies under the product that remain in force, in the *United Kingdom*.

[**Note:** in respect of (1), article 7(2) of the *IDD*]

...

4 Product governance: *IDD* and pathway investments

...

4.2 Manufacture of insurance products

Product governance arrangements

- 4.2.1 R A *firm* which *manufactures* any insurance product must maintain, operate and review a process for the approval of:
- (1) each insurance product; and
- (2) significant adaptations of an existing insurance product,
- in each case before it is marketed or *distributed to customers*.

[**Note:** first subparagraph of article 25(1) of the *IDD*]

- 4.2.1A G For the purposes of *PROD* 4.2:
- (1) whether a proposed change to the product would be a ‘significant adaptation’ should include consideration of the potential impact the adaptation may have on an existing or potential *customer* (when compared to the unadapted version of the product);
- (2) a ‘significant adaptation’ in relation to a *non-investment insurance product* may include, but is not restricted to, a proposed change to the insurance coverage, costs, exclusions, excesses, limits or conditions and any other significant change to the terms and conditions.

...

- 4.2.3 G ...

- 4.2.3A G In addition to, and/or by way of elaboration of, the factors set out in PROD 4.2.3G, for a non-investment insurance product a firm should take into account:
- (1) the potential risk, and possible levels, of harm to customers if the product design is flawed, in particular, due to the potential scale of harm if the product is intended for a wide target market;
 - (2) the nature of the cover that the product is intended to provide;
 - (3) whether the distribution arrangements could mean customers are at a greater risk of not receiving fair value from the insurance product, for example where:
 - (a) the insurance product will be distributed with additional products;
 - (b) where the insurance product will be distributed on an ancillary basis to another product; or
 - (c) there is complexity in the distribution arrangements including the use of multiple parties in the distribution chain or reliance on persons not regulated under FSMA when selling the insurance product;
 - (4) the nature and complexity of the firm's existing or intended customer base, for example whether it includes or is likely to include:
 - (a) different types of customers with varying characteristics including in relation to their understanding of financial matters;
 - (b) a significant number of vulnerable customers;
 - (c) a significant number of customers of long tenure;
 - (5) any particularly notable features of, or relating to, existing products (including how it has been distributed).
- 4.2.4 G ...
- 4.2.4A G (1) In relation to a non-investment insurance product, PROD 4.2.2R does not allow a firm to assume a simple product approval process will be appropriate for a product intended for a mass retail market even if the product and/or distribution arrangements are straightforward and not complex. For example, the potential risks and levels of harm which could result even from a straightforward and non-complex product, with simple distribution arrangements, intended for the mass market could mean that more exacting measures are required.
- (2) An example of a straightforward and non-complex product could be cover for a single item (such as mobile phone insurance), or in relation

to a single risk (such as ticket cancellation insurance), with straightforward distribution arrangements. However, there could be potential risks of such a product not providing fair value and therefore potentially leading to significant levels of harm. Firms should ensure the product approval process has the necessary measures to identify and mitigate any potential risks and harms.

Product approval process

4.2.5 UK ...

4.2.5A R For a non-investment insurance product, a firm must ensure a product approval process has all necessary measures and procedures for identifying whether the product is, or remains, appropriate to be marketed or distributed to customers in light of the requirements in PROD 4.2.14A (Fair value for non-investment insurance products: individual insurance product and packages) to PROD 4.2.14SR (Fair value for non-investment insurance products: additional provisions).

...

4.2.14 R ...

Fair value for non-investment insurance products: individual insurance product and packages

4.2.14A R For a non-investment insurance product, a firm must ensure that the product approval process identifies whether the product provides fair value to customers in the target market including whether it will continue to do so for a reasonably foreseeable period (including following renewal).

4.2.14B R (1) Where a non-investment insurance product is intended to be distributed with one or more additional products, a firm must identify whether:

(a) each component product; and

(b) the package as a whole,

will provide fair value to the customer including that it will continue to do so for a reasonably foreseeable period (including following renewal).

(2) The assessment referred to in (1) must include (but is not limited to) consideration of:

(a) the value of the core insurance product;

(b) the value of any additional products; and

(c) the overall price of the package to the customer, taking into account the proposed distribution arrangements.

- (3) A firm is not required to assess the value of a component product under (1) where the component is a non-investment insurance product for which the firm is not a manufacturer.

Fair value for non-investment insurance products: record keeping and steps following value assessment

- 4.2.14C R (1) A firm must:
- (a) be able to clearly demonstrate how any non-investment insurance product, additional product or package provides (and will provide for a reasonably foreseeable period) fair value; and
 - (b) make and retain a record of the value assessment required by PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.
- (2) Where a firm is unable to both:
- (a) identify; and
 - (b) clearly demonstrate,
- that the insurance product and, where relevant, the package will provide fair value, the firm must not market the product or permit the product to be distributed (whether directly or through another person), or must have ensured appropriate changes have been made so that fair value will be provided.

Fair value for non-investment insurance products: relevance through the product approval process

- 4.2.14 D R A firm must consider the value considerations in PROD 4.2.14AR and, where relevant, PROD 4.2.14BR throughout every stage of the product approval process in PROD 4 including, in particular, when:
- (1) identifying the target market and the interests, needs, objectives and characteristics of such customers (PROD 4.2.15R to PROD 4.2.21AG);
 - (2) undertaking product testing (PROD 4.2.22UK to PROD 4.2.26G); and
 - (3) selecting any distribution channel (PROD 4.2.27UK to PROD 4.2.32DR).

Fair value for non-investment insurance products: meaning of value

- 4.2.14E R In PROD 4, 'value' means the relationship between the overall price to the customer and the quality of the product(s) and/or services provided. The assessment of value must include consideration of at least the following:

- (1) the nature of the product including the benefits that will be provided, their quality, and any limitations (for example in the scope of cover, exclusions, excesses or other features);
- (2) the type and quality of services provided to *customers*;
- (3) the expected total price to be paid by the *customer* when buying or renewing the insurance product, and the elements that make up the total price. This will need to include consideration of at least the following:
 - (a) the pricing model used to calculate the risk premium:
 - (i) for the initial policy term; and
 - (ii) any future renewal;
 - (b) the overall cost to the *firm* of the insurance product (including the underwriting and operating of the product) and, where relevant, any other components of a package;
 - (c) the individual elements of the expected total price to be paid by the *customer* including, but not limited to, the price paid for:
 - (i) the insurance product, including any additional features which are part of the same *non-investment insurance contract*;
 - (ii) any *additional products*, including *retail premium finance*, offered alongside the insurance product;
 - (iii) the distribution arrangements, including the remuneration of any relevant *person* in the distribution arrangements, and including where the final decision on setting the price is taken by another person);
- (4) how the intended distribution arrangements support, and will not adversely affect, the intended value of the product.

4.2.14F **R** When considering the value of a *non-investment insurance product* under *PROD* 4.2.14A and, where relevant, *PROD* 4.2.14BR, a *firm* must not rely on individual *customers* to consider whether they are making fair value purchases in place of any part of the *firm*'s own assessment, in particular where an insurance product is *manufactured* to be *distributed* either with *additional products* or on an ancillary basis to another good or service.

Fair value for non-investment insurance products: guidance on reasonably foreseeable period

4.2.14G **G** (1) *Firms* will need to consider the matters in *PROD* 4.2.14ER and *PROD* 4.2.14ME to identify if there is fair value both for the initial term of a *non-investment insurance product* and renewals for a reasonably

foreseeable period. What may constitute a ‘reasonably foreseeable period’ will depend on the type of the *non-investment insurance product* (including the intended term of any *policy* and the underlying risk) and the expected length of time a *customer* in the target market will keep the product, including in particular where it would be reasonably expected that a *customer* would renew the product on a number of occasions.

- (2) When considering whether a product will provide fair value for a reasonably foreseeable period, a *firm* should consider at least:
- (a) any expected changes to the total price a *customer* would pay during the period that they hold the product (including at the first or any subsequent *renewal* or any other point in time);
 - (b) any expected change to the insured risk over time, for example in the nature, financial value or a *customer*’s usage of an underlying good to which the insurance relates;
 - (c) whether the number of expected claims that may be made, or financial value of any such claim, would be expected to change over time due to the nature of the product, the *customer*’s needs or any relevant features of the insured risk, for example:
 - (i) as a result of expected depreciation in the value of the insured asset;
 - (ii) where the *customer*’s need, or eligibility, for certain cover may change including as a result of features identified in (b) or where claims have been made;
 - (d) whether the total premiums expected to be paid over the length of time a *customer* would hold the product would exceed the benefits that could be received from claims for example due to cover limits applying across the foreseeable period (taking into account any deductions permitted by the contract such as any relevant policy excess for such claims);
 - (e) whether the benefits offered by the *policy* at inception may not be available at subsequent *renewals*, due to exclusions or claims limits, without any commensurate reduction in the premium;
 - (f) whether *customers* could be discouraged from or be unable to renew due to the level of ongoing premiums including increases at renewal meaning they may not be receiving the full intended benefits of the product (where these are intended to be spread across the reasonably foreseeable period).

Fair value for non-investment insurance products: general

- 4.2.14H G (1) When considering the costs of, or associated with, any distribution arrangements, *firms* should consider the justification in value terms of

any difference between the risk price and the total price paid by the customer including where the difference is mainly due to the costs (including remuneration) of any person in the distribution arrangements or where this is due to the combined costs (including remuneration) of multiple parties involved in the distribution arrangements.

- (2) Where a firm identifies that an insurance product, package or individual component has poor value or there is an unreasonable relationship between either the cost to the firm and the price paid by the customer, or the price paid by the customer and product quality or service provided, the product or package will not be providing fair value. However, a firm should not assume there is fair value simply due to the absence of an unreasonable relationship in the costs or where they identify an absence of poor value. Firms will need to consider all relevant aspects of value in the particular context and consider whether overall there is fair value provided.
- (3) Where a non-investment insurance product has negligible, or no obvious, benefit for the customer this will not be providing fair value regardless of the price of the product. For example, the product will not provide fair value where the cover under the non-investment insurance contract is significantly limited, whether by exclusions or limits on the amount that would be paid in settlement, meaning that the customer is unlikely to be able to make a successful claim or where the customer could conclude it is not in their interests to make a claim due to the disproportionate time or effort which would be required, compared to the claim settlement which would be expected.
- (4) When assessing whether a package provides fair value for the purposes of PROD 4.2.14BR, a firm will need to consider both the components individually and the package as a whole to identify whether there is fair value. This should include whether there is a risk that the individual components do not provide the same level of value to the customer when combined in a package. For example, where the package includes more than one non-investment insurance product, a firm should consider the type and level of insurance cover provided by each of these products and whether this would result in duplicate insurance cover that could detrimentally affect the value of the package.

