

General Insurance Add-ons Market Study – Proposed Remedies:

Banning opt-out selling across financial services and supporting informed decision-making for add-on buyers**

March 2015



Contents

Abbreviations used in this document	3
1 Overview	5
2 Banning opt-out selling	10
3 Add-on sales: appropriate and timely information	16
4 Claims ratio and measuring the value of general insurance products	20
Annex	
1 List of questions	21
2 Market failure and cost benefit analysis	22
3 Compatibility statement	30
Appendix	
1 Draft Handbook text	33
2 Draft guidance on general insurance add-on sales: appropriate and timely information	34

We are asking for comments on this Consultation Paper by **25 June 2015**.

You can send them to us using the form on our website at:
www.fca.org.uk/your-fca/documents/consultation-papers/cp15-13-response-form.

Or in writing to: Alex Hughes
General Insurance Policy
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 4878
Email: cp15-13@fca.org.uk

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 0790 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Abbreviations used in this document

ABI	Association of British Insurers
CCR	Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013
CMA	Competition and Markets Authority
FCA	Financial Conduct Authority
FSA	Financial Services Authority
GAP	Guaranteed Asset Protection
GI	General insurance
GIAO	General insurance add-ons (also referred to as add-ons)
ICOBS	Insurance Conduct of Business Sourcebook
Market Study	The general insurance add-ons market study ¹
MLEI	Motor Legal Expenses Insurance
PCWs	Price comparison websites
PMI	Private Motor Insurance

¹ FCA, General Insurance Add-ons: Final report – confirmed findings of the market study, www.fca.org.uk/your-fca/documents/market-studies/ms14-01-final-report

1. Overview

Introduction

- 1.1** This consultation paper follows our General Insurance (GI) Add-Ons Market Study (the market study), which found that competition in add-on markets does not always work in the interests of consumers.
- 1.2** The market study was the first under our new competition mandate, and looked at whether competition in markets for add-ons was effective or not, and whether this had an impact on consumer outcomes. We confirmed the findings of our market study in July 2014.
- 1.3** We found that competition for add-ons is not effective:
- selling products as an add-on has an adverse impact on consumer behaviours and decision-making and;
 - the add-on channel provides the primary product provider with a clear point of sale advantage that can restrict choice and competition for consumers.
- 1.4** Due to these weaknesses in the sale of add-ons, we found that consumers are more likely to buy inappropriate or unsuitable products, or receive poor value for money; and this translates into overpayment, which we estimated as at least £108m a year for four of the products in the market study.
- 1.5** The market study proposed a number of remedies designed to improve customer decision making in relation to add-ons. This consultation proposes rules and guidance in relation to two of these remedies:
- banning opt-out selling for all add-ons, i.e. not just general insurance, and;
 - improving product information provision in relation to general insurance add-ons.

Who does this consultation affect?

- 1.6** Due to the diversity of the two remedies proposed, a broad cross-section of customers and financial services firms could be affected. Specifically, in relation to the individual remedies:
- opt-out selling: authorised persons, firms and their representatives selling all types of add-ons to regulated financial products and;
 - appropriate and timely information on add-on products: insurers, intermediaries, other distributors and their representatives selling general insurance products.

- 1.7 Finally, the wider financial services industry may be interested in the proposals as they follow on from our first market study.

Context

- 1.8 Our predecessor organisation, the Financial Services Authority (FSA), launched a study on general insurance add-ons in December 2012 and the Financial Conduct Authority (FCA) confirmed this as its first market study in July 2013. Market studies are used to assess market dynamics and to determine whether or not competition is effective and working in the interests of consumers.

- 1.9 The objective of this study was to test whether competition in the markets for GI add-ons was effective and to understand why this might be so. We focused on add-ons as we were concerned that consumers were experiencing poor outcomes when buying products as add-ons or ancillary products to another core products.

- 1.10 We have analysed a range of information from insurers and intermediaries, including product literature and data relating to sales, pricing, profitability and claims. We studied in-depth five products (Guaranteed Asset Protection (GAP) insurance, home emergency, travel, gadget and personal accident insurance) and we also carried out both quantitative and qualitative consumer research. We also undertook a behavioural experiment in which we tested consumers' reactions to the add-on mechanism in a simulated environment.

- 1.11 We published our confirmed findings in July 2014. In summary, we found that:

- the add-on distribution model has a real impact on consumer behaviour and affects the way people make decisions. Consumers' attention is on the purchase of the primary product rather than the add-on, leading many to buy add-on products they do not need or understand. Add-on buyers are less likely to shop around and are less price sensitive. They also have poor awareness of what products they have bought – 19% were unaware that they owned them at all;²
- consumers' ability to assess options and make choices is often hindered by insufficient information being available about the quality and price of add-ons, and the information that is available is often presented very late in the buying process;³
- add-on providers benefit from a clear point-of-sale advantage in comparison with standalone providers for the same product options.⁴ There is little pressure on firms to offer good value, and the availability of stand-alone alternatives does not impact on the sale of add-ons;

2 When surveyed approximately three to four months after the purchase, 19% of add-on buyers – almost one in every five – were not aware that they owned the product (compared to 9% for stand-alone buyers). FCA, *General insurance add-ons: provisional findings of the market study and proposed remedies* www.fca.org.uk/static/documents/market-studies/ms14-01.pdf, p7

3 For example, 24% of consumers in our behavioural research accompanying the market study failed to choose the best value package of primary product and add-ons. *General insurance add-ons: Experimental consumer research report*: www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report

4 For example, the research accompanying the market study found that add-on buyers are less likely to shop around, less effective when they do shop around, and are less sensitive to price. In the consumer survey, 58% of add-on buyers said they did not consider any other policy when purchasing their insurance compared to only 22% per cent of stand-alone buyers. FCA, *General insurance add-ons: provisional findings of the market study and proposed remedies* www.fca.org.uk/static/documents/market-studies/ms14-01.pdf, p7

- add-ons are often poor value⁵ – although we found that stand-alone products can also be poor value;
- overall, we found that ineffective competition translates into consumers paying too much and receiving poor value when buying the products in our study. We estimated this resulted in an overpayment of at least £108m⁶ a year and;
- the above issues are compounded by the fact that there is no commonly available measure to assess the monetary value of general insurance products.

1.12 In our provisional and final findings reports⁷ we proposed to tackle the issues we identified through four remedies:

- imposing a deferred opt-in period to GAP sales;
- banning opt-out selling;
- improving information provision on price comparison websites (PCWs) and;
- introducing a value for money measure in GI markets.

1.13 This consultation paper focuses on the two proposed remedies that are designed to improve the add-on sales mechanism to help customers make better decisions when buying add-ons. We propose to ban opt-out selling, and intend to issue guidance to help firms deliver better and more timely information to add-on buyers, particularly when they are shopping through PCWs.

1.14 These two remedies are designed to put customers in a better position to decide whether they need a product, and if so, be better able to assess the options available and get value for money. We believe our proposals will directly benefit customers, and will also improve competition.

1.15 We issued our consultation on the GAP insurance remedy in December 2014,⁸ proposing a deferred opt-in period for customers when add-on GAP insurance is sold as part of buying a vehicle and improved information about shopping around.

1.16 We remain committed to introducing a measure of value to encourage competition between firms and help consumers make informed decisions. However, developing such a measure is complex and we have already received significant representations. We therefore plan to publish a discussion paper in Q2 of this year considering a range of options, including the claims ratio.

⁵ The market study found that for personal accident and GAP add-ons, for example, only around 10% of the retail premiums paid were paid out in claims.

⁶ We estimate that consumers overpay for the add-on products in the market study by around £108m to £200m a year. *General insurance add-ons: Provisional findings of market study and proposed remedies:* www.fca.org.uk/your-fca/documents/market-studies/ms14-01

⁷ *General insurance add-ons: Provisional findings of market study and proposed remedies* www.fca.org.uk/your-fca/documents/market-studies/ms14-01 *General insurance add-ons: Final report: confirmed findings of the market study* www.fca.org.uk/static/documents/market-studies/ms14-01-final-report.pdf

⁸ Guaranteed Asset Protection insurance: a competition remedy <http://www.fca.org.uk/static/documents/consultation-papers/cp14-29.pdf>

Summary of our proposals

Opt-out selling

1.17 An opt-out sale is any sale where the customer has to override a default setting that pre-selects a purchase for them. Opt-outs commonly take the form of pre-ticked boxes, although they are not limited to this.

1.18 Our aim is to encourage customers to make active and informed decisions about the add-on products they are purchasing. We therefore propose to ban the opt-out selling of any add-on product sold alongside a financial services product. We are proposing that the ban:

- applies in respect of all add-on products sold by an authorised firm (or its representatives) alongside a regulated financial primary product; this means that the ban is not limited to general insurance markets;
- does not capture business practices that we see as offering convenience to customers, or where we believe intervention at this stage would be inappropriate. This includes the auto-renewal of core financial products, renewable add-on products (that were previously actively selected by the customer), free products, overdrafts and 'unbreakable bundles' (where there is no element of optionality).

