

At a glance

FCA launches GI pricing practices Market Study

What's new?

- The FCA published **MS 18/1.1 General Insurance Pricing Practices - Market Study (MS)** on 31 October 2018. The MS will focus on the home and motor General Insurance (GI) markets pricing practices and will include all parties involved in the distribution chain for these products such as brokers and price comparison websites.
- The market study follows a **Thematic Review (TR)** the FCA published the same day on home insurance pricing practices and a **Dear CEO letter** outlining the main messages of the TR and what actions general insurers should take now.
- As well as the market study, the FCA issued a discussion paper **DP 18/9 Fair Pricing in Financial Services** on pricing practices across the financial services sector.

What does this mean?

- The FCA is concerned that firms' pricing practices are leading to consumers being treated unfairly, but more importantly the focus and tone of the regulator has shifted. The MS Terms of Reference suggest a number of possible remedies which will move the FCA towards a more interventionist approach. Some of the remedies include changing the way firms price insurance, limiting auto-renewal and limiting the ability of firms to price differently between different consumer groups.
- The MS will focus on three main areas:
 - **Consumer harm:** Establishing the scale of harm created by pricing practices, including how many consumers are affected, who they are (vulnerable?) and the price differential paid by different groups.
 - **Fairness:** FCA will look at pricing models and strategies and whether they are exploitative, whether firms provide clear and accurate information and the impact of contractual terms.
 - **Competition:** FCA will examine if pricing practices lead to distortions on access to quality insurance products, whether firms are making disproportionate profits on certain groups of consumers, the current nature of competition and the experience of new entrants to the market, new business models and whether they deliver good consumer outcomes including a look at the sale of add-on products.

What do firms need to do?

Firms should be prepared to engage, share and provide evidence to the FCA on the matters highlighted by the MS. This will help frame and address the regulator's concerns. An individual should be identified to sponsor this work and to ultimately become responsible for the consumer outcomes of pricing practices for the firm.

Whilst the FCA's work on pricing practices on the GI market is ongoing, the Dear CEO letter is clear that firms are expected to act now. Firms need to obtain evidence to demonstrate how their pricing practices result in customers being treated fairly and explain how such conclusions are reached. Firms should articulate how they understand value and have a framework and processes within which those assessments are made. In considering pricing issues firms are reminded to consider and demonstrate compliance with the Insurance Distribution Directive's best interest of customer principle and also with SM&CR requirements to ensure that it is clear who is responsible for pricing decisions and their impact on customers.

To the extent that current processes/governance do not focus fully in this area firms might wish to develop a framework to help them assess and quantify the level of customer harm arising from their pricing practices. This should define and identify their vulnerable customers and whether processes in force or the data used (directly or indirectly) leads to price discrimination to the detriment of their vulnerable customers.

Firms should look at whether they have appropriate and effective strategies, governance, control and oversight of their pricing practices and activities, such that they are able to reliably assess and evidence whether they are treating their customers fairly. The FCA welcomes comments on its MS Terms of Reference from interested stakeholders by **3 December 2018**. The closing date for submissions to the DP is **31 January 2019**.

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