Fair value for non-investment insurance products: retail premium finance guidance

- 4.2.14I G (1) Where the manufacturer will provide, or arrange for another firm to provide, the option for customers to buy a non-investment insurance product using retail premium finance, it will need to consider if the additional costs of, or relating to, the retail premium finance have a material detrimental effect on the value of the insurance product when the two products are taken together.

- (2) When assessing the value of any particular *retail premium finance* under *PROD 4.2.14BR*, a *manufacturer* should consider the relationship between:
- (a) the total price a *customer* would pay (including the applicable *APR*) for the *retail premium finance*; and
 - (b) the quality of that *retail premium finance* including any relevant factors and features. For example, any benefit that a *customer* could have from using *retail premium finance* including the ability to spread the cost of a *non-investment insurance contract* instead of paying up front, taking into account the higher overall price the *customer* will have to pay.

Fair value for non-investment insurance products: information to be used

- 4.2.14J R (1) When assessing value, a *firm* must use all necessary and appropriate data and information available to it.
- (2) For the purposes of (1) the data and information a *firm* should consider using includes, but is not limited to:
- (a) information available to the *firm* internally including:
 - (i) customer research;
 - (ii) claims information such as handling times, frequency, severity of claims costs (including total costs and average per claim), claims ratios, rates of and reasons for claim acceptance/declinature, both expected for the product and/or any actual information from a comparable product; and
 - (iii) complaints data (including root cause analysis and handling times), both expected for the product itself and/or any actual information from a comparable product;
 - (b) public information or information obtainable by the *firm* from external sources including analysis of similar insurance products available from other *firms* and, where relevant, data published as part of the *FCA*'s work on value measures in the general insurance market;
 - (c) information available to the *firm* specifically from persons in the distribution arrangements, including:
 - (i) remuneration and its impact on the value of the product, package or component part;
 - (ii) levels or quality of service provided by any person in the distribution arrangements; and

- (iii) any results of monitoring and oversight of the processes of any persons in the distribution arrangement (for example, call monitoring or file checks) including in relation to other products that person distributes.

4.2.14K G The information that a firm will need to use for PROD 4.2.14JR will depend on the nature of the particular non-investment insurance product and (where relevant) the package, the particular distribution arrangement(s), the target market, the nature of any actual customer base, and any existing information on customer outcomes (for example claims experiences, outcomes of claims and complaints related data).

Fair value for non-investment insurance products: compliance with fair value requirement

4.2.14L G The following evidential provision provides examples of arrangements the FCA considers will breach PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

- 4.2.14 M E (1) A firm should not have a non-investment insurance product where the difference between the risk price to the firm and the total price paid by the customer bears no reasonable relationship to:
- (a) the actual costs incurred by the firm or any another person involved in the distribution arrangements;
 - (b) the quality of any benefits (including of the insurance product or any additional products); or
 - (c) the costs or quality of any services provided in connection with the insurance product or additional products, by the manufacturer or any another person involved in the distribution arrangements.
- (2) A firm should not increase the price of an insurance product based on:
- (a) policies being subject to auto-renewal compared to policies that are not subject to auto-renewal;
 - (b) the customer's vulnerability or any protected characteristic(s) (unless the firm is clearly permitted to rely on them under the Equalities Act 2010); or
 - (c) where customers purchase the policy using retail premium finance,
unless the firm has an objective and reasonable basis for making the change.
- (3) A firm should not use an estimated final price to the customer to assess value that does not represent the expected total price to the customer including any additional products the firm expects to be purchased by the customer. For example, where the firm is responsible for providing

or making available *retail premium finance* (the costs of which will be part of the total price paid by the *customer*).

- (4) Contravention of any of (1) to (3) may be relied on as tending to establish contravention of *PROD 4.2.14AR* and, where relevant, *PROD 4.2.14BR*.

Fair value for non-investment insurance products: distribution arrangements

- 4.2.14N R A firm must, as far as reasonably possible, ensure the distribution arrangements for a *non-investment insurance product* avoid or minimise the risk of negatively impacting the fair value of the insurance product or package. This includes, but is not limited to:
- (1) avoiding or reducing the risks arising from:
 - (a) any remuneration of a party, or parties, involved in the distribution arrangements increasing, directly or indirectly, the total price paid by the *customer* without adequate monitoring or oversight of the nature, level and fairness justification for their inclusion; or
 - (b) providing discretion to another person to set the final price, for example through a net pricing arrangement, without adequate monitoring or oversight of the final price paid by the *customer*;
 - (2) ensuring that appropriate arrangements will be in place to identify if the actions of another person involved in the distribution arrangements would adversely affect the value of the insurance product or package; and
 - (3) reducing the scope for the overall effect of any distribution arrangements to detrimentally affect the value of the products or package including where the cumulative effects of the remuneration of multiple parties unreasonably add to the overall price paid by the *customer*.
- 4.2.14O G (1) Where the *firm* is considering the effects of the distribution arrangements on value it should consider whether the additional costs of any individual party in the arrangements that add to the total price paid by the *customer* deliver any, or a proportional, additional benefit. If not, *firms* should consider how they can be satisfied that the arrangements are consistent with their obligations to be able to clearly demonstrate fair value to the *customer*.
- (2) A benefit that could be consistent with fair value might include where the party's inclusion in the distribution arrangements increases access to the product for *customers* in the target market in a way that is proportionate to the additional cost involved.
- 4.2.14P R A firm must obtain from any person in the distribution arrangements all necessary and relevant information to enable it to identify the remuneration

associated with the distribution arrangements to allow it to assess the ongoing value of the product, including at least:

- (1) the type and amount of remuneration of each person in the distribution arrangement where this is part of the *premium* or otherwise paid directly by the *customer*, including in relation to *additional products* (other than where this relates to another *non-investment insurance product* for which the *firm* is not a *manufacturer*);
- (2) an explanation of the services provided by each person in the distribution arrangements; and
- (3) confirmation from any *firm* in the distribution arrangements that any remuneration is consistent with their regulatory obligations including SYSC 19F.2 (IDD remuneration incentives).

4.2.14Q G *Firms* should take into account what is necessary to satisfy *PROD* requirements together with any wider legal obligations, for example, competition law to which they are subject.

Fair value for non-investment insurance products: additional provisions

4.2.14R R *A firm manufacturing a non-investment insurance product* must ensure the *manufacture* of an insurance product is driven by features that benefit the *customer* and not by a business model which relies on poor *customer* outcomes to be profitable.

4.2.14S R In relation to a *non-investment insurance product* to be sold in a package with *additional products*, a *firm* must not set or increase the price of those *additional products* to the *customer* in a way that detrimentally impacts the package delivering fair value, including where this is done to minimise the financial effects on the *firm* of reducing the price of, or making other changes to, an insurance product as a result of the fair value assessment.

Target market

4.2.15 R ...

4.2.15A G The effect of *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR, when taken together with *PROD* 4.2.15R, is that a *firm* will need to be able to show that a *non-investment insurance product* offers fair value to the specified target market, taking into account in particular their needs, objectives, interests and characteristics.

...

4.2.17 UK ...

4.2.17A R (1) For a *non-investment insurance product*, when identifying the target market a *firm* must identify if there are groups of *customers* for whom

the product or package would not provide the intended level of value identified for PROD 4.2.14AR and, where relevant, PROD 4.2.14BR.

- (2) A firm must take reasonable steps in its use of the distribution arrangements to ensure the product is not distributed to any such groups of customers identified in (1). The information required in PROD 4.2.29R to be provided to distributors must include a clear description of these customers.

...

4.2.21 G ...

4.2.21A G In relation to a non-investment insurance product, a firm should consider whether the target market needs to be identified in more detail, even for a simpler, more common product, where there is a material risk of customer harm associated with it.

Product testing

...

- 4.2.26 G (1) *PROD 4.2.25R does not affect the manufacturer's freedom to set premiums.*
- (2) *In relation to a non-investment insurance contract a firm should consider whether, as a result of the charging structure it has put in place, the overall cost for the customer is consistent with its obligations under PROD 4.2.14AR (and, where relevant, PROD 4.2.14BR), the Principles and ICOBS.*
- (3) ...

Distribution channels and information disclosure to distributors

...

4.2.29 R ...

4.2.29A G For a non-investment insurance product, the information required by PROD 4.2.29R should include:

- (1) all appropriate information to enable the distributor to understand the intended value of the insurance product established by the firm;
- (2) any effect the distributor may have on the intended value that has not been fully taken into account by the firm when assessing value, and therefore which the distributor should take into account; and
- (3) any type of customer for whom the insurance product is unlikely to provide fair value.

...

4.2.32 R ...

Distribution channels: selecting channels for non-investment insurance products

4.2.32A R In relation to a *non-investment insurance product*, a *firm* must not use a distribution channel unless it is able to demonstrate clearly that the channel results in fair value to *customers* in the target market.

4.2.32B R In relation to a *non-investment insurance product*, whenever making a change to the distribution arrangements a *firm* must:

- (1) obtain all necessary information from the *distributor* or any other person who will be involved with the distribution arrangement, including that set out in *PROD* 4.2.14PR; and
- (2) identify whether the proposed change to the distribution arrangements is consistent with the fair value requirement in *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR.

4.2.32C G For *PROD* 4.2.32BR, a change to the distribution arrangements includes adding a further distribution channel.

4.3.32D G For a *non-investment insurance product* sold on an ancillary basis to another product or service, for example a motor vehicle, electrical good or a holiday, a *firm* should consider whether the proposed distribution channel would be appropriate in light of the risk that the *customer's* focus is on the core product rather than the insurance product.

Monitoring and review of insurance products

...

4.2.34 R A *firm* must regularly review the insurance products it offers or markets taking into account any event that could materially affect the potential risk to the identified target market. In doing so, the *firm* must assess at least the following:

- (1) whether the insurance product remains consistent with the needs of the identified target market; ~~and~~
- (2) (in relation to a *non-investment insurance product*) whether the insurance product remains consistent with the fair value assessment required under *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR; and
- (3) whether the intended distribution strategy remains appropriate.