1.19 We believe the proposals will significantly reduce the numbers of customers that buy add-on products without realising a purchase has taken place. The issues identified, such as customers' lack of engagement, are common to all add-ons and are not limited to those we looked at in the market study. By having a broad scope we seek to prevent opt-out selling becoming prevalent in areas other than general insurance.

Add-on sales: providing appropriate and timely information

1.20 We propose to introduce guidance to help firms provide appropriate information in a timely manner to enable customers to make an informed decision. Specifically, we propose to provide guidance on:

- introducing add-ons to customers earlier in the sales process, in particular the most common add-ons;
- demonstrating good practice in helping customers compare packages of primary product⁹ and add-ons¹⁰, and to make comparisons of packages easier, with a clear price for the whole package given;
- displaying the annual price of add-ons (as well as monthly) to ensure the customer can adequately understand the overall price of add-ons; and
- reminding firms of their duties in relation to add-ons – they are insurance contracts in their own right, and as such are subject to ICOBS requirements to provide salient information on the features, benefits, exclusions, terms and price.

⁹ By primary product, we mean the goods or service the customer originally set out to purchase.

¹⁰ This does not relate to unbreakable bundles, such as packaged bank accounts, which have their own rules in ICOBS (6.1.12R)

Equality and diversity considerations

- 1.21** We have assessed the likely equality and diversity impacts of the proposals and have not identified any material issues, but we would welcome your comments.

Next steps

What do you need to do next?

- 1.22** We want to know what you think of our proposals. Please send us your comments by 25 June 2015. You can respond by using the online response form on our website or writing to us at the address on page 2.

What will we do?

- 1.23** We will consider all responses and expect to provide feedback in a Policy Statement in the second half of 2015 together with the finalised rules and guidance. We will publish a discussion paper exploring a range of options for introducing a value measure in general insurance markets in Q2 of this year.

2 Banning opt-out selling

- 2.1** This chapter sets out our concerns with ‘opt-out selling’ and outlines our proposals to ban this practice. By opt-out sales, we mean any sale where the customer must override a default setting that pre-selects a purchase for them. Opt-outs typically (but not necessarily) take the form of pre-ticked boxes. Such practices are not consistent with making informed decisions, resulting in customers buying products that they do not want or need and undermining effective competition. We therefore intend to ban opt-out selling.

Background

- 2.2** The market study emphasised that we did not think opt-out selling enabled consumers to make active and informed decisions. We cited evidence, such as that uncovered in the FCA motor legal expenses insurance (MLEI) thematic review¹¹, suggesting that opt-out selling prevents active and informed decision making.
- 2.3** We highlighted that opt-out selling results in consumers purchasing products that they would not otherwise have bought and that they may not need. The market study concluded that opt-out selling of add-ons undermines effective competition because consumers are unable to make effective purchasing decisions and exploits consumer biases. It also found that the sales practice has a negative impact on the likelihood of consumers making claims to which they are entitled under the terms of their add-on policies.
- 2.4** The MLEI review found that 58% of the firms surveyed sold MLEI on an opt-out basis. The review suggested that some consumers would not have the confidence to override the ‘authority’ of an insurance company or intermediary that had decided the consumer needed MLEI, suggesting that consumers purchased the product despite not needing or wanting the cover provided.
- 2.5** The review also found that successful sales rates achieved when MLEI was sold on an opt-out basis could reach 80%, as compared to 40% when the product was sold on an opt-in basis (where the consumer has to actively choose the product for themselves). This suggests that opt-out selling results in higher sales figures for firms as a result of the exploitation of behavioural biases. Following the MLEI review, some firms started to move away from opt-out selling for some products. However, our own investigation of market practices in the insurance sector has revealed that MLEI and other add-on products are still being sold on an opt-out basis. This is why we believe formal intervention is necessary.

Legislative developments in this area

- 2.6** On 25 October 2011, the Directive on Consumer Rights (2011/83/EU) was adopted. One of the changes brought in by the Directive was a ban on opt-out selling of anything which would commit the consumer to additional payments under a contract (i.e. add-on products). This

¹¹ *Motor Legal Expenses Insurance, Report on the thematic project*, (June 2013): www.fca.org.uk/static/documents/thematic-reviews/tr13-01.pdf

ban was implemented via the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 (CCR).

- 2.7** The CCR do not apply where the main product is a financial product; however, generally speaking, they do apply to financial add-on products when sold alongside non-financial products. This means that while some opt-out sales of financial products are already captured by the CCR, for example travel insurance when sold with plane tickets, others such as MLEI when sold with motor insurance are not. In other words anyone defaulted into an add-on product when buying, for example, a mortgage, a credit card or an insurance product is not protected by existing regulations. This is the detriment we are trying to address by ensuring that, in the future, customers have more protection from opt-out selling. Please see the table at 2.14 for some examples of where our proposed rules will apply and where the CCR will apply.

Our proposals

- 2.8** We are concerned that opt-out selling exploits behavioural biases, and customer inertia, resulting in the overconsumption of products. We have also found that opt-out selling reduces the transparency of pricing and weakens competition. To address this detriment we propose to ban this sales practice. We want to see customers take active steps in the sales process. Our objectives for this measure are therefore to:

- enable customers to make more active and informed decisions;
- reduce the risk of customers purchasing products that they do not need or want; and
- reduce the risk that customers buy products without knowing that a purchase has taken place

- 2.9** We expect this to lead to increased competition for these products in the interest of customers.

Scope

- 2.10** We propose that our rules apply to customers and not just to consumers. Although the market study looked at consumer outcomes we recognise that the detriment caused by opt-out selling can also be experienced by commercial customers.

- 2.11** The market study focused on GI add-ons, where we have previously seen problems with opt-out selling. We considered whether we should limit the scope of the ban to general insurance products, or extend it more broadly to other products.

- 2.12** The customer detriment that can arise from opt-out selling is caused by the sales practice itself, and the way in which it impairs customers' active and informed purchasing decisions, rather than as a direct result of specific problematic products. We are not aware of opt-out selling happening outside of general insurance. However, we are concerned about the potential impact opt-out selling could have across all sectors, and the potential harm that could arise should it become prominent in other markets. We are therefore proposing a wide scope for this remedy. This is to guard against the emergence of opt-out selling in other sectors in the future, and avoid creating any gap in customer protection between the CCR and the FCA requirements.

- 2.13** We propose that the ban will apply to opt-out sales for all products sold in addition to a regulated financial services primary product by an authorised firm or their representative. This

will mean that the ban on opt-out selling will apply to any add-on product, whether it is a regulated product or not, when sold alongside a regulated primary product. The primary product will not need to be insurance based and could relate to any sector of the financial services market. This scope complements that of the CCR and closes any gap in customer protection. As the FCA is able to enforce the provisions contained within the CCR we can also ensure equal treatment for firms found to be in breach of either.

- 2.14** A few examples of where the proposed ban would apply, and where the CCR would apply, include the following when sold on an opt-out basis:

Primary product	Add-on	Captured by
Motor insurance	Breakdown cover	FCA proposed rule
Concert tickets	Cancellation insurance	CCR
Mortgage	Title insurance	FCA proposed rule
Mobile phone	Mobile phone insurance	CCR
Credit card	Card protection	FCA proposed rule
Car	GAP insurance	CCR

- 2.15** Our proposed scope provides comprehensive protection to customers from this sales practice. The proposed scope also protects customers buying common add-ons to financial products such as breakdown cover, home emergency cover and warranties, which are often sold as unregulated products.

What is not captured by the rule?

- 2.16** Our proposed rule is specifically targeted at banning the practice of opt-out selling of add-on products. Here we set out what we do – and do not – intend to capture, and explain how we intend the ban to work in practice.

Auto-renewal of 'core or primary' products

- 2.17** Many general insurance products, such as home and motor insurance, are renewed annually on an automatic basis. We do not intend for the ban on opt-out selling to capture auto-renewals, because this practice does not amount to an add-on sale.

- 2.18** We would, however, like to remind firms of their existing obligations under ICOBS¹² to ensure that customers are able to make an informed purchasing decision. The practice of automatic renewals appears to be most prevalent in the insurance market. Our Handbook contains provisions to ensure customers are able to make informed decisions in other markets and firms must ensure that they are compliant with these rules.

Renewal of add-on products

- 2.19** We have considered how the renewal of add-on products (as opposed to primary products) should be treated with reference to the scope of a ban on opt-out selling. We recognise that many customers benefit from the auto-renewal process and we consider that it might be disproportionately burdensome, on both firms and customers, to require active re-selections each year.

