Financial Services Regulatory Insights

FCA pricing interventions shake up general insurance

AT A GLANCE

June 2021

What's new?

- The FCA published its Policy Statement (PS21/5) General insurance pricing practices market study (Feedback to CP20/19 and final rules) on 28 May 2021, implementing a package of remedies to address the issues identified in its General insurance pricing practices market study final report. These remedies include a ban on differential pricing between new and existing customers, making it easier for customers to cancel auto-renewing policies, extending the product governance rules to existing products and restricting firms' ability to use price optimisation techniques when setting prices. Also included are additional reporting requirements on pricing and annual attestation by senior managers on compliance with the new regime. The FCA believes these remedies will ensure that firms provide fair value to all their customers, and will put an end to higher prices currently paid by some long-standing customers.

- The FCA is forging ahead with the rules initially proposed in the consultation paper (CP20/19) on General insurance pricing practices remedies published in September 2020. Certain clarifications noted in the final rules that are of particular interest include: allowing greater flexibility to firms to comply with the auto-renewals remedies, clarification of treatment of various incentives / discounts and simplifying several of the reporting requirements, while also introducing a few additional reporting requirements.

What does this mean?

- Price equalisation - Insurers and distributors will have to offer the same price (subject to same risk) to new and renewing home and motor consumers (commercial customers are excluded from the remedy). This will apply to motor and home insurance products whether sold separately or bundled (e.g. multi-car policies) as well as any add-on products/services including premium finance. It will also impact closed books where firms will be expected to benchmark prices against the overall market or their own live books. For some firms this will mean a fundamental change to the economics of business models and a significant implementation exercise. This will also impact Gibraltar-based firms and all firms in the Temporary Permissions Regime (TPR).

- Product governance - The FCA extends the remit of the current product governance rules to cover all general insurance (GI) products including those written before 1 October 2018, and expects firms to undertake product value reviews of all products at least annually. Firms will have to be able to demonstrate that the end price paid by customers represents fair value across all product lines.

- Auto-renewal - The FCA expects firms to make it easy for customers to stop their contract from auto-renewing. At a minimum, firms must allow consumers to opt-out of auto-renewal using the same methods by which they allow consumers to purchase a new policy. In addition, the FCA expects firms to explain whether a policy is set to auto-renew and what that means for the consumer.

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Initially the FCA had proposed that the auto-renewal remedies would apply to all retail GI products not just motor and home, however, in the final rules, private health, medical insurance and pet insurance have been excluded.

- Reporting - In order to monitor the effectiveness of the pricing remedies the FCA introduces new reporting requirements for motor and home products. These requirements include reporting on price differentials for new and renewing customers. In the first year after the new rules come into force, firms are required to report pricing practices data in a single report covering the six months ended 30 June 2022. Thereafter, the FCA requires firms to report annually by calendar year. The FCA has removed certain reporting requirements initially proposed during the consultation such as the requirement for price-setting intermediaries to report gross-rated business, insurers to report incurred claims ratios and reserve movements by tenure, among others. Additional reporting requirements introduced include requiring price-setting intermediaries to report data on closed books and for insurers and price-setting intermediaries to report data on the average prior year premium for different cohorts of renewing customers.

- SM&CR - A senior manager will need to attest that the firm's pricing models comply with the pricing rules. The first attestation would be required three months after the rules come into force and an annual attestation will be required thereafter.

What do firms need to do?

- Given the implications for governance, pricing models, reporting, technology and customer communications, there is much to be done to ensure firms are ready for these changes. Firms will need to act now to implement the operational changes required to comply with the new rules. In particular, firms should consider changes to existing pricing models and practices, understanding /agreeing responsibilities in the distribution chain, and begin implementing system and organisational changes that are needed to comply with the rules.

- Implementing the new set of rules will require judgement and interpretation. Firms need to assess what these rules mean for their products / processes and distribution chain relationships. The interpretation will form the bedrock of the subsequent programme implementation and should be clearly documented, articulated and approved.

- Firms may wish to consider the short and medium term impact of complying with the new requirements, and assess whether the changes represent an opportunity or threat to business models. Taking account of their customer base, distribution methods and current pricing approach, firms may want consider options for the future. These may include entering/exiting markets, selling back books, adding or removing distribution channels and new strategic alliances.

Next steps

The rules on systems and controls (SYSC), product governance and premium finance take effect from 1 October 2021. The pricing, auto-renewal and data reporting remedies come into effect on 1 January 2022.

The FCA plans to monitor that firms are moving promptly to implement the final rules. The FCA states that it will consider taking action against firms where there is evidence that they have not taken sufficient steps to implement the rules by the implementation date. From 1 January 2022, if the pricing remedy is not implemented, firms will be expected to remediate and redress any customers affected.

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