[**Note:** fourth subparagraph of article 25(1) of the *IDD*]

- 4.2.34A G 'Offers' and 'markets' in the requirements in PROD 4.2.33R and PROD 4.2.34R should be read to include 'renews' in relation to the renewal of existing non-investment insurance products.
- 4.2.34B R For a non-investment insurance product, a firm must undertake the regular review required by PROD 4.2.34R:
- (1) every 12 months; or
 - (2) more frequently where the potential risk associated with the product makes it appropriate to do so.
- 4.2.34C G For the purposes of PROD 4.2.34BR, the factors that should be taken into account when considering if more frequent reviews would be appropriate include, but are not limited to:
- (1) the nature and complexity of the product;
 - (2) the nature of the customer base, including whether there are significant numbers of customers of long tenure and/or vulnerable customers;
 - (3) any specific indicators seen in the firm's assessment of the product's value to the customer;
 - (4) any indicators of customer harm potentially emerging from the performance of the product (for example through claims and complaints data); and
 - (5) the nature and type of distribution arrangements being used.
- 4.2.34D R A firm must obtain all necessary and relevant information in order to enable it to properly understand and monitor a non-investment insurance product including verification of the information in PROD 4.2.14PR.
- 4.2.34E G
- (1) When reviewing non-investment insurance products a firm may group similar products together where this does not detrimentally affect the firm's ability to review each product appropriately. This includes the need to review whether any individual product, and where necessary a package, is providing fair value.
 - (2) For the purposes (1) 'similar products' will be those products that are intended to deliver similar cover and outcomes for customers where the target markets are consistent.
 - (3) A firm should consider the following factors when identifying whether it is appropriate to group products together for review:
 - (a) the risk of customer harm for each individual product;
 - (b) the complexity of each product;

- (c) the nature of the target market and existing customer base for each product (including the extent to which this includes vulnerable customers);
 - (d) any specific indicators seen in the assessment of value under PROD 4.2.14AR, and where relevant PROD 4.2.14BR which may make it inconsistent to review that product alongside others;
 - (e) any specific indicators of customer harm emerging from the performance of each product; and
 - (f) the nature and type of distribution arrangements for each product.
- (4) A firm will need to ensure that the grouping of any reviews does not impair the firm's ability to identify any risk that a product is not delivering fair value or that there is any other issue which could give rise to customer harm in relation to each individual product.

4.2.35 UK ...

- 4.2.35A R (1) When reviewing a non-investment insurance product, a firm must consider:
- (a) whether the insurance product, and where relevant the package, is providing the intended fair value to customers;
 - (b) any impact which the distribution arrangements are having on the value including whether the distribution channels remain appropriate; and
 - (c) whether the use of any retail premium finance arrangement remains appropriate including whether when distributed in a package with a non-investment insurance product it provides fair value.
- (2) A firm in (1) must:
- (a) ensure that it has sufficient, good quality management information; and
 - (b) use all appropriate and necessary data and information available to it (whether it holds this information already, the information is publicly available or it is able to obtain it from another person),
- to enable it to consider and assess value including the value actually being provided by the insurance product.

- (3) The information in (2) that a *firm* needs to consider whether to use includes, but is not limited to:
- (a) information available to the *firm* internally including:
 - (i) customer research;
 - (ii) claims information (such as handling times, frequency, rates of and reasons for claim acceptance and declination, severity of claims costs (including total costs and average per claim) and claims ratios); and
 - (iii) complaints data (including root cause analysis and handling times);
 - (b) public information or information obtainable by the *firm* from external sources including analysis of similar insurance products available from other *firms* and, where relevant, data published as part of the *FCA*'s work on value measures in the general insurance market;
 - (c) information available to the *firm* (including what it would be reasonably able to obtain) in relation to any distribution arrangements through which the product is distributed, including:
 - (i) remuneration information;
 - (ii) levels and quality of service provided by the *distributor*;
 - (iii) ongoing monitoring and oversight reports relating to the *distributor*'s processes, for example call monitoring or file reviews.

- 4.2.35B G The information that a *firm* will need to use for *PROD* 4.2.35AR(2) will depend on the nature of the *non-investment insurance product*, (where relevant) the package, the particular distribution arrangement(s), the target market, the nature of the actual customer base, and the *firm*'s existing information on *customer* outcomes (for example claims experiences, outcomes of claims and complaints related data).
- 4.2.35C G For *PROD* 4.2.35AR(1), a *firm* should identify whether there is a risk to it continuing to provide fair value where there is a material change in the relationship between the price to the *customer* and the actual costs to the *firm* or another party involved in the ongoing service/distribution of the product.
- 4.2.36 UK ...
- 4.2.36A G In relation to a *non-investment insurance product*, when identifying the appropriate intervals for regular review, *firms* will need to consider the requirement in *PROD* 4.2.34BR and also whether any event has happened or

any issue has arisen requiring the insurance product to be reviewed outside of the minimum review period.

- 4.2.36B R For the purposes of showing the requirements in *PROD 4.2.1R* and *PROD 4.2.5UK* are met, where a *firm* makes a change to a *non-investment insurance product* it must make and retain a record of:
- (1) the assessment of whether that change would amount to a significant adaptation of the insurance product; and
 - (2) where the assessment in (1) is that the change would not be a significant adaptation, the reasons for that decision.
- 4.2.37 UK ...
- 4.2.37A R For a *non-investment insurance product*, the review process must:
- (1) have the necessary measures to be able to identify if the insurance product is not providing fair value; and
 - (2) provide that appropriate actions be taken:
 - (a) for the mitigation and any potential remediation of the harm to existing *customers*; and
 - (b) to prevent harm to new *customers*.
- 4.2.37B G In relation to a *non-investment insurance product*, the actions *firms* may need to take for the purposes of *PROD 4.2.37A* include (and may involve a combination of), but are not limited to:
- (1) making changes to the product (such as amending policy terms or applying them more favourably to *customers* in the event of a claim);
 - (2) offering existing *customers* the option to cancel the *non-investment insurance contract* without additional cost (for example by waiving cancellation fees or charges);
 - (3) providing *customers* with a refund of the difference between the *premium* paid for the *non-investment insurance contract* and the *premium* for a fair value version of that product;
 - (4) proposing alternative insurance products, whether offered by the *firm* or another provider, to existing *customers* or *distributors* which provide fair value and which would be compliant with other *FCA* requirements, for example, *ICOB*S 5.2 (Demands and needs); and
 - (5) withdrawing the insurance product from continued marketing or *distribution*.
- 4.2.37C G Where in the review required by *PROD 4.2.34R* and *PROD 4.2.35UK* a *firm* identifies a breach of any *rules* in place at the time, it should consider what

may be necessary to provide appropriate mitigation and/or remediation of the harm including whether redress should be made. The *firm* should contact any affected *customers* where this is necessary to inform them of the issues and of the actions being taken.

...

4.2.39 UK ...

4.2.39A R In relation to a *non-investment insurance contract*, where a *firm* identifies that the *distribution* is detrimentally affecting the intended value of the insurance product it must take appropriate remedial measures including, but not limited to:

- (1) amending the distribution arrangements, including ceasing to use certain *distributors* or distribution channels;
- (2) amending remuneration structures;
- (3) withdrawing the insurance product from continued marketing or *distribution*.

4.3 Distribution of insurance products

...

4.3.2 R ...

4.3.2A R In relation to a *non-investment insurance product*, the arrangements in *PROD 4.3.2R* must enable the *distributor* to understand:

- (1) the outcome of the value assessment required by *PROD 4.2.14AR* and, where relevant, *PROD 4.2.14BR*; and
- (2) any identified group of *customers* for whom the insurance product is not expected to provide fair value.

...

4.3.6 UK ...

4.3.6A R (1) In relation to a *non-investment insurance product*, the product distribution arrangements in *PROD 4.3.2R* must enable the *distributor* to identify:

- (a) the value that the insurance product is intended to provide to the *customer*; and
- (b) the impact that the distribution arrangements (including any remuneration it, or another person in the distribution chain to which it belongs, receives) has on the overall value of the insurance product to the *customer*.

- (2) Any distribution strategy set up or applied by the *distributor* must be consistent with the aim of providing fair value to the *customer*.
- (3) For the purposes of (1) and (2) a *firm* must consider at least the following:
- (a) the benefits the product is intended to provide to the *customer*;
 - (b) the characteristics, objectives, interests and needs of the target market;
 - (c) the interaction between the price paid by the *customer* and the extent and quality of any services the *distributor* (or any person connected to it) provides;
 - (d) whether any remuneration it receives in relation to the insurance product would result in the product ceasing to provide fair value to the *customer*;
 - (e) any potential detrimental effect on the intended value where the insurance product is to be *distributed* as part of a package with, or as part of the same agreement which provides, another product or service; and
 - (f) where the distribution strategy involves offering, or arranging for the *customer* to be offered, *retail premium finance*, the *firm* must ensure that, taking into account the costs (including any charges/interest) of the *retail premium finance*, the *customer* does not pay a price that means, if seen as a package, the *customer* will not receive fair value.

4.3.6B G (1) Where a *distributor* intends to *distribute* a *non-investment insurance product* alongside:

- (a) one or more other *non-investment insurance products* (whether from the same or another *manufacturer*); or
- (b) any other *additional product*.

then the *distributor* should be able to demonstrate these arrangements are consistent with the aim of providing fair value to a customer and any package does not have a detrimental effect on the intended value of any *non-investment insurance product*.