¹² For example under ICOBS 6.1.5R

- 2.20** However, we do not want to encourage the continual renewal of products previously sold on an opt-out basis. We therefore propose to allow the automatic renewal of add-on products, provided the add-on product contains substantially the same terms and the customer has made an active decision to purchase the product at some point– for example because the product was sold on an opt-in basis, originally, or subsequently.
- 2.21** Some firms have a large customer base where products have been sold on an opt-out basis; so it may be difficult for them to determine whether a customer previously made an active choice to purchase the product or not. We consider it fair that the effect of the proposed rules should be to require firms to take reasonable steps to obtain active and express consent for the renewal of add-on products originally sold on an opt-out basis. Examples of this include, but are not limited to, specifically identifying and contacting these customers to obtain consent, or sending a letter to customers to remind them of the add-on products they currently hold and the fact that they can be removed on request. This can be done at the next renewal date.
- 2.22** To ensure that customers are not at risk of continuing to purchase add-ons they do not want or need we are also reminding firms of their existing obligations. These include ensuring that information provided, including at renewal, is consistent with our rules and enables informed decision-making. Our work on information provision, discussed elsewhere in this paper, sets this out in more detail.
- 2.23** ***Bundled products***
By bundles we mean two or more products sold together. Bundles can be breakable or unbreakable – elements of a bundle are ‘breakable’ if they are optional i.e. the customer can pick and choose which add-ons to include, or which providers to purchase from. ‘Unbreakable’ bundles have no element of optionality i.e. it is a condition or requirement of the purchase that the customer buys the other products forming part of the bundle. For example, a home insurance product would be an unbreakable bundle if there is no choice but to have both buildings and contents insurance from the same provider for a single price.
- 2.24** We see the purchase of products forming part of a breakable bundle as add-ons sales and, as such, the ban should apply to them. We do not believe unbreakable bundles amount to add-on sales as there are no choices available within the bundle for the customer; they either decide to purchase the product as a whole or not. We do not propose that the ban applies to unbreakable bundles.
- 2.25** ***Free products***
We do not intend for free products to be captured by our proposed rules. We recognise that many products may not be genuinely free, because the cost can be incorporated into the cost of the primary product. However, in this situation, we see a benefit in an increase in price transparency – because customers tend to focus solely on the price of the primary product. When referring to free products in this chapter we therefore mean any product that is offered to the customer for no extra charge.
- 2.26** In implementing a ban on opt-out selling we are aiming to increase protection for customers purchasing these products; the risk of customer detriment is greatly reduced in situations where the add-on product is free.
- 2.27** We are also wary of discouraging firms from offering free products to customers, or encouraging firms to create bundles of products which present customers with fewer choices.
- 2.28** We would like to remind firms of their obligations, where appropriate, to ensure that the products they offer to customers are suitable for their needs and that the customer is eligible

for the product's benefits. These obligations apply even when a product is offered for free. Firms will need to bear this in mind when deciding on the best way to sell their products.

2.29 Where a firm offers product elements to customers for free, but intends to apply a charge for them at a later date e.g. at renewal, the customer will need to make an active and express choice to opt-in to the purchase of the add-on. This can be done when it becomes a paid for product, or when they first purchase the product in the knowledge that a charge will be applied at a later date. We see this practice as amounting to a deferred payment product rather than the product being genuinely 'free'.

2.30 It is not fair for firms to bind customers to an obligation to make a payment – regardless of when that payment falls due – unless they obtain the customer's active and express consent to obtain the product, before they become bound to pay the charge.

Overdrafts

2.31 Regulatory developments in Europe and the UK will affect personal current accounts, and overdrafts in particular, during the next two years. We do not at this stage propose to introduce a ban on opting out of either arranged or unarranged overdrafts, as we need to consider how these new developments will affect add-on sales. Our understanding is that overdrafts are not generally sold on an opt-out basis at present and so a short delay in considering this point should have little practical impact. However, we invite comments on this view.

Credit unions

2.32 The proposed ban will not apply to unregulated credit union loans¹³, as this type of lending is outside the FCA's regulatory perimeter. Credit unions would, however, be subject to the ban in relation to any regulated activities they undertake, for example mortgage lending and retail banking services.

Other considerations

Add-ons selected on a price comparison website (PCW)

2.33 We understand that some firms will receive information from a PCW detailing what add-on selections a customer has actively made. In these circumstances we do not consider it necessary for the add-on item to be selected again, when the customer is taken through to the seller's website. The seller is however free to re-ask the questions should they wish.

2.34 The requirement in our proposed rules will be fulfilled so long as the customer has made an active and express choice in relation to the add-on before they are bound by the sale. This consent can therefore be given on a PCW or elsewhere. But the firm must be able to satisfy itself that the product has been actively selected and, if this is not the case, it may need to re-ask some questions.

Consideration of alternative proposals

2.35 As part of the policy development process we reviewed a number of alternative options, including:

- limiting the scope of the ban to general insurance products;
- extending the scope to cover only regulated add-on products sold alongside a financial primary product; and

¹³ Borrower-lender agreements where the lender is a credit union and the total charge for credit does not exceed 42.6%--see article 60G(2) of the FSMA2000 (Regulated Activities) Order 2001.

- extending the scope to cover any add-on product sold alongside any primary product.

2.36

We decided not to take these options forward as they either did not provide enough protection for customers (because they left a gap between the coverage provided by the CCR and their own scope), or because they would have overlapped with the CCR.

Q1: Do you agree with our proposal to ban opt-out selling?

Q2: Do you agree with the proposed scope for the ban?

3

Add-on sales: appropriate and timely information

- 3.1** This chapter describes some of the problems we found with the way customers are informed about add-ons and sets out how we propose to address them. Providing appropriate product information in a timely manner is important to enable a customer to make an informed decision.

Background

- 3.2** The market study found that selling general insurance products as add-ons can have a negative impact on consumer behaviour and affect the way they make decisions. In particular we found that:
- consumers' ability to assess options and chose the right products for their needs is often hindered because there can be insufficient information available relating to add-ons, for example relating to cover and price;
 - add-ons themselves, or information about the add-on product, is often introduced very late in the sales journey. This has a profound effect on consumer decision-making. The behavioural experiment we carried out as part of the market study showed that the later the add-on was introduced in the process, the less likely the consumer was to search for alternative offers, and the more likely they were to buy the first add-on insurance product they viewed. In the experiment, 65% of consumers bought the first insurance offer they saw without further search if the add-on was only introduced at the point of sale, whereas only 16% purchased the first product they saw if the add-on was introduced up front;¹⁴
 - consumers cannot easily compare prices and features of combinations (packages) of primary product and add-ons they have selected to determine the best value package for their overall needs. For example, we discovered through the behavioural experiment that when add-on prices were not revealed until the point of sale consumers failed to choose the best option 24% of the time¹⁵; and
 - the framing of add-on prices can result in consumers not understanding the 'real' price of add-ons. Where monthly prices were displayed rather than the annual price, the behavioural experiment resulted in significant numbers (30%) changing their mind about purchase once they saw the annual cost. In other words, once they saw the 'actual' price of the add-on, they no longer considered it an appropriate purchase.¹⁶

¹⁴ General insurance add-ons: *Experimental consumer research report*:

www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report, page 23.

¹⁵ This means that one in four consumers was not able to choose the best package. This is despite being presented with a comparatively simple choice, i.e. controlled for quality. *General insurance add-ons: Provisional findings of market study and proposed remedies*: www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report

¹⁶ *General insurance add-ons: Experimental consumer research report*:

www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report, page 52.

Two further studies highlighted similar issues on the provision of appropriate information.

The first in July 2014 was our thematic review on PCWs in the general insurance sector.¹⁷ It found that PCWs did not present sufficient product information in a clear and consistent way, partly due to failure to comply fully with our requirements. This applied to both the core policy and add-on products.

The second report in September 2014 was an investigation into the private motor insurance (PMI) market by the Competition and Markets Authority (CMA).¹⁸ The CMA found information asymmetries between PMI providers and consumers, and that consumers faced difficulties in comparing the price and terms of their chosen add-ons across different providers.

The CMA asked the FCA to consider possible remedies, which we have included in our proposals in this consultation.¹⁹

3.3 In developing the proposals outlined in this chapter, we took several matters into account:

- add-on insurance is not always poor value – it can be an easy and convenient way for customers to buy products, and we recognise that customers may value this;
- we believe that it is important that customers have access to the right information at the right time, and the way decisions are presented can have a particularly significant impact on customers' decisions. But we also know that simply providing more information is not the answer and;
- technological change can frequently bring new challenges and opportunities for how information is provided to customers. We are keen to encourage any innovative practices that benefit customers and do not want to constrain innovation by being overly prescriptive.

Our proposals

3.4 Our rules already require that firms provide appropriate and timely information to customers so they can make an informed decision when buying general insurance products – irrespective of whether these are add-ons or stand-alone products.

3.5 We intend to clarify that our information provision rule in ICOBS²⁰ applies equally to add-ons as to stand-alone products by making reference to add-ons in the relevant Handbook Guidance. This can be found in Appendix 1.

