

Regulatory Update

General Insurance - Pricing Practices
Consultation Paper Update (CP20/19)

23 October 2020



About the Consultation Paper

In October 2019, the FCA published their interim report about general insurance pricing practices, which found that the home and motor insurance markets are not working well for all customers. In particular, the FCA found that some firms use ‘price walking’ practices (where cost of insurance is increased at the point of renewal), or other pricing strategy to discourage ‘shopping around’. To address these concerns, the FCA launched this consultation about new rules.

Who is impacted?

While the focus is primarily on the home and motor insurance markets, the remedies apply to all types of general insurance and pure protection insurance, including Temporary Permission and Gibraltarian firms.

What should firms do?

Get involved. You can respond to the consultation yourself, or if you choose, you can discuss with it us. RRCA would submit your feedback via APCC. With the estimated compliance cost for the industry being £1.06bn, firms should start preparing early; particularly as the proposed changes will not be superficial.

Changes Proposed: overview

To address the unfair pricing practices, the FCA propose a package of measures, including:

- **Pricing Remedy**
 - when a firm offers a renewal price to a customer, that renewal offer price should be no greater than the equivalent new business price that the firm would offer a new customer.
- **Product Governance**
 - extend the scope of the PROD rules to all general insurance and pure protection products regardless of when they were manufactured and to require firms to ensure their products offer fair value to their customers.
- **Auto Renewal**
 - require firms to offer a range of accessible and easy options for consumers who want to cancel auto-renewal on their retail general insurance contract.
- **Reporting Requirements**
 - new reporting requirements to help ongoing supervision of the home & motor insurance markets.
- **SMF's responsibility**
 - require a senior person to confirm each year that the firm is complying with the new rules.

Pricing Remedy: overview

The FCA propose to tie the renewal price to the new business price. Therefore, firms would not be able to increase prices for renewal customers without also increasing the prices for new business customers.

Some key details:

- Firms must assume that the customer has approached the firm through the same distribution channel and is using the same payment method as when they first bought their policy;
- Renewal prices can differ from the previous year's premiums (such as change in risk profile), so long as the new premium is equivalent of a new premium.
- Where multiple firms are responsible for setting prices (such as co-manufacturing, retail vs wholesale brokerage), firms should take reasonable steps to ensure other firms follow the pricing rules.
- Where firms operate 'closed books' (not accepting new clients, only renewal) and equivalent 'active books', the above requirements apply. Firms must ensure that renewal pricing in the equivalent 'closed book' is of the same price as in the 'new book'.
- Where firms operate only 'closed books' (eg, there is no equivalent 'new book'), they must ensure that pricing practices do not discriminate customers based on tenure.

Product Governance (PROD): rule changes

The FCA propose amendments to the rules on product oversight and governance that apply to general insurance and pure protection products, such as term life insurance; as well as firms offering premium finance for retail insurance products. As key points, the proposal include:

- Application of PROD rules for all products regardless of time of manufacturing, whilst being forward-looking (eg do not need to consider past value of products, but need to ensure all products are consistent with new rules, regardless of data of manufacture)
- Requirement of manufacturers to consider the value of the product through their product approval process and thereafter, considering the retail price and value delivered,
- Application of changes to core, add-on products and retail premium finance,
- To conduct product review annually (at least),
- Introduction of new rules for product distributors,

Cancelling auto-renewing policies: rule changes

Firms would be required to provide consumers with the option to stop their contract from auto-renewing using a range of methods including:

- by telephone
- email or online, and
- by post

The options would need to be clearly communicated to consumers at the point of sale (such as terms and conditions).

This applies to all general insurance products.

Reporting Requirements: rule changes

The FCA propose to require firms to submit regular reports to us for retail home (home only, contents-only and home and buildings) and motor insurance. Where firms sell additional products, including premium finance, alongside this insurance, the FCA also propose to gather information about those products.

The typical data required is proposed to include (full list available in the consultation):

- The total and average premium charged to customers, net of IPT
- Net and gross price for intermediated and affinity/partnership sales
- The number of policies sold/renewed during the reporting period
- The number of policies in force at the reporting date
- Expected claims cost
- Expected claims ratio

Depending on the application of rules, the reporting requirements will capture all firms, from product manufacturers to distributors. The reporting is proposed to be done annually, using calendar year.

Note section

You may use this section to take notes of key actions or assessments and file it for your record keeping.

Key Publication

- CP20/19: FCA Consultation Paper ([click here](#))



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