- (2) For the purposes of (1), where more than one *non-investment insurance product* is part of a package, a *distributor* should consider at least whether the products:
- (a) have consistent target markets; and

- (b) provide cover in respect of the same risk and subject matter which could result in duplicate cover that could detrimentally affect the intended value of each individual product.
- (3) A distributor should ensure they have obtained, and taken account of, all relevant information from a manufacturer in relation to any non-investment insurance product in the package in order to understand the value, the relevant target market and any other relevant characteristic of that product.
- (4) The arrangements a distributor is required to have in place under PROD 4.3 are separate from the processes and arrangements the firm should have in place at the point of sale, including to comply with the customer's best interests rule and to determine whether a product being proposed is consistent with the demands and needs of a particular customer.
- 4.3.6C G When assessing the impact that the distribution arrangements may have, a distributor should consider the effects of any retail premium finance it offers to customers including the relationship between:
- (1) the total price a customer would pay for the retail premium finance (including any charges for the credit whether in the APR or otherwise and fees); and
- (2) the quality of that retail premium finance including any relevant factors and features. For example, any benefit that such a customer could have from using retail premium finance, including the ability to spread the cost of a non-investment insurance contract instead of paying up front, taking into account the higher overall price the customer will have to pay.
- 4.3.6D G The following evidential provision provides examples of arrangements the FCA considers will breach PROD 4.3.6AR.
- 4.3.6E E (1) A firm's distribution arrangements including any distribution strategy it sets up, should not result in:
- (a) the firm receiving a level of remuneration which does not bear a reasonable relationship to the firm's actual costs, or their contribution, level of involvement or the benefit added by them, to the arrangements for the distribution of the product, including where the firm provides little or no benefit beyond that which the customer would receive if they obtained the insurance product through another distribution channel;
- (b) the firm having remuneration arrangements which give an incentive to propose or recommend an insurance product which either does not meet the customer's needs (or not as well as

another product would) or is not in accordance with the customer's best interests rule;

- (c) where the insurance product is distributed as part of a package, the overall price of the package not bearing a reasonable relationship to the overall benefits provided by the package; or
- (d) the level of any remuneration (for which the firm is responsible for setting) not being reasonably reflective of the costs actually incurred.

- (2) Contravention of any of (1) may be relied upon as tending to establish contravention of PROD 4.3.6AR.

...

4.3.10 UK ...

4.3.10A R A firm must review its product distribution arrangements in relation to a non-investment insurance product at least every 12 months.

4.3.10B R For the purposes of PROD 4.3.10UK, a distributor must provide on request to a manufacturer of a non-investment insurance product:

- (1) information on the distributor's remuneration in connection with the distribution of the insurance product;
- (2) information on any ancillary product or service that the distributor provides to the customer (including insurance add-ons, non-insurance additional products and retail premium finance), which may affect the manufacturer's intended value of the insurance product; and
- (3) confirmation that the distribution arrangements are consistent with the obligations of the firm under the FCA Handbook including in particular in SYSC 10 (Conflicts of interest) and SYSC 19F.2 (IDD remuneration incentives).

4.3.11 UK ...

4.3.11A R (1) For a non-investment insurance product, a distributor must take appropriate remedial and mitigating action, including to amend its product distribution arrangements, where it identifies:

- (a) the insurance product (or, where relevant, the package) is not providing fair value for customers; or
- (b) any aspects of a product or package that may mean it does not offer fair value; or
- (c) the distribution arrangements including remuneration structures may mean the customer is not being provided with fair value.

- (2) The actions which the *distributor* takes for (1) must:
- (a) aim to mitigate the situation and prevent further occurrences of any possible harm to *customers*, including, where appropriate, amending the distribution strategy for that product (and, where relevant, the package); and
 - (b) include informing any relevant *manufacturers* promptly about any concerns they have and any action the *distributor* is taking.

4.3.11B G For the purposes of *PROD* 4.3.11AR the steps a *distributor* may need to take include, but are not limited to:

- (1) amending its remuneration structures;
- (2) amending the distribution arrangements;
- (3) improving the quality of, or ceasing, any service or benefits it provides;
- (4) where the failure to provide fair value is due to the costs or quality of *additional products*, renegotiating the terms of the current arrangements relating to the *additional products*, or selecting alternative providers or *distributors* of them, in order to provide for a fair outcome;
- (5) ceasing to distribute certain insurance products (or where relevant, packages), or ceasing to use certain distribution channels;
- (6) contacting existing *customers* to inform them of the issues and of the measures being taken to rectify them; and
- (7) providing redress to *customers*.

...

Insert the following new section, PROD 4.6, after PROD 4.5 (Additional expectations for manufacturers and distributors in relation to value measures data). The text is not underlined.

4.6 Application of PROD 4.2 and 4.3 for legacy non-investment insurance products

Application

4.6.1 R *PROD* 4.6 applies to:

- (1) the *manufacturer* of a *legacy non-investment insurance product*, which includes:
 - (a) an *insurance intermediary* which has a decision-making role (in whole or in part) in relation to the *manufacture* of a *legacy non-investment insurance product*;

- (b) an *insurer* that is responsible for the *manufacture* of a *legacy non-investment insurance product* including whoever currently underwrites the *legacy non-investment insurance product*; and
- (2) a *firm* that *distributes* (including the renewal of an existing *policy*) a *legacy non-investment insurance product*.
- 4.6.2 R For a product falling within (2)(b) of the definition of a *legacy non-investment insurance product*, any reference to distribution or renewal is to be treated as including the ongoing collection of premiums in relation to a *policy* that remains in force.
- Purpose
- 4.6.3 G The purpose of this section is to set out the product governance distribution arrangements for, and how *PROD 4* applies to, *legacy non-investment insurance products*.
- Manufacturers of legacy non-investment insurance products
- 4.6.4 R A *manufacturer* of a *legacy non-investment insurance product* must apply the product approval process in *PROD 4.2* to that insurance product.
- 4.6.5 G For the purposes of *PROD 4.6.4R* a *manufacturer* will need to demonstrate it has arrangements to meet the following:
- (1) general product approval process requirements (*PROD 4.2.5UK* to *PROD 4.2.14R*);
 - (2) fair value assessment (*PROD 4.2.14AR* to *PROD 4.2.14SR*);
 - (3) target market requirements (*PROD 4.2.15R* to *PROD 4.2.21AG*);
 - (4) product testing (*PROD 4.2.22UK* to *PROD 4.2.26G*);
 - (5) distribution channels and information disclosure to distributors requirements (*PROD 4.2.27UK* to *PROD 4.2.32DG*); and
 - (6) monitoring and review of insurance products (*PROD 4.2.33R* to *PROD 4.2.39AR*).
- 4.6.6 G (1) *Firms* should take into account all relevant factors, including those in *PROD 4.2.3G* and *PROD 4.2.3AG*, when identifying the necessary product approval process and arrangements including, in particular:
- (a) previous product governance arrangements including reviews which the *firm* (or another person) has undertaken and the extent to which these would or would not have complied with *PROD* requirements; and

- (b) the potential level of harm which could result from the product in question.
 - (2) *Firms* should ensure the product approval process has the necessary measures to identify whether the insurance product is, or remains, appropriate to be marketed or *distributed to customers*.
- 4.6.7 R
- (1) A *firm* must determine whether the *legacy non-investment insurance product* should continue to be marketed and *distributed* (including renewals for existing *customers*).
 - (2) Where a *firm* does not approve the continued marketing and distribution of the product, including where the *firm* has been unable to identify that the product, or where relevant, the package provides fair value for the purposes of *PROD* 4.2.14AR or, where relevant, 4.2.14BR, it must immediately:
 - (a) cease marketing or distributing the product or package (whether directly or indirectly), including any renewal for an existing *customer*; and/or
 - (b) make such changes as are necessary for the product or package to provide fair value.

Distributors of legacy non-investment insurance products

- 4.6.8 R
- (1) A *firm* which *distributes*, or will *distribute*, a *legacy non-investment insurance product* must meet the requirements in *PROD* 4.3 in relation to that insurance product.
 - (2) A *firm* must put in place the necessary arrangements for the purposes of (1), including for:
 - (a) obtaining any necessary information from the *manufacturer*;
 - (b) providing any necessary or relevant information to the *manufacturer*;
 - (c) understanding the product, identified target market and value assessment;
 - (d) ensuring adequate oversight, including the ability to obtain necessary or relevant information, of any other persons involved in the distribution with whom the distributor has a direct relationship; and
 - (e) the regular review of the product distribution arrangements including to take appropriate action in order to avert the risk of consumer detriment.

Amend the following as shown.

TP 1 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
1.1	...				
1.2	<u>Rules in PROD 4.2 that will be made or amended by the Non-Investment Insurance: Product Governance, Premium Finance, General Insurance Auto-renewal and Home and Motor Insurance Pricing Instrument 2021</u>	<u>R</u>	<p><u>Where an existing non-investment insurance product:</u></p> <p>(1) <u>has, before 1 October 2021, been approved for marketing and distribution in compliance with PROD 4.2; and</u></p> <p>(2) <u>remains available for distribution (including renewals) or, if not still being marketed or distributed, there are policies under the product that remain in force,</u></p>	<p><u>From 1 October 2021 up to and including 30 September 2022</u></p>	<p><u>1 October 2021</u></p>
			<p><u>the manufacturer must, within 12 months of 1 October 2021, review the product and ensure it meets the fair value requirements in PROD 4.2.</u></p>		
1.3	<u>PROD TP1.2</u>	<u>G</u>	<p><u>The effect of PROD TP1.2 and the requirements in PROD 4.2.14AR to PROD 4.2.14SR is that where the firm is unable to identify that the product or package provides fair value it will need to immediately:</u></p> <p>(1) <u>cease any distribution of the product,</u></p>	<p><u>From 1 October 2021 up to and including 30 September 2022</u></p>	<p><u>1 October 2021</u></p>

			<p><u>whether directly or through another person, immediately; and/or</u></p> <p>(2) <u>take any necessary steps to ensure the product will provide fair value in future.</u></p>		
<u>1.4</u>	<u>Rules in PROD 4.3 that will be made or amended by the Non-Investment Insurance: Product Governance, Premium Finance, General Insurance Auto-renewal and Home and Motor Insurance Pricing Instrument 2021</u>	<u>R</u>	<u>Where a firm, to which PROD 4.3 applies, distributes an existing non-investment insurance product which was approved for marketing or distribution before 1 October 2021 under PROD 4.2, it must, within 12 months of 1 October 2021, update its distribution arrangements to comply with the requirements in column (2).</u>	<u>From 1 October 2021 up to and including 30 September 2022</u>	<u>1 October 2021</u>
<u>1.5</u>	<u>PROD 4.6.7R</u>	<u>R</u>	<u>A firm has 12 months from 1 October 2021 to make the determination required by the rule in column (2).</u>	<u>From 1 October 2021 up to and including 30 September 2022</u>	<u>1 October 2021</u>
<u>1.6</u>	<u>PROD 4.6.8R</u>	<u>R</u>	<u>A firm must put in the place the necessary product distribution arrangements required by the rule in column (2) within 12 months of 1 October 2021.</u>	<u>From 1 October 2021 up to and including 30 September 2022</u>	<u>1 October 2021</u>
<u>1.7</u>	<u>PROD TP 1.2 to PROD TP 1.6</u>	<u>G</u>	<u>A firm to which any of PROD TP1.2 to PROD TP 1.6 apply may elect to apply the guidance in PROD 4.2.34EG in relation to the reviews required.</u>	<u>From 1 October 2021 up to and including 30 September 2022</u>	<u>1 October 2021</u>
<u>1.8</u>	<u>PROD 4</u>	<u>G</u>	<u>A TP firm or a Gibraltar-based firm may rely on processes and arrangements that have been applied to a non-investment insurance</u>	<u>Indefinitely</u>	<u>1 October 2021</u>

			<u>product which was approved for marketing or distribution before 1 October 2021 where these comply with requirements equivalent to those in <i>PROD 4</i> in:</u>		
			(1) (for a <i>TP firm</i>) the <i>TP firm's Home State</i> (or, where applicable, the <i>EEA state</i> where it has the establishment from which the service is provided); or		
			(2) (for a <i>Gibraltar-based firm</i>) <i>Gibraltar</i> .		