We also propose to issue non-Handbook guidance to suggest ways in which firms can address the add-on specific issues the market study highlighted. The guidance is informed by existing good practice in industry. It clarifies our expectations around when add-ons could be introduced

¹⁷ *Price comparison websites in the general insurance sector:*
www.fca.org.uk/news/tr14-11-price-comparison-websites-in-the-general-insurance-sector

¹⁸ *Private motor insurance market investigation, final report:*
https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf

¹⁹ Specifically, the CMA asked us to consider whether insurers and brokers should be required to provide their prices for all or certain add-ons and, if so, whether this should be for all add-ons or only the most commonly-purchased. They also asked us to look at information needs for consumers with regard to comparing prices of packages of PMI and related add-ons, and descriptions of all or certain add-ons.

²⁰ ICOBS 6.1.5R A firm must take reasonable steps to ensure a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed.

in the sales journey, how it could be made easier for customers to compare packages of primary product and add-ons, and how price could be displayed for add-ons.

- 3.6** It will apply broadly to general insurance add-on sales rather than be restricted to PCWs. While PCWs were an area of particular focus in the market study due to the volume of add-on sales they facilitate, we believe that aspects of the good practice described in the guidance will be relevant to other sales channels and mechanisms.
- 3.7** The non-handbook guidance, which is in Appendix 2 offers good practice in providing useful and understandable information to customers. The proposed guidance:
- sets out that firms could identify the most common add-ons they sell and introduce these earlier in the sales process to help customers make more informed decisions;
 - suggests that firms make it possible for customers to see a total price for a package of primary product and add-ons and enable them to compare different packages so they can identify the best value suite of products and;
 - identifies as best practice that the yearly price of add-ons could be shown alongside where a customer requests a monthly price. This ensures that customers can adequately understand the total amount they will pay for the product.
- 3.8** We considered the CMA's recommendation of mandating the sharing of specific price information between providers and PCWs. We do not propose to make such rules at this point because our ongoing engagement with industry suggests that firms are already taking steps to improve information sharing and are committed to continue this work. We will review progress in this area and consider making rules at a future point if necessary.
- 3.9** By improving the way information is provided and add-ons are presented to customers we expect that customers will be better informed when choosing their provider and product, leading to increased shopping around and improved customer decisions. This, along with the increased price transparency, should also lead to increased competition and therefore better outcomes for customers.
- 3.10** We believe the information provision remedy should apply to all customers, not just retail consumers. Non-retail customers face many of the same challenges when making informed decisions if they are not offered appropriate and timely information.²¹
- 3.11** Both we and the CMA have identified product disclosure issues that go beyond general insurance add-ons, such as the lack of common language or standard product descriptions. We will use the forthcoming discussion paper on smarter consumer communications and our working group on timely and appropriate information provision in the general insurance sector to highlight these issues, encourage industry views and identify potential solutions. For example, this includes supporting customers in focusing on quality of cover rather than just price when buying general insurance products, and helping customers make comparisons, e.g. through standardised terminology.

²¹ We note that the rules in ICBS 6.1 already apply to all customers. The same approach is taken in the FSA's guidance on the selling of general insurance policies through price comparison websites, October 2011: www.fca.org.uk/static/pubs/guidance/fg11_17.pdf

- Q3:** Do you have any comments on the proposed Handbook guidance?
- Q4:** Do you have any comments on the proposed non-handbook guidance?

4.

Claims ratio and measuring the value of general insurance products

- 4.1** The market study found that both add-ons and stand-alone products often provided poor value for consumers in general insurance markets. One of the measures we used to assess value was the claims ratio, broadly the amount paid out in claims as a percentage of what is received in retail premiums. We observed some very low ratios- for example, we found that for personal accident and guaranteed asset protection (GAP) add-ons, only around 10% of the retail premiums paid were paid out in claims. Standalone personal accident insurance had an average claims ratio of 15%. Home emergency add-on cover had an average claims ratios of 25%. In addition, the CMA's Private Motor Insurance Market Investigation (2013) found that average claims ratio in 2012 for motor add-ons were low, for example motor legal expenses insurance (MLEI) 7%, personal injury 5%, key loss cover 25% and extended foreign use cover 29%. The low claims ratios, in some cases persisting over a number of years, indicate that firms are not under pressure in the market to improve value. Indeed, we found examples in the market study of firms being able to significantly increase prices with minimal impact on demand.
- 4.2** For comparison, in the market study we noted that the average net loss ratio²² across all personal insurance lines (including motor, household and other categories) for the 2012 regulatory returns was 64% (with 53% for household and 80% for motor).
- 4.3** In the market study we indicated that we wanted to introduce a measure of value in general insurance markets, in order to increase competition between firms on the basis of value and help consumers make better informed decisions. We indicated that the claims ratio was our preferred measure.
- 4.4** We remain committed to introducing a measure of value for general insurance products. We believe that publishing such a measure across general insurance personal lines markets will increase firms' focus on the monetary value of their products and prompt them to make improvements where publication highlights poor value overall, or relative to peers. We see this leading to better consumer outcomes across products. We also believe this will reduce the incentive for firms to introduce new poor value products.
- 4.5** Since publishing the market study final findings report we have worked with the industry to refine our remedy proposal. Developing such a measure is complex, and we would like to thank the industry for their engagement to date. We plan to publish a discussion paper in Q2 of this year setting out a range of options. This will include the claims ratio proposal along with some possible alternative measures. We will consult on the introduction of a value measure for general insurance products later this year once we have considered feedback.

²² The net loss ratio is broadly similar to the claims ratio calculation in this report, although insurance premium tax (IPT) will not be included in the calculation.

Annex 1: List of questions

- Q1:** Do you agree with our proposal to ban opt-out selling?
- Q2:** Do you agree with the proposed scope for the ban?
- Q3:** Do you have any comments on the proposed Handbook guidance?
- Q4:** Do you have any comments on the proposed non-handbook guidance?
- Q5:** Do you have any comments on our market failure analysis and cost benefit analysis for the proposed remedies?

Annex 2: Market failure and cost benefit analysis

1. The Financial Services and Markets Act 2000, as amended by the Financial Services Act (2012), requires us to publish a cost benefit analysis (CBA) of our proposed rules. This annex sets out the market failures that our remedies will address and estimates the costs and benefits arising from each remedy. We deal with the opt-out ban and information provision remedies in turn.

Opt-out selling

Market failure analysis

2. The Financial Services and Markets Act 2000, as amended by the Financial Services Act (2012), requires us to publish a cost benefit analysis (CBA) of our proposed rules. This annex sets out the market failures that banning opt-out selling will address and estimates the costs and benefits arising from this remedy.
3. We are concerned that opt-out selling is associated with two types of market failure. First, opt-out selling exploits customers' default bias (where customers are more likely to stick with a pre-selected option) and results in overconsumption of products sold on an opt-out basis. Second, opt-out selling reduces the transparency of pricing, meaning that competition is weakened. These market failures impair effective competition and result in significant detriment to customers. We therefore believe we are justified in implementing a per se prohibition of opt-out selling.
4. Opt-out selling exploits customers' default bias and this can have a significant effect on customers' choices. For example in the motor legal expenses insurance (MLEI) thematic review, we received information from one firm that achieved successful sales figures of around 80% when MLEI was sold on an opt-out basis, as compared to a 40% successful sales rate when the product was sold on an opt-in basis.²³ Following the thematic review one firm told us that, as a result of switching from opt-out to opt-in selling of MLEI, successful sales rates reduced from 53% to 32%. Two other firms told us that after switching from opt-out to opt-in selling, their total sales of MLEI fell by 13% and 27%.
5. Wider academic evidence also demonstrates the effect of default bias on customer behaviour in other financial contexts, including motor insurance and retirement savings, as well as in non-financial services settings such as organ donation and internet privacy policies.²⁴
6. The effort required to opt out of default choices is one possible explanation of default bias.²⁵ For example, deciding to un-tick a box requires customers to consider the product and make a decision about whether to purchase it or not. To avoid this effort, customers may simply avoid making an active choice and leave the default. An alternative explanation is implied

²³ *Motor Legal Expenses Insurance (MLEI): Report on the thematic project* p16: www.fca.org.uk/static/documents/thematic-reviews/tr13-01.pdf

²⁴ Johnson, E.J. and Goldstein, D.G. (2013) *Decisions by default* in Shafir, E. (ed.) *The Behavioural Foundations of Public Policy* p417-420

²⁵ *Ibid.* p420

endorsement, as customers could interpret default options as a recommended course of action.²⁶ Customers could then feel unable to override the ‘authority’ of the default option. Loss aversion²⁷ could also explain default bias – this refers to the tendency to prefer avoiding losses to obtaining gains. In the case of defaults, customers have a reference point in which the add-on is already included, and attach greater importance to avoiding losing the benefits of the add-on product than they do to the gain of paying a lower price by opting out.

7. Because of this bias, customers do not make decisions on an active and informed basis, having fully considered their needs, and this results in overconsumption. This is seen in lower claims rates for insurance products sold on an opt-out basis, as compared to those sold on an opt-in basis. One firm told us that when its breakdown product was offered free to customers on an opt-out basis its claims rate was 20%, but when customers were offered the product on an opt-in basis, the claims rate was 49%.²⁸ Similar findings were evident for the firm’s home emergency products, where the respective figures were 8% against 18%. One reason for this may be as a result of customers being unaware that opt-out purchases have actually taken place.
8. Opt-out selling also reduces pricing transparency. When an add-on is sold on an opt-out basis alongside a primary product, customers see the price of the primary product up front, whereas what they are actually presented with is a bundled product at a higher price. To get back to the original price and product, customers would need to opt out, which many are reluctant to do due to default bias. This means that customers are less easily able to assess the value of the various packages of products on offer. The GI add-ons market study found that reduced transparency resulted in less shopping around, and consumers making poorer quality decisions, leading them to pay higher prices.
9. Opt-out selling was common in the sale of payment protection insurance (PPI) as an add-on to personal loans and mortgages, though subsequent regulatory interventions reduced this. Evidence from Which?, cited by the FSA, suggested that PPI was automatically included in personal loan quotations in 58% of cases, and that in a third of these cases the consumer was not informed that this was the case.²⁹ PPI was associated with both weak competition, as consumers paid high premiums and companies made large profits, and overconsumption, as many consumers bought unsuitable products.

Cost benefit analysis

Relevant benchmark

10. We assess the costs and benefits of the intervention against the benchmark of what would have happened in the absence of intervention. Opt-out selling in financial services appears to be most prevalent among general insurance add-ons to other general insurance products. As an add-on to motor insurance, we have evidence that opt-out selling of paid for products occurs for breakdown cover, motor legal expenses insurance (MLEI), and windscreen cover.
11. We examined whether opt-out selling of other add-ons occurs using internal FCA knowledge and discussions with industry bodies. This work suggests that opt-out selling of add-ons to non-general insurance products is not a current problem, although it did occur in the past

²⁶ Ibid. p421

²⁷ Ibid. p422

²⁸ Firm response to FCA enquiry during GI add-ons market study

²⁹ Financial Services Authority, *The assessment and redress of payment protection insurance complaints: Feedback on the further consultation in CP10/6 and final Handbook text*. p.25: www.fca.org.uk/static/pubs/policy/ps10_12.pdf

when PPI was sold as an add-on to mortgages and loans. It is plausible that such sales practices could occur in the future for add-ons to other products, though we do not have sufficient information to estimate this.

12. In this case, the relevant benchmark is that firms would continue to sell the products listed above on an opt-out basis. In the case of MLEI, there has recently been a reduction in the extent of opt-out selling as a result of our thematic review, which we take into account in our benchmark.
13. We used data on net earned premiums for add-on products from the CMA's Private Motor Insurance market investigation and the general insurance add-ons market study as a proxy for sales value. We used desk research to estimate the prevalence of opt-out selling across these products. The MLEI thematic review found that 58% of firms sold MLEI as an opt-out, compared to 18% for opt-in and 24% that included it in the core policy.³⁰ Since our net earned premium figures cover add-ons, we excluded the proportion of sales in which MLEI was included in the core policy, implying that opt-out selling occurred in 73% of cases. Our research suggests that this has declined to around 7% following the thematic review. This evidence is shown in Table 1.

Table 1: NEP and prevalence of opt-out selling for add-ons

	Net Earned Premium (£ million) ³⁰	Prevalence of opt-out selling (% of sellers offering add-on) ³¹
Breakdown	161.1	4
MLEI	109.4	7
Windscreen	21.9	13

Source. Estimated prevalence of opt-out selling from FCA desk research of a sample of firms.

Benefits

14. We expect the benefits of banning opt-out selling to comprise of a reduction in overconsumption due to firms ceasing to exploit default bias and an improvement in competition due to increased price transparency. A decrease in overconsumption will reduce the quantity of products that customers buy, at a given price. An improvement in competition due to increased pricing transparency will generally have the effect of lowering prices and could increase the quantity of products that customers buy. The net effect of these two benefits will therefore be to lower prices, whereas the effect on quantities is unclear. We do not have sufficient information to quantify the benefits of increased price transparency, so our estimate of benefits focuses on reductions in overconsumption.
15. Given that opt-out selling appears to be limited to add-ons to general insurance products, we expect that the immediate benefits of the policy will accrue for customers of these products. As set out above, opt-out selling could occur in the future for add-ons to other financial products and in this case further benefits would accrue as the remedy would prevent harm to future customers of these products. However, we do not have sufficient information to quantify these benefits.

³⁰ *Motor Legal Expenses Insurance (MLEI): Report on the thematic project p15:* www.fca.org.uk/static/documents/thematic-reviews/tr13-01.pdf

³¹ Net earned premiums for all products except home emergency, from Competition and Markets Authority, Private Motor Insurance Market Investigation, Final report p7-6: https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf Home emergency data from the FCA

³² FCA desk research.

16. To estimate the effect of the policy on overconsumption we used evidence on the extent of opt-out versus opt-in selling and take-up rates for products under these different sales processes. Combining this with data on the actual value of sales for the products, we were then able to estimate the total value of potential sales (i.e. the value of sales that would occur if everyone who was offered bought the product). We used information on the extent of opt-out selling and take-up rates for opt-out sales to estimate the actual value of opt-out sales. We then estimated how this would change if the take-up rate for these sales fell to be the same as that of opt-in sales.³³
17. The MLEI thematic review found that one firm achieved 80% selling on an opt-out basis and 40% selling the same product on an opt-in basis.³⁴ Another firm that we asked said that it sold MLEI on an opt-out basis and achieved a take-up rate of 53%, but on switching to opt-in selling this reduced to 32%. In view of this evidence, we have estimated benefits under two scenarios: one in which take-up rates are 50% under opt-out selling and fall to 30% when firms switch to opt-in selling, and one in which this falls from 80% to 40%.
18. If take up rates fell from 80% to 40%, customers would save £500,000 for every £1 million of goods currently sold on an opt-out basis. Alternatively, if take-up rates fell from 50% to 30%, customers would save £400,000 for every £1 million. We used the data from Table 1 to estimate the effect of banning opt-out selling for these goods, with estimates for this shown in Table 2.

Table 2: Estimated reduction in overconsumption

	Scenario I: Opt-out 50% to 30%			Scenario II: Opt-out 80% to 40%		
	Sales pre-intervention (£ million)	Sales post-intervention (£ million)	Saving (£ million)	Sales pre-intervention (£ million)	Sales post-intervention (£ million)	Saving (£ million)
Breakdown	10.5	6.3	4.2	12.4	6.2	6.2
MLEI	8.6	5.2	3.4	8.9	4.4	4.4
Windscreen	4.4	2.6	1.7	5.0	2.5	2.5
Total	23.4	14.0	9.4	26.3	13.1	13.1

Costs

19. We quantified the expected costs of this policy using information from firms that have already made the transition from opt-out selling to opt-in selling, following our MLEI thematic review. We are not aware that opt-out selling is prevalent outside the general insurance sector, and therefore we expect costs to be negligible in those markets. However, if the practice is prevalent in other areas we expect that any costs arising would be of a similar magnitude. Firms' estimates of the costs of changing from opt-out to opt-in selling varied. One-off costs could include the following:
- IT systems change: firms' estimates of these costs ranged from negligible for the majority of firms that we asked to £100,000 for one firm;

33 Given a total amount of potential sales, P, of which a proportion x are opt-out sales, of which y buy the good, compared to z in the case of opt-in selling. Actual opt-out sales are $x*y*P$. Further, since the overall take-up rate is $x*y + (1-x)*z$, given actual sales T, the total amount of potential sales $P = T / (x*y + (1-x)*z)$. Actual opt-out sales are therefore $(x*y*T) / (x*y + [1-x]*z)$. By prohibiting opt-out selling, and therefore changing the opt-out take-up rate from y to z, sales volume would therefore become $(x*z*T) / (x*y + [1-x]*z)$.