Annex F

Amendments to the Supervision manual (SUP)

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

16 Reporting requirements

16.1 Application

...

- 16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16, SUP 16.17, SUP 16.22 and SUP 16.26)

(1) Sections (s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
...		
<i>SUP 16.27</i>	...	
<u><i>SUP 16.28</i></u>	<u><i>A firm which, in respect of general insurance contracts, is:</i></u>	Entire section
	(1) <u><i>an insurer;</i></u>	
	(2) <u><i>a managing agent;</i></u>	
	(3) <u><i>an insurance intermediary;</i></u>	
	(4) <u><i>a TP firm; or</i></u>	
	(5) <u><i>a Gibraltar-based firm that is not a TP firm.</i></u>	
	<u><i>to the extent that the firm and its business falls within the scope of SUP 16.28.8R.</i></u>	
...		

...

16.2 Purpose

16.2.1 G ...

(4) The purpose of SUP 16.28 is to provide the FCA with relevant data that it can use to help to:

(a) assess firms' compliance with the home insurance and motor insurance pricing rules in ICOBS 6B;

(b) identify potential harm affecting consumers; and

(c) monitor the effects of the pricing rules in ICOBS 6B on the market for home insurance, motor insurance and related additional products.

...

16.3 General provisions on reporting

...

Structure of the chapter

16.3.2 G This chapter has been split into the following sections, covering:

(1) ...

...

(21) *Directory persons* information reporting (SUP 16.26); ~~and~~

(22) value measures data reporting (SUP 16.27); ~~and~~

(23) *Home insurance and motor insurance pricing reporting* (SUP 16.28).

...

Insert the following new section, SUP 16.28, after SUP 16.27 (General insurance value measures reporting). The text is not underlined.

16.28 Home insurance and motor insurance pricing reporting

Application

Who?

16.28.1 R The effect of SUP 16.1.1R is that this section applies to every *firm* of a type listed in column 1 of the table in SUP 16.28.8R.

What?

- 16.28.2 R This section applies to a *firm* which has carried on the business described in column 2 of the table in SUP 16.28.8R in relation to any of the following types of *general insurance contracts*:
- (1) *home insurance*; or
 - (2) *motor insurance*.
- 16.28.3 R This section does not apply in relation to the following types of products:
- (1) *policies* entered into by a *commercial customer*; or
 - (2) *group policies*.

Purpose

- 16.28.4 G The purpose of this section is to require *firms* to submit information on their *home insurance* and *motor insurance* contracts, add on *policies* and *retail premium finance* in a standard format to the FCA. This information will assist the FCA in pursuing the purposes of SUP 16.28 as set out in SUP 16.2.1G.

Definitions

- 16.28.5 R In this section and SUP 16 Annex 49AR and SUP 16 Annex 49BG:

“add-on <i>policy</i> ” means	An <i>additional product</i> which is a <i>general insurance contract</i> sold as a separate contract or <i>policy</i> in connection with, or alongside, a <i>motor insurance</i> or <i>home insurance policy</i> .
“average prior year gross <i>premium</i> ” means	The average gross <i>premium</i> paid by a <i>customer</i> of <i>tenure</i> T_n for the product in the reporting category when that <i>customer's tenure</i> was T_{n-1} .
“buildings and contents” means	<i>Home insurance</i> cover for both the structure and contents of domestic properties, including any core related liability cover.
“buildings only” means	<i>Home insurance</i> cover for the structure of (but not the contents of) domestic properties, including any core related liability cover.
“claims-related reporting period” means	The period elected by a <i>firm</i> for the purposes of providing the additional

	claims-related information in <i>SUP</i> 16.28.12R for the core product which must be either (i) the reporting period or (ii) to the extent that it is different from the reporting period, the <i>firm's</i> own financial year.
“contents only” means	<i>Home insurance</i> cover for the contents of (but not the structure of) domestic properties, including any core related liability cover.
“core product” means	The <i>home insurance</i> or <i>motor insurance policy</i> , including any cover extension or optional extra which forms part of the same contract as that <i>policy</i> , irrespective of whether that cover extension or optional extra is an <i>additional product</i> .
“expected claims cost” means	The expected risk cost when calculating the <i>policy's premium</i> , excluding any loading for expenses (including claims handling) or profit and gross of <i>reinsurance</i> .
“expected claims ratio” means	The expected claims cost as a percentage of the gross written <i>premium</i> .
“fees” means	A <i>firm's remuneration</i> in relation to its <i>home insurance</i> and <i>motor insurance</i> business which is paid by the <i>customer</i> and which is not included in the gross <i>premium</i> paid by the <i>customer</i> for the core product, add on- <i>policy</i> or <i>retail premium finance</i> as reported by the <i>firm</i> .
“gross <i>premium</i> ” means	The <i>gross price</i> charged for a core product or add-on <i>policy</i> .
“net-rated <i>premium</i> ” means	The <i>net-rated price</i> charged for a core product or add-on <i>policy</i> .
“price-setting <i>intermediary</i> ” means	An <i>insurance intermediary</i> whose role includes setting the gross <i>premium</i> paid by the <i>customer</i> for the core product or setting the price of

	any add-on <i>policy</i> , or <i>retail premium finance</i> .
“reporting period” means	the 12-month period beginning on 1 January and ending on 31 December.

Requirement to submit a pricing information report

- 16.28.6 R Where a *firm* of a type set out in column 1 of the table in SUP 16.28.8R has carried on the business in column 2 of the same row in relation to *home insurance* or *motor insurance* products, it must:
- (1) submit to the *FCA* a report containing the specified information in relation to their *home insurance* and *motor insurance* products, add-on *policies*, *retail premium finance* and fees; and
 - (2) submit the report in accordance with SUP 16.28.14R to SUP 16.28.18R.
- 16.28.7 R A *TP firm* or a *Gibraltar-based firm* which is of a type set out in column 1 of the table in SUP 16.28.8R (or which is treated as if it is) and has carried on the business in column 2 of the same row in relation to *home insurance* or *motor insurance* products in the *UK* must:
- (1) submit to the *FCA* a report containing the specified information in relation to their *UK home insurance* and *motor insurance* products, add on *policies*, *retail premium finance* and fees; and
 - (2) submit the report in accordance with SUP 16.28.14R to SUP 16.28.18R.
- 16.28.8 R This is the table referred to in SUP 16.28.1R, 16.28.2R, 16.28.6R and 16.28.7R

(1) Type of firm	(2) Nature of business
An <i>insurer</i>	<i>Contracts of insurance effected by the insurer.</i>
A non-price setting <i>insurance intermediary</i>	<p><i>Contracts of insurance</i> in relation to which:</p> <ol style="list-style-type: none"> (a) the <i>insurance intermediary</i> carried on or was responsible for <i>insurance distribution activities</i>; but (b) the <i>firm</i> was not acting as a price-setting <i>intermediary</i>.

A price-setting <i>insurance intermediary</i>	<p><i>Contracts of insurance</i>, in relation to which:</p> <p>(a) the price-setting <i>intermediary</i> carried on or was responsible for <i>insurance distribution activities</i>; and</p> <p>(b) the <i>firm</i> was acting as a price-setting <i>intermediary</i>.</p>
A <i>managing agent</i>	<i>Contracts of insurance</i> written at Lloyd's.
An <i>insurer, insurance intermediary or managing agent</i>	<i>Additional products</i> relating to <i>contracts of insurance</i> where the <i>firm</i> is responsible for setting the price of the <i>additional product</i> .

16.28.9 R *Firms* must comply with the following in relation to the table in SUP 16.28.8R.

- (1) Where different *insurers* or *managing agents* underwrite different elements of the cover that forms part of the same core *policy*, then the *insurer* or *managing agent* underwriting the largest proportion of the cover (and in the event of any doubt, the first part of the cover recorded in the *policy*) must report the pricing information in SUP 16.28.11R and SUP 16.28.12R for all elements of the *policy*.
- (2) Only the *firm* which sets the price of an *additional product* to be paid by a *consumer* is required to report the pricing information in SUP 16.28.13R in respect of that *additional product*. Where the *additional product* is *retail premium finance* and its price is set by a *retail premium finance* provider (and not by an *insurer, an insurance intermediary or managing agent*), the *insurer, insurance intermediary or managing agent* which has the direct relationship with the *consumer* must report the pricing information in SUP 16.28.13R in respect of that *retail premium finance*.
- (3) Only the *firm* which levies fees on a *consumer* is required to report the pricing information in SUP 16.28.13R in respect of those fees.