34 *Motor Legal Expenses Insurance (MLEI): Report on the thematic project p16:* www.fca.org.uk/static/documents/thematic-reviews/tr13-01.pdf

- Changes to call guides: all firms said that these costs were negligible and;
 - Staff training: firms' estimates of these costs range from negligible to £3,000.
20. We scaled the cost estimates of the firms for which we had available data, using data from firms on the value of sales that were related to these costs and the overall value of the sales that we expect the remedy to affect. This suggested one-off costs ranging from negligible to £180,000.
21. Most firms suggested that the on-going costs of switching to opt-in selling were negligible. One firm suggested that it would require more staff due to the sales being longer for opt-in selling, and estimated these costs to be £100,000. We are sceptical of the extent of these costs, as they are likely to reflect call staff attempting to convince customers to buy products that they would previously have bought due to default bias. Our estimate is therefore that the ongoing costs of banning opt-out selling are negligible.
22. Further, firms that sell on an opt-out basis will also lose revenue, equivalent to the expected reduction in overconsumption of £9-13 million per year.
- Unintended consequences***
23. Below we discuss the potential for unintended consequences to arise as a result of implementing our proposed rules.
24. We considered whether firms could attempt to increase product prices, either to recover the costs involved in switching to opt-in selling or to recover lost revenue. We accept that that this is plausible, theoretically; however, we have seen no evidence that products sold on an opt-in basis are more expensive than those sold on an opt-out basis. Moreover, we think that the costs of the remedy are low enough that, even if firms were able and minded to pass this cost on to customers, any increase would be negligible. Further, since customers are more engaged during opt-in selling, we expect competitive constraints to be greater, which would tend to lower prices.
25. As a result of this policy, there is the potential for some customers not to opt-in to products that they previously would have purchased on an opt-out basis. However, we do not think that this constitutes a negative consequence if, having considered the benefits of a product and its price, customers decide not to purchase it.
26. We considered whether firms would respond to a ban on opt-out selling by bundling products. Firms would only do this if they expected customers to value the products more than the price of the bundle. In this case, firms would compete over bundles with accurate headline prices. This is a better outcome than firms effectively bundling the products, albeit with the ability to opt-out, but market the products with a misleading headline price.
27. We therefore think that the risks to the policy from unintended consequences are minimal.
- Conclusion***
28. Table 3 summarises our quantification of the costs and benefits of banning opt-out selling.

Table 3: Costs and benefits of banning opt-out selling

Benefits	Quantification
Reduction in overconsumption	£9-13 million per year
Costs	Quantification
One-off costs	Negligible to £180,000
On-going costs	Negligible
Lost revenue to firms	£9-13 million per year

29. We expect the policy to result in a transfer from firms to customers in the region of £9 to £13 million per year due to reduced overconsumption. We also expect there to be further benefits due to more transparent pricing resulting in more effective competition.
30. Preventing opt-out selling from developing in other sectors constitutes a further benefit, as future customers are protected from a harmful selling practice. Since the one-off costs are limited and ongoing costs of the policy are negligible, we expect that the policy will be net beneficial.

Add-on sales: appropriate and timely information

31. A cost benefit analysis (CBA) is not required for the information remedy as we are proposing guidance rather than rules to help firms to meet their information provision requirements for general insurance add-on products. We include an analysis of the costs and benefits of this guidance for information only which we hope will help stakeholders understand our thinking.

Market failure analysis

32. There is a market failure regarding how firms give customers information about add-on products because of the way in which information provision interacts with customers' behavioural biases at the point of sale. By point of sale, we mean when the customer selects 'buy' or 'buy now', and moves from browsing to transacting a purchase. The effects on customer choices of information provision are illustrated by the behavioural experiment undertaken to inform the market study, which examined how the add-on sales process affects consumer behaviour.
33. When add-on products are introduced late in the sales process, consumers are less likely to search for alternative offers and are more likely they to buy the first insurance product they see. In our behavioural experiment, 65% of consumers bought the first insurance offer they saw without further search if the add-on was only introduced at the point of sale and it was not straightforward to search for alternatives, whereas only 16% purchased the first product they saw if the add-on was introduced up front.³⁵
34. When add-ons are introduced late in the sales process, consumers are more likely to make errors in choosing the best value combination of primary product and add-on. In the behavioural experiment, when the add-on was introduced at the same time as the primary product, only 4% of consumers did not choose the best value combination. However when the add-on was introduced at the point of sale, 20% of consumers made an error, including 10% that chose the cheapest primary product, rather than the cheapest bundle of primary product and add-on.³⁶

³⁵ *General insurance add-ons: Experimental consumer research report:*

www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report, page 23.

³⁶ *Ibid.* page 38.

35. When prices are framed in monthly rather than yearly terms, consumers consider fewer alternatives, and pay higher prices for insurance.³⁷ In the behavioural experiment, 26% of consumers bought the first insurance product they viewed when prices were framed monthly, compared to 19% when prices were framed yearly. Further, consumers that were initially presented with a monthly price were more likely to change their mind when the yearly price of the product was revealed. For example, 30% of consumers that were presented with the add-on up front changed their mind when they saw the price on an annual basis, compared to 5% when all prices were on an annual basis.³⁸

Cost benefit analysis

Benefits to customers

36. Our guidance is designed to help firms by setting out ways in which they can better meet our rules in relation to the timely and appropriate provision of information. The guidance addresses the late introduction of add-ons, proposes that there is a single clear price for packages of primary products and add-ons, and suggests that customers are provided with annual rather than monthly prices. We expect that this will result in increased shopping around and improved customer decisions. In addition, by increasing shopping around and improving price transparency, it could also increase competition.
37. We have used the information from the behavioural experiment to examine how customer behaviour could change if firms followed our guidance. This suggests changing from:
- offering add-ons at the point of sale to offering add-ons up front. This could reduce the proportion of customers buying the first product they viewed from 65% to 17%³⁹;
 - offering add-ons at the point of sale to offering add-ons up front. This could reduce the proportion of customers making mistakes over the cheapest product from 20% to 4%⁴⁰ and;
 - monthly to yearly framing. This could increase the average number of offers viewed from 3.9 to 4.7 and could reduce the proportion of customers buying the first offer they saw from 26% to 19%.⁴¹

Costs

38. Since we are issuing guidance, firms would not necessarily incur any costs. However, a firm making changes in line with our guidance could expect to incur one-off costs such as amending technical interfaces to support the display of baskets of products and to re-quote in a way that is consistent for customers, and increasing computing hardware and network bandwidth due to increased number of quotes as customers compare more products. Firms we have spoken to through the industry working group on timely and appropriate information in the general insurance sector thought total one-off costs could be in the range of £0.5-2.5 million per firm.

³⁷ The behavioural experiment saw respondents make higher losses on average when the price was framed monthly. The difference in average loss between the respondents in the monthly and yearly framing was nearly 4 experimental units. Ibid, page 49.

³⁸ Ibid, page 52.

³⁹ *General insurance add-ons: Experimental consumer research report* p22

⁴⁰ Ibid. p38

⁴¹ Ibid. p46-48

- 39.** The only ongoing costs we anticipate are associated with governance, with respect to reviewing the most commonly bought add-ons and making necessary changes to product display. We expect these to be minimal.

Q6: Do you have any comments on our market failure analysis and cost benefit analysis for the proposed remedies?

Annex 3: Compatibility statement

Compatibility with the FCA's General Duties

1. We are required by section 138I(2) of the Financial Services and Markets Act 2000 (FSMA) to also include in our consultation:
 - an explanation of the FCA's reasons for believing that making the proposed rules is compatible with its duties under section 1B(1) and (5)(a) and;
 - any statement prepared under section 138K(2), which sets out whether the proposed rules will have a significantly different impact on mutual societies, as opposed to other authorised persons.

2. In fulfilment of section 1B (1) we set out how we are acting compatibly with our strategic objective, and advancing one or more of our operational objectives. In fulfilment of section 1B(5)(a), we set out how we have had regard to the regulatory principles in section 3B and the importance of taking action to minimize the extent to which business is carried out in connection with financial crime.

Compatibility with our strategic objective and operational objective

3. The proposals in this consultation paper are compatible with our strategic objective of ensuring that the relevant markets function well. The proposals result from our first market study, where we found that competition in the markets for general insurance add-ons is not effective and that this can lead to poor customer outcomes. By addressing these competition concerns we are seeking to ensure that the relevant market functions well.
4. Our proposals are intended to help advance our operational objective of promoting effective competition, by encouraging shopping around, and improved and more timely information.
5. We will also enhance protection by enabling better decisions through the more timely introduction of the most common add-ons, and better provision of the price of add-ons and packages of add-ons and primary products. This could limit the potential to exploit behavioural biases.

Compatibility with the FCA's regulatory principles

6. We set out below how our proposals demonstrate such regard for each of the regulatory principles.

The need to use our resources in the most efficient and economical way

7. We expect that guidance will increase firms' focus on the way they sell add-ons, and give momentum to some of the operational changes and cross-industry cooperation that will be necessary to implement change. By providing guidance and good practice examples, rather than prescriptive rules, we expect that firms will use their expertise to develop solutions which benefit their customers.

The ban on opt-out selling is intended to encourage active and informed decision making by customers; helping to ensure that they purchase products that are suitable for their individual circumstances and needs. By extending the scope of the proposal we are preventing future customer detriment in sectors outside of insurance and, as such, we are preventing the need for the FCA to intervene on these issues in the future. Implementing the proposals will introduce rules, which will be supervised against and enforced, however we do not think that this will impact on resourcing.

The principle that a burden or restriction should be proportionate to the benefits

8. We believe that our proposals are proportionate to the benefits that we are seeking. Poor consumer outcomes were identified in the market study, so not intervening would be inappropriate. However, we have designed the remedies so they can be embedded (as far as possible) within existing processes and limiting the burden imposed. As an example, guidance in improving the delivery of appropriate and timely information for add-ons is only one way we could have delivered a solution – we decided that existing pockets of good practice, and the way the industry is starting to develop meant that rules would be disproportionate. Our cost benefit analysis in Annex 1 sets out our assessment that the implementation of our proposals will have net benefits.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

9. We believe that the remedies will increase competition in the general insurance sector and improve value for customers, which will encourage sustainable growth. We are not introducing rules for improving information, so we are not stifling innovation or growth in the general insurance sector. The proposed rules for banning opt-out selling are designed to encourage customers to purchase products that are of benefit to them, rather than products which they do not need or want. We see this as encouraging sustainable growth in the relevant sectors.

The general principle that customers should take responsibility for their decisions

10. The add-on mechanism affects customer decision-making, as our research showed. This can result in poor outcomes, so we believe we are justified in implementing new rules and guidance for opt-out selling and information provision. This will encourage more active and informed decision-making by customers and in turn will actually empower customers, help them make informed decisions and take responsibility for those decisions.

The responsibilities of senior management

11. Senior managers will need to ensure compliance with our rule on banning opt-out selling, including that opt-out sales are not introduced in the future. Senior management will have the choice of following our guidance or complying with our rules in a different way when delivering timely and appropriate information on add-on products.

The desirability of exercising our functions in a way that recognises differences in the nature and objectives of businesses carried on by different persons.

12. We recognise that firms may have different business models. For both the opt-out and information provision remedies we note sales are made through different media (online, via telephony etc.). In all instances, we believe the remedies should be applied consistently.

The desirability of publishing information relating to persons on whom requirements are imposed by or under FSMA

13. Our proposals are compatible with this principle.

- 14. The principle that we should exercise our functions as transparently as possible**
The market study stage of the process resulted in the publication of a provisional findings report in March 2014 and a final findings report in July 2014. In our final findings report we set out a summary of the feedback we had received on the remedy proposals. Final findings confirmed the remedies we would be investigating further.

We have had further opportunity to consider the feedback and have taken the opportunity to discuss further with stakeholders through working groups and bilateral meetings. We have engaged specifically with those stakeholders who raised concerns with the original remedy proposals so that we could better understand the alternatives they suggested, as well as their views on how our proposals could be implemented and the impact. This has informed the design of our proposals.

This consultation provides another opportunity for stakeholder input, and we are considering what other discussions or meetings might be useful.

- 15. Expected effect on mutual societies**
We see no reason why our proposed rules would impact a firm differently based on the firm having a mutual society structure. We have discussed our proposed remedies with a mutual society and there do not appear to be different implications for them in comparison to other firms. In relation to the opt-out selling remedy, we have specifically addressed some activities by credit unions in the relevant chapter.

- 16. Legislative and Regulatory Reform Act 2006 (LRR)**
We are required under the Legislative and Regulatory Reform Act 2006 (LRR) to have regard to the principles in the LRR and to the Regulators' Compliance Code when determining general policies and principles and giving general guidance (but not when exercising other legislative functions). We consider that our proposal is:

- Transparent: We are following a consultation process in making these rules;
- Accountable: We are seeking feedback from this consultation paper on whether stakeholders agree with our proposed approach;
- Proportionate: We have carefully deliberated on our approach and believe our proposals are proportionate as we have sought to minimise costs and we expect significant benefits.
- Consistent: Our proposed approach applies in a consistent manner to firms and;
- Targeted at situations in which we see detriment, or the potential for detriment: As explained in this paper, we consider there to be a strong case for the introduction of these measures.

We have also had regard to the Regulators' Compliance Code for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily, in a manner that leads to improved outcomes for customers and addresses the issues identified in this market.

- 17. Compatibility with the duty to promote effective competition in the interests of consumers**
The proposed remedies promote effective competition by facilitating better customer decision making. Our remedies, where possible, seek to reduce the impact of the add-on mechanism which our findings from the market study showed had a negative impact on competition.

Appendix 1: Draft Handbook text

CONDUCT OF BUSINESS (OPTIONAL ADDITIONAL PRODUCTS) INSTRUMENT 2015

Powers exercised by the Financial Conduct Authority

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

Commencement

- C. This instrument comes into force on *[date]*.

Amendments to the FCA Handbook

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

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

Citation

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

By order of the Board of the Financial Conduct Authority
[date]

Annex A

Amendments to the: Conduct of Business sourcebook (COBS)

Insert the following new section after COBS 2.4. The text is not underlined.

2.5 Optional additional products

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

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

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

Annex B

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

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

[*Editor's note:* The text in this annex takes into account the changes suggested by CP14/29 *Guaranteed Asset Protection insurance: a competition remedy* (December 2014) as if those provisions had been made.]

6.1 General

...

6.1.6 G ...

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

...

Insert the following new section after *ICOBS* 6A.1. The text is not underlined.

6B.1 Optional additional products

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

- 6B.1.1 R
- (1) A *firm* must not enter into an agreement with a *customer* under which a charge is, or may become, payable for an optional additional product unless the *customer* has actively elected to obtain that specific product.
 - (2) A *firm* must not impose a charge on a *customer* for an optional additional product unless the *customer* has actively elected to obtain that specific product before becoming bound to pay the charge.
 - (3) A *firm* must not invite or induce a *customer* to obtain an optional additional product for which a charge will be, or may become, payable if the *firm* knows or has reasonable cause to suspect that:

- (a) a contravention of (1) or (2) will take place with respect to the product; or
 - (b) the *person* supplying the optional additional product will act in a way that would contravene (1) or (2) if that *person* were a *firm*.
- (4) An omission by a *customer* is not to be regarded as an active election for the purpose of this *rule*.
- (5) It is immaterial for the purposes of (3) whether or not the *firm* would or might be a party to the agreement for the optional additional product.
- (6) A charge includes a financial consideration of any kind whether payable to the *firm* or any other *person*.
- (7) An optional additional product is a good, service or right of any description, whether or not financial in nature, that a *customer* may obtain (or not, as the case may be) at his or her election in connection with or alongside a *non-investment insurance contract*.
- (8) If the *customer* is required to obtain an additional product as a condition for the purchase of the *non-investment insurance contract* then that product is an optional additional product if the *customer* is given a choice:
 - (a) as to the seller or supplier from whom to obtain the product; or
 - (b) which specific product to obtain.
- (9) It is immaterial for the purposes of (7) and (8) whether the optional additional product is obtained from the *firm* or another *person*.
- (10)
 - (a) If, in accordance with the terms and conditions of an optional additional product, there is to be an automatic renewal of the agreement on substantially the same terms, it suffices for the purposes of (1) to (3) if the *customer* actively elected before entering into the initial agreement or a preceding renewal to obtain the product.
 - (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).

- (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.
- (11) A *customer* may make an active election for the purposes of this rule through an intermediary in the sales process or through a *person* acting on behalf of the *firm*.
- 6B.1.2 G An example of an omission by a *customer* which is not to be regarded as an active election is the failure by the *customer* to change a default option such as a pre-ticked box on a website.
- 6B.1.3 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial service or product.
- 6.B.1.4 G *Firms* are reminded that they must ensure that their *appointed representatives* comply with this *section*.

Annex C

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

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

2.1.2 R ...

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

...

Insert the following new chapter after MCOB 2.8. The text is not underlined.

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

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

additional product for which a charge will be, or may become, payable if the *firm* knows or has reasonable cause to suspect that:

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

- (b) An automatic renewal of the agreement is not to be regarded as being on substantially the same terms if, following the renewal, a charge will or may become payable for the optional additional product for the first time (in which case, (1) to (3) apply at the time of the renewal).
- (c) Except as set out in (b), changes in the level of charges for an optional additional product are to be disregarded in determining whether an automatic renewal of an agreement is on substantially the same terms.

(11) *A customer* may make an active election for the purposes of this *rule* through an intermediary in the sales process or through a *person* acting on behalf of the *firm*.

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

Annex D

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

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

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

...

Insert the following new chapter after BCOBS 2. The text is not underlined.

2A Optional additional products

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

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

payable to the *firm* or any other *person*.

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

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

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

Annex E
Amendments to the Consumer Credit sourcebook (CONC)

Insert the following new provisions after CONC 2.2.5R. The text is not underlined.

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

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

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

2.2.7 G An example of an omission by a *customer* which is not to be regarded as an active election is the failure by the *customer* to change a default option such as a pre-ticked box on a website.

2.2.8 G *Firms* are reminded that a similar prohibition on opt-out selling of add-on products is imposed by The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 in relation to optional additional agreements where the main sale is not a financial

service or product.

- 2.2.9 G *Firms* are reminded of the guidance on appointed representatives set out in *CONC* 1.2.3G.