Content of the report and pricing information

16.28.10 R A pricing information report must contain pricing information set out in SUP 16.28.11R (core pricing information for the core product), SUP 16.28.12R (additional claims-related information for the core product) and SUP 16.28.13R (pricing information for related *additional products* and fees) as follows:

- (1) the information must be completed separately in respect of each *firm's home insurance* and *motor insurance* business;
- (2) where a *firm* has a multi-product *policy* which includes both *home insurance* and *motor insurance* in a single *policy*, that *policy* should be split between *home insurance* and *motor insurance* and reported as two separate *policies*.
- (3) the information in *SUP 16.28.11R* and *SUP 16.28.12R* must be provided on an aggregated basis for each of the following product types in a *firm's motor insurance* business, including the *closed books* which must also be separately disclosed in (1) below:
 - (a) car;
 - (b) motorcycles, including tricycles; and
 - (c) other (being product types not included in (a) or (b));
- (4) the information in *SUP 16.28.11R* and *SUP 16.28.12R* must be provided on an aggregated basis for each of the following product types in a *firm's home insurance* business, including the *closed books* which must also be separately disclosed in (1) below:
 - (a) buildings only;
 - (b) contents only; and
 - (c) buildings and contents;
- (5) in respect of the information in *SUP 16.28.11R* only, the aggregated information for each of the categories set out in (3) and (4) must be further split out into products sold via the following types of *channel*:
 - (a) direct (aggregated across all direct sales including telephone, internet and branch);
 - (b) price comparison websites (aggregated across all price comparison websites);
 - (c) intermediated (aggregated across sales made through *insurance intermediaries*, excluding those sales included in (b) or (d); and
 - (d) *affinity/partnership schemes* (aggregated across all such schemes);
- (6) in splitting the information in *SUP 16.28.11R* on products into the types of *channel* via which they were sold in accordance with (5), products should be allocated to the type of *channel* used to determine the *channel* for the purposes of determining the *equivalent new business price* for that *customer* in accordance with *ICOBS 6B.2.5R*;

- (7) where a price-setting *intermediary* makes sales directly to *consumers*, the information in *SUP* 16.28.11R on these products should be allocated to the direct sales type of *channel* in (5)(a), not the intermediated type of *channel* in (5)(c);
- (8) the pricing information in *SUP* 16.28.11R for each type of *channel* in (5) must be further split into categories representing the *tenure* of the *customers* (broken down by the year of *tenure*);
- (9) *insurers* and *managing agents* must report the required information in *SUP* 16.28.11R for each *channel* and *tenure* combination as derived from (5) and (8) separately for *gross-rated business* and *net-rated business*;
- (10) in respect of the information in *SUP* 16.28.12R only, the aggregated information for each of the categories set out in (3) and (4) must be reported as the total aggregated for each product group (no split between type of *channel* or *tenure*);
- (11) pricing information in *SUP* 16.28.11R only must also be provided separately, split into the type of *home insurance* product or *motor insurance* product (where relevant) for each segment of business that:
 - (a) is a *closed book* containing 10,000 *policies* or more; or
 - (b) comprises all other *closed books* which are not reported in (a) above, on an aggregated basis;
- (12) the pricing information for *closed books* in (11) must be further split out into categories representing the *tenure* of customers (broken down by year of *tenure*);
- (13) pricing information in *SUP* 16.28.13R for related *additional products* must be split out between each of the following:
 - (a) *retail premium finance*; and
 - (b) *add-on policies*;
- (14) pricing information in *SUP* 16.28.13R for fees must be split out between each of the following:
 - (a) pre-contractual fees; and
 - (b) post-contractual fees; and
- (15) the pricing information in (13) and (14) must then be further split into categories representing the *tenure* of the *customers* (broken down by the year of *tenure*).

16.28.11 R The core pricing information for the core product is:

- (1) total gross written *premium*;
- (2) total net-rated written *premium* (*net-rated business* only);
- (3) average gross *premium*;
- (4) average net-rated *premium* (*net-rated business* only);
- (5) average prior year gross *premium*;
- (6) number of *policies* in force at the end of the reporting period;
- (7) total number of *policies* incepted or *renewed*;
- (8) expected claims ratio;
- (9) expected claims cost; and
- (10) proportion of *customers* where the expected claims ratio falls within each of the following bandings:
 - (a) greater than 0% but less than or equal to 10%;
 - (b) greater than 10% but less than or equal to 20%;
 - (c) greater than 20% but less than or equal to 30%;
 - (d) greater than 30% but less than or equal to 40%;
 - (e) greater than 40% but less than or equal to 50%;
 - (f) greater than 50% but less than or equal to 60%;
 - (g) greater than 60% but less than or equal to 70%;
 - (h) greater than 70% but less than or equal to 80%; and
 - (i) greater than 80%.

16.28.12 R The additional claims-related information for the core product is:

- (1) total earned *premium*;
- (2) average earned *premium*;
- (3) *gross incurred claims ratio*;
- (4) developed *gross incurred claims ratio* for the claim-related reporting period 1 year prior to the current such period;
- (5) developed *gross incurred claims ratio* for the claim-related reporting period 2 years prior to the current such period;

- (6) developed *gross incurred claims ratio* for the claim-related reporting period 3 years prior to the current such period;
 - (7) total prior year's reserve release; and
 - (8) total prior year's reserve strengthening.
- 16.28.13 R The pricing information for related *additional products* and pre- and post-contractual fees that are not part of the *gross premium* for the core product is:
- (1) the total charged for *retail premium finance* (including *retail premium finance* on add-on *policies*);
 - (2) the number of *customers* with *retail premium finance*;
 - (3) the *APR* range;
 - (4) the total gross written *premiums* for add-on *policies* inception or renewed;
 - (5) the number of add-on *policies* inception or renewed;
 - (6) the total pre-contractual fees paid by all *customers*;
 - (7) the average pre-contractual fees across those *customers* who incurred fees;
 - (8) the total post-contractual fees paid by all *customers*; and
 - (9) the average post-contractual fees across those *customers* who incurred fees.

Annual submission date and reporting period

- 16.28.14 R The pricing information report containing the information in *SUP* 16.28.11R and *SUP* 16.28.13R in relation to the reporting period (which begins on 1 January and ends on 31 December of the immediately preceding calendar year) must be submitted annually on or before 31 March.
- 16.28.15 R The pricing information report containing the information in *SUP* 16.28.12R in relation to the claims-related reporting period must be submitted either:
- (1) where a *firm's* claims-related reporting period is the reporting period, annually on or before 31 March; or
 - (2) where a *firm's* claims-related reporting period is not the reporting period, annually on the date which is 3 *months* following the end of the claims-related reporting period.

Format and method of submission and format

- 16.28.16 R A pricing information report must be completed using the form and format set out in *SUP 16 Annex 49AR*, using the notes for completion in *SUP 16 Annex 49BG*.
- 16.28.17 R The report must be submitted online through the appropriate systems accessible from the *FCA's* website.
- 16.28.18 R A pricing information report will not be considered as submitted to the *FCA* unless all the mandatory reporting fields set out in *SUP 16 Annex 49AR* have been completed correctly and the report has been accepted by the relevant *FCA* reporting system.
- 16.28.19 G If the *FCA's* information technology systems fail and online submission is unavailable for 24 hours or more, the *FCA* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in *SUP 16.3.9R* (Method of submission of reports (see *SUP 16.3.8R*)) should be used.

Insert the following new annexes, *SUP 16 Annex 49AR* and *16 Annex 49BG*, after *SUP 16 Annex 48BG* (Notes on completing the value measures report form). The text is not underlined.

**16
Annex
49AR** **Pricing information report form (REP 021)**

Pricing information report form REP021

FCA Handbook reference: SUP 16 Annex 49AR

Notes for completing the form are available in: SUP 16 Annex 49BG

Financial Conduct Authority

12 Endeavour Square

Stratford London E20 1JN

United Kingdom

Telephone +44 (0) 845 606 9966

E-mail firm.queries@fca.org.uk

Website <http://www.fca.org.uk>

Name of *firm*
(As entered in 1.05)

Reporting period
year ended

All firms should complete Sections 1 and 6. In addition:

- **insurers and managing agents should complete Sections 2 and 3; and**
- **price-setting intermediaries should complete Sections 4 and 5.**

All firms should complete this section

1.01	Title	
1.02	First name	
1.03	Last name	
1.04	Job title	
1.05	Firm name	
1.06	Firm Reference Number (FRN)	
1.07	Business address	
1.08	Postcode	
1.09	Office phone number	
1.10	Email address	

Only complete this Section if your firm is an insurer or a managing agent

2.01	Product	Dropdown list: <ul style="list-style-type: none"> • Motor - cars • Motor - motorcycles including tricycles • Motor - other • Home - buildings and contents • Home - buildings only • Home - contents only
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		Tenure										
		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10 +
Direct channel												
2.02	Total gross written premium (£)											
2.03	Average gross premium (£)											
2.04	Average prior year gross premium (£)											
2.05	Total number of policies incepted/renewed											
2.06	Total number of policies in force at the end of the reporting period											
2.07	Expected claims cost (£)											
2.08	Expected claims ratio (%)											
2.09	Proportion of customers where the expected claims ratio is:											
	Greater than 0% but less than or equal to 10%											
	Greater than 10% but less than or equal to 20%											
	Greater than 20% but less than or equal to 30%											
	Greater than 30% but less than or equal to 40%											
	Greater than 40% but less than or equal to 50%											
	Greater than 50% but less than or equal to 60%											
	Greater than 60% but less than or equal to 70%											
	Greater than 70% but less than or equal to 80%											
	Greater than 80%											

Intermediated channel (net rated business)												
2.10	Total gross written premium (£)											
2.11	Total net rated written premium (£)											
2.12	Average gross premium (£)											
2.13	Average net rated premium (£)											
2.14	Average prior year gross premium (£)											
2.15	Total number of policies incepted/renewed											
2.16	Total number of policies in force at the end of the reporting period											
2.17	Expected claims cost (£)											
2.18	Expected claims ratio (%)											
2.19	Proportion of customers where the expected claims ratio is:											
	Greater than 0% but less than or equal to 10%											
	Greater than 10% but less than or equal to 20%											
	Greater than 20% but less than or equal to 30%											
	Greater than 30% but less than or equal to 40%											
	Greater than 40% but less than or equal to 50%											
	Greater than 50% but less than or equal to 60%											
	Greater than 60% but less than or equal to 70%											
	Greater than 70% but less than or equal to 80%											
	Greater than 80%											
Intermediated channel (gross rated business)												
2.20	Total gross written premium (£)											
2.21	Average gross premium (£)											
2.22	Average prior year gross premium (£)											
2.23	Total number of policies incepted/renewed											
2.24	Total number of policies in force at the end of the reporting period											
2.25	Expected claims cost (£)											
2.26	Expected claims ratio (%)											
2.27	Proportion of customers where the expected claims ratio is:											
	Greater than 0% but less than or equal to 10%											
	Greater than 10% but less than or equal to 20%											
	Greater than 20% but less than or equal to 30%											
	Greater than 30% but less than or equal to 40%											
	Greater than 40% but less than or equal to 50%											
	Greater than 50% but less than or equal to 60%											
	Greater than 60% but less than or equal to 70%											
	Greater than 70% but less than or equal to 80%											
	Greater than 80%											