Appendix 2

Draft guidance on general insurance add-on sales: appropriate and timely information

1. This guidance is for firms that operate price comparison websites for general insurance products and other participants in the distribution chain. It helps them to understand our expectations in relation to the provision of information about product add-ons, where at present we are concerned that too often the information is provided too late in the process to help customers make meaningful decisions.

Background

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

A firm must take reasonable steps to ensure a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed⁴²

4. We recognise that it is important to strike the balance between giving too much information and the customer being overwhelmed, or not providing enough for the customer to make an informed decision.
5. Work by the FCA and Competition and Markets Authority suggests that information provided for add-on sales is often not appropriate or timely.⁴³ Firms have addressed some specific problems we found in both the price comparison websites in the general insurance sector thematic review and the market study on general insurance add-ons.⁴⁴ However, we believe that there is more firms could do to better meet our regulatory requirements when selling add-ons. The purpose of this guidance is to clarify our expectations around when add-ons could be introduced in the sales journey to best support informed decision-making, how it could be made easier for customers to compare packages of primary product and add-ons, and what price could be displayed for add-ons.

42 <http://fshandbook.info/FS/html/handbook/ICOBS/6/1>. We are consulting on adding clarity to ICOBS on this point: 6.1.6AG: The appropriate information rule applies in the same way to any policy, regardless of whether that policy is sold on its own, in connection with another policy, or in connection with other goods or services.

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

44 FCA, *General insurance add-ons: provisional findings of the market study and proposed remedies* www.fca.org.uk/static/documents/market-studies/ms14-01.pdf

Who does this guidance apply to?

6. Although the provisional remedy proposals in our market study indicated that changes could be made to price comparison websites (PCWs), we believe that the best practice identified below should be considered by all participants in the distribution chain, and can also apply irrespective of the form in which the customer engages with the distribution chain – be that online, over the phone, or in person.

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

7. The market study found that add-ons, or information about add-ons, were often introduced late in the sales process. This impacts the ability of customers to make informed decisions – a customer’s focus on add-ons declines rapidly through the sales process, leading to very different purchase outcomes as they become focused on completing the transaction. For example, the behavioural experiment which accompanied the market study showed that when add-ons were introduced at the point of sale, 70% of people failed to view any other insurance offers, and 65% ‘purchased’ an add-on if it was introduced at point of sale, compared to just 16% when the add-on was introduced at the beginning of the process.⁴⁵ By point of sale, we mean when the customer selects ‘buy’ or ‘buy now’, and moves from browsing or obtaining a quotation transacting a purchase.
8. We would like firms to consider bringing forward the introduction of add-ons. It is likely to be too late to discuss the most common add-ons for the first time after the customer has selected the primary product they want to purchase, and moved into transacting.
9. The ‘most common’ add-ons are the (at least) three add-ons which are purchased most frequently by the firm’s customers. Firms should be able to identify which add-ons these are, and to monitor whether these change.⁴⁶
10. The most common add-ons should be introduced as part of the initial question set so the customer considers them fully through their purchasing journey. If they are not introduced as part of the question set, they could be introduced at the latest on the first results page or when the customer receives a first quote.
11. By taking this approach with the most common add-ons only, firms will avoid overloading customers with too much information too early in the journey.⁴⁷

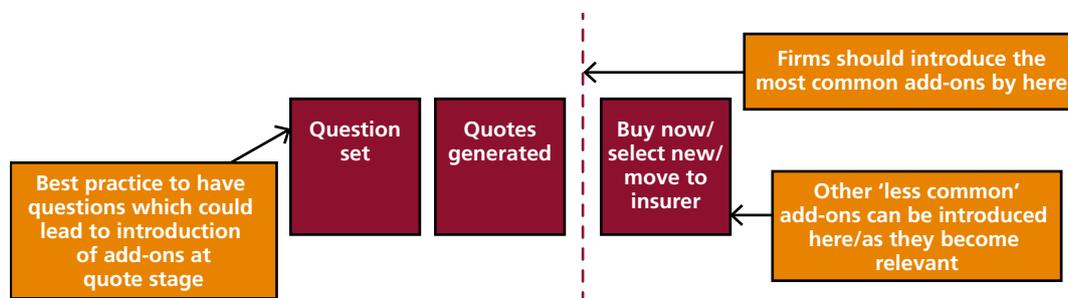
⁴⁵ *General insurance add-ons: Experimental consumer research report.*

www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report, page 25.

⁴⁶ We are not suggesting that all add-ons could be discussed at one time as we believe this would be disproportionate, may result in homogeneity and lead to a reduction in innovation. We will, however, monitor developments and, if we consider that firms are circumventing the spirit of our guidance, we will review our position.

⁴⁷ This point specifically addresses one of the CMA’s recommendations to the FCA, that we consider whether all add-ons, or just the most common add-ons, should be presented to customers.

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



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

Price comparison websites (PCWs) acting as intermediaries

We suggest some good practice to aid PCWs acting as intermediaries in identifying activities they could undertake

- PCWs should be clear what are the most common add-ons for their customers;
- they should have a process to identify the most common add-ons, and to monitor whether these change;
- PCWs should gather sufficient information from insurers/ brokers to provide customers with enough information to make an informed decision (as is required by ICOBS 6.1.5);
- PCWs may need to change the current point they introduce add-ons, and/ or their question set, and/ or their results page and;
- if relevant, PCWs should make it clear that further add-ons may be offered once the customer has moved to the purchase point.

Insurers and intermediaries

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

- insurers should provide the right information to PCWs to enable the PCW to meet ICOBS 6.1.5;
- if the insurer is selling directly, then they should be clear what are the most common add-ons for their customers;
- they should have a process to identify the most common add-ons, and to monitor whether these change;
- they should provide customers with enough information to make an informed decision (as is required by ICOBS 6.1.5);

- insurers may need to change the current point they introduce add-ons, and/ or their question set, and/ or their results page and;
- if relevant, insurers should make it clear that further add-ons may be offered once the customer has moved to the purchase point.

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

13. At present, most firms do not allow customers to sort or compare based on a package of a primary product and selected add-ons. As such, customers find it hard to judge the value (total premium) of the complete package. Customers may select the cheapest primary product, but not the cheapest package of primary product and add-ons.
14. The behavioural experiment associated with the market study indicated that half of the mistakes were driven by selecting the cheapest primary product rather than reducing the cost of the bundle overall. By comparison, just 4% of participants did not choose the cheapest option when they were shopping around just for insurance (i.e. comparing a single price).⁴⁸
15. We consider that wherever a comparison between packages of products could be made, firms should allow customers to develop a package of a primary product and selected add-ons, and to deliver a combined price for them. This will enable comparison to take place.⁴⁹ The individual contracts will need to be priced, but clear display of the package price could help provide the customer with more appropriate information.
16. If the customer is using a PCW, ideally, the details of the chosen package would pass from the comparison site to the insurer site when the customer moves to the point of sale. We understand the technological complexities associated with this, but remain of the view that the industry should aspire to it.

Figure 2. Illustrative example of packaged price

Package 1	Primary product £150	Package £200	add-on 1 £15	add-on 2 £15	add-on 3 £20	add-on 4 not included
			Remove	Remove	Remove	add

Price comparison websites acting as intermediaries

We suggest some good practice to aid PCWs acting as intermediaries in identifying activities they could undertake

- PCWs should allow customers to develop a package of a primary product and selected add-ons and present them in a clear manner as one package, with one combined price;
- PCWs should still show the price of individual elements that may be unbundled and;

48 *General insurance add-ons: Experimental consumer research report:* www.fca.org.uk/your-fca/documents/market-studies/gi-add-ons-experimental-consumer-research-report

49 This addresses two of the CMA's recommendations, namely that customers can compare across packages of products, and that prices are given.

- they should get the right data from insurers to be able to produce this price.

Insurers and intermediaries

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

- insurers should be able to provide data to PCWs in a timely manner to enable a package of a primary product and selected add-ons to be built;
- they should give consideration to how information regarding monthly premiums can be delivered to PCWs and;
- if operating in the direct-to-customer space, insurers could have the capability to build a package of a product and selected add-ons, and to display the combined price, in the same manner as a PCW.

Annual versus monthly pricing

17. Our work has shown that customers find it hard to assess the annual price of a policy when it was expressed as a monthly price only.⁵⁰
18. We believe firms should display the annual price (or total price, if the policy has a duration greater than one year), even if the customer has asked for monthly pricing. This will help them understand the full price of the package of a primary product and selected add-ons.
19. This is not new – we noted this when we made clear our expectations in relation to price disclosure for regular premium insurance policies in 2008⁵¹, and the ABI included it in their good practice guide to buying insurance online.⁵²

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

51 www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2008/icobs_clarification.shtml

52 www.abi.org.uk/News/News-releases/2009/12/The-ABI-publishes-Good-Practice-Guide-to-help-customers-buying-insurance-online

Financial Conduct Authority



PUB REF: 004999

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