Price comparison website channel												
2.28	Total gross written premium (£)											
2.29	Average gross premium (£)											
2.30	Average prior year gross premium (£)											
2.31	Total number of policies incepted/renewed											
2.32	Total number of policies in force at the end of the reporting period											
2.33	Expected claims cost (£)											
2.34	Expected claims ratio (%)											
2.35	Proportion of customers where the expected claims ratio is:											
	Greater than 0% but less than or equal to 10%											
	Greater than 10% but less than or equal to 20%											
	Greater than 20% but less than or equal to 30%											
	Greater than 30% but less than or equal to 40%											
	Greater than 40% but less than or equal to 50%											
	Greater than 50% but less than or equal to 60%											
	Greater than 60% but less than or equal to 70%											
	Greater than 70% but less than or equal to 80%											
	Greater than 80%											
Affinity/Partnerships channel (net rated business)												
2.36	Total gross written premium (£)											
2.37	Total net rated written premium (£)											
2.38	Average gross premium (£)											
2.39	Average net rated premium (£)											
2.40	Average prior year gross premium (£)											
2.41	Total number of policies incepted/renewed											
2.42	Total number of policies in force at the end of the reporting period											
2.43	Expected claims cost (£)											
2.44	Expected claims ratio (%)											
2.45	Proportion of customers where the expected claims ratio is:											
	Greater than 0% but less than or equal to 10%											
	Greater than 10% but less than or equal to 20%											
	Greater than 20% but less than or equal to 30%											
	Greater than 30% but less than or equal to 40%											
	Greater than 40% but less than or equal to 50%											
	Greater than 50% but less than or equal to 60%											
	Greater than 60% but less than or equal to 70%											
	Greater than 70% but less than or equal to 80%											
	Greater than 80%											

Year end (date) for reporting lines 2.62 to 2.69		
2.62	Total earned premium (£)	
2.63	Average earned premium (£)	
2.64	Gross incurred claims ratio for the current reporting period (with IBNR/IBNER) (%)	
2.65	Developed gross incurred claims ratio for the reporting period 1 year prior to the current period (%)	
2.66	Developed gross incurred claims ratio for the reporting period 2 years prior to the current period (%)	
2.67	Developed gross incurred claims ratio for the reporting period 3 years prior to the current period (%)	
2.68	Total prior years' reserve releases (£)	
2.69	Total prior years' reserve strengthening (£)	

Sub-set of total in Section 2

Only complete this Section if your firm is an insurer or a managing agent

3.01	Product	Dropdown list: <ul style="list-style-type: none"> • Motor - cars • Motor - motorcycles including tricycles • Motor - other • Home - buildings and contents • Home - buildings only • Home - contents only
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3.02	Closed book	Dropdown list: <ul style="list-style-type: none"> • Book with 10,000 policies or more • Aggregated reporting for closed books with less than 10,000 policies each
------	--------------------	---

3.03	Description of book	
------	----------------------------	--

		Tenure											
		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10 +	
Book A – complete this Section for each closed book													
3.04	Total gross written premium (£)												
3.05	Average gross premium (£)												
3.06	Average prior year gross premium (£)												
3.07	Total number of policies incepted/renewed												
3.08	Total number of policies in force at the end of the reporting period												
3.09	Expected claims cost (£)												
3.10	Expected claims ratio (%)												
3.11	Proportion of customers where the expected claims ratio is:												
	Greater than 0% but less than or equal to 10%												
	Greater than 10% but less than or equal to 20%												
	Greater than 20% but less than or equal to 30%												

Greater than 30% but less than or equal to 40%												
Greater than 40% but less than or equal to 50%												
Greater than 50% but less than or equal to 60%												
Greater than 60% but less than or equal to 70%												
Greater than 70% but less than or equal to 80%												
Greater than 80%												

Only complete this section for the business for which your firm is acting as a price-setting intermediary

4.01	Product	Dropdown list: <ul style="list-style-type: none"> • Motor - cars • Motor - motorcycles including tricycles • Motor - other • Home - buildings and contents • Home - buildings only • Home - contents only
------	----------------	--

		Tenure										
		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10 +
Direct channel												
4.02	Total gross written premium (£)											
4.03	Total net rated written premium (£)											
4.04	Average gross premium (£)											
4.05	Average net rated premium (£)											
4.06	Average prior year gross premium (£)											
4.07	Total number of policies incepted/renewed											
4.08	Total number of policies in force at the end of the reporting period											
Intermediated channel												
4.09	Total gross written premium (£)											
4.10	Total net rated written premium (£)											
4.11	Average gross premium (£)											
4.12	Average net rated premium (£)											
4.13	Average prior year gross premium (£)											
4.14	Total number of policies incepted/renewed											
4.15	Total number of policies in force at the end of the reporting period											

Sub-set of total in Section 4

Only complete this section for the business for which your firm is acting as a price-setting intermediary

5.01	Product	Dropdown list: <ul style="list-style-type: none"> • Motor - cars • Motor - motorcycles including tricycles • Motor - other • Home - buildings and contents • Home - buildings only • Home - contents only
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5.02	Closed book	Dropdown list: <ul style="list-style-type: none"> • Book with 10,000 policies or more • Aggregated reporting for closed books with less than 10,000 policies each
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5.03	Description of book	
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		Tenure										
		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10 +
5.04	Total gross written premium (£)											
5.05	Total net rated written premium (£)											
5.06	Average gross premium (£)											
5.07	Average net rated premium (£)											
5.08	Average prior year gross premium (£)											
5.09	Average prior year net rated premium (£)											
5.10	Total number of policies incepted/renewed											
5.11	Total number of policies in force at the end of the reporting period											

All firms should complete this section for:

- a) premium finance – for insurers and intermediaries the business where they set the price and where the price is not set by an insurer or an intermediary the business must be reported by the customer-facing firm;
- b) add-ons – the business where they set the price; and
- c) fees and charges in addition to the premium – the fees charged by the firm.

6.01	Product	Dropdown list: <ul style="list-style-type: none"> • Motor • Home
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Premium finance		Tenure												
		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10 +		
6.02	Total charged (£) for retail premium finance in the reporting period													
6.03	Number of core motor and home and any add-on policies incepted with retail premium finance in the reporting period													
6.04	Number of policies incepted/or renewed in the reporting period with an APR:													
	Of 0%													
	Between 0.1% to 9.9%													
	Between 10% to 19.9%													
	Between 20% to 29.9%													
	Between 30% to 39.9%													
	Between 40% to 49.9%													
	50% or more													
Add-ons														
6.05	Total gross written premiums (£) for add-ons incepted or renewed in the reporting period													
6.06	Number of add-ons incepted or renewed in the reporting period													
Fees and charges in addition to the premium														
6.07	Total pre-contractual fees/charges (£) charged to customers in the reporting period													

6.08	Average pre-contractual fees/charges (£) per customer who was charged a fee in the reporting period												
6.09	Total post-contractual fees/charges (£) charged to customers in the reporting period												
6.10	Average post-contractual fees/charges (£) per customer who was charged a fee in the reporting period												

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Annex
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Notes on completing the pricing information report form (REP 021)

This annex contains guidance on completing the pricing information report form (REP 021)

General notes

- (1) All *firms* should complete Sections 1 and 6. In addition, *insurers* and *managing agents* should complete Sections 2 and 3, and price setting *intermediaries* should complete Sections 4 and 5.
- (2) All monetary figures should be rounded to the nearest pound.
- (3) Unless otherwise stated, monetary figures should be calculated and reported excluding insurance premium tax.
- (4) Multi-product *policies* which include both *home insurance* and *motor insurance* in a single *policy* should be split between *home insurance* and *motor insurance* and reported as two separate *policies*.
- (5) *Firms* should provide their core pricing information on the core product on an aggregated basis for each of *home insurance* and *motor insurance* products, including *closed books*, and then split by:
 - (a) product group e.g. *motor insurance*: car, motorcycles, including tricycles, other, *home insurance*: buildings only, contents only, buildings and contents;
 - (b) type of *channel* e.g. all products sold direct, via price comparison websites, via intermediaries or via *affinity/partnership schemes*; and
 - (c) *tenure*. For example, for each of *customers* with less than 1-year relationship with the *firm*, *customers* with a 1-year relationship with the *firm*, *customers* with a 2-year relationship etc.
- (6) *Firms* should provide their additional claims-related information on the core product on an aggregated basis for each of *home insurance* and *motor insurance* products, including *closed books*, split by product group only.
- (7) *Firms* should also report core pricing information separately for *closed books*. *Firms* should name each *closed book* with 10,000 *policies* or more. *Firms* should provide information separately for each *closed book* with 10,000 *policies* or more and other *closed books* on an aggregated basis, split by:
 - (a) product group; and
 - (b) *tenure*.

- (8) *Firms* should provide their information on related *additional products* and fees on an aggregated basis for each of their *home insurance* and *motor insurance* business, including *closed books*, split by *tenure*. This information does not need to be categorised by product group.

Data	Notes
<i>Tenure</i>	<p>The number of years a <i>customer</i> has held the <i>policy</i>, including any <i>renewal</i>.</p> <p>For example:</p> <p>T0 = <i>customer</i> who has held their <i>policy</i> for less than 1 year;</p> <p>T1 = <i>customers</i> who held their <i>policy</i> for 1 year;</p> <p>T10+ = <i>customers</i> who have held their <i>policy</i> for 10 years or more.</p> <p><i>Firms</i> should round down to the last full year the <i>customer</i> has held a <i>policy</i> with them in cases where <i>customers</i> have contracts that renew on shorter than annual basis. For example, a <i>firm</i> should classify a <i>customer</i> on a six-monthly contract who has <i>renewed</i> the <i>policy</i> once as T0 (<i>customer</i> who has held their <i>policy</i> for less than 1 year) and a <i>customer</i> who has <i>renewed</i> this <i>policy</i> three times as T1 (<i>customers</i> who have held their <i>policy</i> for 1 year).</p> <p><i>Firms</i> should report data for each <i>tenure</i> individually from T0 to T9 inclusive. Data for any <i>tenure</i> that is T10 or greater should be aggregated and reported as T10+.</p> <p>For <i>retail premium finance</i>, the <i>tenure</i> of the core product should first be considered and then the <i>tenure</i> of the <i>retail premium finance</i>. For example, if a <i>customer</i> cancels an existing <i>policy</i> with <i>retail premium finance</i> and takes out a new <i>policy</i> with <i>retail premium finance</i>, then the <i>tenure</i> for both the new <i>policy</i> and the <i>retail premium finance</i> would be T0. If a <i>customer</i> has the same <i>policy</i> for four years and pays by <i>retail premium finance</i> for the first two years, and for the third year does not use <i>retail premium finance</i> but for the fourth year uses <i>retail premium finance</i> again, the <i>tenure</i> in the fourth year would be T4 for the core product and T0 for the <i>retail premium finance</i>.</p>
<i>Closed books</i>	<p><i>Firms</i> should name each <i>closed book</i> containing 10,000 or more <i>policies</i>. <i>Firms</i> should report information separately for each <i>closed book</i> containing 10,000 or more <i>policies</i> and for all other <i>closed books</i> on an aggregated basis. Separate reporting for <i>closed books</i> should cover the period from the date on which the <i>firm</i> categorised the relevant books as being <i>closed books</i> until the end of the reporting period.</p>

Data	Notes
Total gross written <i>premium</i>	The total amount of gross written <i>premium</i> , (excluding insurance premium tax) in relation to <i>policies</i> incepted or renewed during the reporting period.
Average gross <i>premium</i>	The total amount of gross written <i>premium</i> , (excluding insurance premium tax) in relation to <i>policies</i> incepted or renewed during the reporting period divided by the number of <i>policies</i> incepted or renewed in that reporting period.
Total net-rated written <i>premium</i>	For <i>net-rated business, insurers, managing agents</i> and price-setting <i>intermediaries</i> should report the total net-rated <i>premium</i> set by the <i>insurer</i> or <i>managing agent</i> in relation to <i>policies</i> incepted or renewed during the reporting period.
Average net-rated <i>premium</i>	For <i>net-rated business, insurers, managing agents</i> and price-setting <i>intermediaries</i> should report the total net-rated <i>premium</i> set by the <i>insurer</i> or <i>managing agent</i> in relation to <i>policies</i> incepted or renewed during the reporting period divided by the number of <i>policies</i> incepted or renewed on a <i>net-rated business</i> basis in the reporting period.
Total number of <i>policies</i> incepted/renewed	The total number of <i>policies</i> incepted for <i>tenure</i> T0 and the total number of <i>policies</i> renewed (all other <i>tenures</i>).
Total number of <i>policies</i> in force	The total number of <i>policies</i> in force at the end of the reporting period.
Average prior year gross <i>premium</i>	<p><i>Firms</i> should report the average gross <i>premium</i> paid in the preceding year for the core product by <i>customers</i> by product group, type of <i>channel</i> and by <i>tenure</i>. For example, if a <i>firm</i> is reporting data for <i>motor insurance: car</i>, for direct sales to <i>customers</i> with <i>tenure</i> T4, then the <i>firm</i> should report the average gross <i>premium</i> paid by these <i>customers</i> at <i>tenure</i> T3.</p> <p><i>Firms</i> do not need to report average prior year gross <i>premium</i> in respect of <i>customers</i> of <i>tenure</i> T0.</p>
Proportion of <i>customers</i> where the expected claims ratio falls within given bandings	<p>Expressed as a percentage, the proportion of <i>customers</i> where the expected claims ratio is between X% and Y%.</p> <p>For example, for the proportion of <i>customers</i> with expected claims ratio greater than 30% but less than or equal to 40% for the direct sales type of <i>channel</i>, with a <i>tenure</i> of one year (T1), expressed as a percentage:</p>

Data	Notes	
	A.	calculate the number of <i>policies</i> inception or renewed with expected claims ratio greater than 30% but less than or equal to 40%; and
	B.	divide (A) by the total number of <i>policies</i> inception or renewed for the direct sales type of <i>channel</i> and <i>customers</i> of <i>tenure</i> T1.
Total earned <i>premium</i>	<p>The total <i>premium</i> earned in the claims-related reporting period. This should be calculated on the same basis as that reported in a <i>firm's</i> financial statements.</p> <p>This information is only to be reported for the total aggregated figures by product group (not by <i>tenure</i>).</p>	
Average earned <i>premium</i>	<p>The total <i>premium</i> earned in the claims-related reporting period divided by the number of <i>policies</i> from which the total <i>premium</i> was earned. This should be calculated on the same basis as a <i>firm</i> calculates this metric for internal purposes.</p> <p>This information is only to be reported for the total aggregated figures by product group (not by <i>tenure</i>).</p>	
<i>Gross incurred claims ratio</i> (with IBNR/IBNER)	<p>Expressed as a percentage, actual claims incurred ratio for the claim-related reporting period. This data is only to be reported for total aggregated figures by product group (not by <i>tenure</i>).</p> <p>The <i>gross incurred claims ratio</i> represents the incurred claims cost (gross of <i>reinsurance</i>) as a proportion of earned <i>premium</i> (gross of <i>reinsurance</i>), expressed as a percentage. Incurred claims cost is the cost of all claims reported for the claims-related reporting period, plus any other changes in the claims' reserves including for IBNR, IBNER and prior years' reserve adjustments in that period. This should be calculated on the same basis as that reported in a <i>firm's</i> financial statements.</p> <p>IBNR is claims incurred but not reported.</p> <p>IBNER is claims incurred but not enough reported.</p> <p>This information is only to be reported for total aggregated figures by product group (not by <i>tenure</i>).</p>	
Developed incurred claims ratio (with IBNR/IBNER)	<p>Expressed as a percentage, actual adjusted (ultimate) claims ratio for:</p> <ul style="list-style-type: none"> • the previous claim-related reporting period • the claim-related reporting period 2 years ago 	

Data	Notes
	<ul style="list-style-type: none"> the claim-related reporting period 3 years ago <p>The developed incurred claims ratio is the <i>gross incurred claims ratio</i> for prior years adjusted for claims that were not fully developed. This should be calculated on the same basis as that used by the <i>firm</i> to calculate the developed incurred claims ratio for internal purposes.</p> <p>This information is only to be reported for total aggregated figures by product group (not by <i>tenure</i>).</p>
Total prior years' reserve release	<p><i>Firms</i> should report any reserve releases in the current claim-related reporting period that relate to surplus reserves for prior years.</p> <p>This information is only to be reported for total aggregated figures by product group (not by <i>tenure</i>).</p>
Total prior years' reserve strengthening	<p><i>Firms</i> should report any reserve strengthening in the current claim-related reporting period that relate to shortfalls in reserves for prior years.</p> <p>This information is only to be reported for total aggregated figures by product group (not by <i>tenure</i>).</p>
Total charged (£) for <i>retail premium finance</i> in the reporting period	<p>Total charged for <i>retail premium finance</i> on <i>policies</i> inceptioned or renewed in the reporting period.</p> <p>The total charged (£) should include only the charge for <i>retail premium finance</i> (and not the total gross written <i>premium</i> of the related core or add-on <i>policies</i>).</p>
<i>Retail premium finance</i> – number of <i>policies</i> (core products and add-on <i>policies</i>) inceptioned or renewed with <i>retail premium finance</i>	<p>Total number of <i>policies</i> inceptioned or renewed in the reporting period with <i>retail premium finance</i>.</p>
<i>APR</i> range	<p>The number of <i>policies</i> where the related <i>retail premium finance</i> sold falls within each the following specific <i>APR</i> ranges:</p> <ul style="list-style-type: none"> 0% 0.1% - 9.9% 10% - 19.9% 20% - 29.9% 30% - 39.9% 40% - 49.9%

Data	Notes
	<ul style="list-style-type: none"> • 50% or more <p>Where <i>APR</i> falls within a range boundary, e.g. 9.95%, <i>firms</i> should round down. For example, an <i>APR</i> of 9.95% should be reported in the 0.1% - 9.9% <i>APR</i> range. However, an <i>APR</i> of less than 0.1% but greater than 0% should be reported in the 0.1% to 9.9% <i>APR</i> range.</p> <p>Where a <i>customer's</i> credit risk rating is used in calculating their insurance risk, any related loading should not be reported under <i>retail premium finance</i>.</p>
<i>Premiums</i> from add-on <i>policies</i> inception or renewed - gross written <i>premium</i>	<p>Total gross written <i>premium</i> from add-on <i>policies</i> inception or renewed in the reporting period.</p> <p>Cover extensions and optional extras should be reported as part of reporting for the core product and not as an add-on <i>policy</i>. Gross written <i>premium</i> should include only the gross written <i>premium</i> for add-on <i>policies</i> (and not that for related core <i>policies</i>).</p>
Number of add-on <i>policies</i> inception or renewed	Total number of add-on <i>policies</i> inception or renewed in the reporting period.
Pre-contractual fees	Total and average (mean) pre-contractual fees charged on the core product (net of value added tax). The average is the average for each reporting category, based on the number of <i>customers</i> who incurred fees.
Post-contractual fees	Total and average (mean) of any post-contractual fees on the core product (net of value added tax). The average is the average for each reporting category, based on the number of <i>customers</i> who incurred fees.

Amend the following as shown.

...

TP 1 Transitional provisions

TP 1.1 Transitional provisions applying to the Supervision manual only

...

TP 1.2

(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
...					
21	...				
<u>22</u>	<u>SUP 16.28.6R</u> and <u>SUP 16.28.7R</u>	<u>R</u>	(1) <u>This transitional provision applies to a firm that is required under SUP 16.28.6R or SUP 16.28.7R to submit a pricing information report to the FCA.</u>	1 January 2022 to 31 December 2023	1 January 2022
			(2) <u>A firm must prepare an interim pricing information report in respect of the period commencing 1 January 2022 and ending on 30 June 2022.</u>		
			(3) <u>The interim pricing report under paragraph (2) is to exclude the additional claims-related information on the core product in SUP16.28.12R.</u>		
			(4) <u>The interim pricing report in (2) must be submitted on or before 30 September 2022.</u>		
			(5) <u>The interim pricing report in (2) must be</u>		

			<p><u>submitted in accordance with SUP 16.28.16R to SUP 16.28.18R, subject to the permitted exclusion from the interim report of additional claims-related information as set out in (3).</u></p>		
			<p><u>(6) The first annual pricing information report must be submitted:</u></p>		
			<p><u>(i) in respect of the reporting period or claims-related reporting period from 1 January 2022 to 31 December 2022, on or before 31 March 2023; or</u></p>		
			<p><u>(ii) where a firm's claims-related reporting period is not the reporting period, in respect of the firm's claims-related reporting period which commences on or after 1 January</u></p>		

				<u>2022, on or before a date 3 months after the end of that claims-related reporting period.</u>		
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