

# FCA sets out insurance strategy for next two years

## AT A GLANCE

September 2023

### Contacts

#### Will Gerritsen

Director

T: +44 (0) 7718 865076  
E: will.gerritsen@pwc.com

#### Samantha Jones

Director

T: +44 (0) 7483 427928  
E: samantha.x.jones@pwc.com

#### Anirvan Choudhury

Senior Manager

T: +44 (0) 7483 423721  
E: anirvan.choudhury@pwc.com

#### Sania Hussain

Manager

T: +44 (0) 7483 916259  
E: sania.hussain@pwc.com

### What's new?

- The FCA issued three insurance portfolio letters on 20 September 2023. These letters cover the FCA's insurance supervisory priorities for the next two years in the [personal and commercial lines insurance](#) portfolio, [wholesale insurance](#) portfolio (includes Lloyd's and London Market insurers and intermediaries), and [life insurance](#) portfolio (includes Third-Party Administrators (TPAs)).
- There are four market-wide priorities across the three letters, these are: 1) embedding the Consumer Duty (the Duty), 2) governance and culture, 3) operational resilience and increasing reliance on third parties, and 4) improving oversight of Appointed Representatives (ARs).
- Alongside the portfolio letters, the FCA [published](#) GI value measures data for the period January to December 2022. The FCA is concerned that the data suggests some firms are not providing fair value. Add-on Guaranteed Asset Protection (GAP) insurance had the lowest claims ratio at an aggregated product level of 4%. The FCA has therefore written to GAP insurers giving them a month to propose how to address its concerns. The FCA has warned it will use its regulatory powers where it is unsatisfied with the responses it receives from firms.

### What does this mean?

#### Market-wide priorities

- **Consumer Duty:** the FCA states it will continue to assess the effectiveness of the Duty implementation, including potentially carrying out mystery shopping exercises.
- **Governance and culture:** the FCA expects firms to assess and address their drivers of culture, this includes leadership, purpose, governance, recruitment, and rewards and incentives. Culture remains a key area of focus for the FCA.
- **Operational resilience:** the FCA expects firms to have credible plans to manage and recover from operational incidents.
- **ARs:** the FCA states it will test how firms embedded its new regime for ARs. It expects principal firms to ensure high standards both within their firm, and at their ARs.

#### Personal and Commercial insurer priorities

- The FCA states firms need to do better at demonstrating how fair value is being delivered, which includes justifying prices (including premium finance) and commission levels. The FCA intends to intervene where fair value is not being provided to customers, or where a firm's processes are weak.
- With respect to the pricing practices, the FCA expresses concern that some firms appear to be earning higher margins from longer tenure customers. The FCA states that where this is because of systematic discrimination it will take steps to stop these practices.
- The FCA warns it continues to monitor closely how firms are settling motor total loss claims and that it will act where firms are not handling claims promptly and fairly.

#### Wholesale insurance market priorities

- The FCA notes its new secondary

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objective commits it to facilitating international competitiveness of the UK's economy, and in line with this it wants the London Market to continue developing as a hub for large commercial and specialty risk underwriters to provide insurance solutions for UK and global customers.

- The FCA states the wholesale insurance market in particular has a long way to go in developing inclusive cultures where employees have appropriate channels to speak up and feel safe. Firms must have appropriate systems and controls to deal with serious non-financial misconduct.
- With cyber-attacks increasing, the FCA stresses that firms offering cyber insurance must make sure their policy wordings are clear and that customers understand the coverage they are buying.
- The FCA notes wholesale insurance firms have an increased risk of financial crime due to the international nature of business and increased exposure to politically exposed persons. Firms should have robust systems and controls to detect, prevent and combat financial crime.
- The FCA expects wholesale insurance intermediaries to have adequate financial resources to service debt over time, even under stressed scenarios. Firms should ensure they keep their wind down plans updated.

### *Life insurance priorities*

- The FCA notes that recently, annuity sales have increased in response to increases in annuity rates. The FCA expects firms to ensure that the prices offered are fair value to customers, and that customers are given the necessary information and support to understand the end-to-end fees breakdown to make informed decisions.
- The FCA has seen slow claim settlement times in this market, as well

as lengthy response times. The FCA expects firms to address this as a matter of urgency.

- The FCA stresses the importance of having a clear roadmap to achieve compliance with the July 2024 Duty deadline for closed books, given the range of products and legacy systems present in this market.
- The FCA states a key part of risk assessments should be the increased reliance on TPAs, and concentration within a small number of TPAs. This includes consideration of cyber security and data loss risks.
- The FCA reminds insurers of rules concerning sustainability-related investments and disclosures.

### **What do firms need to do?**

- Firms should ensure their 2024 audit plans include a review of the effectiveness of Duty implementation.
- The FCA expects boards to ensure concrete, proactive action is taken throughout the firm to improve customer outcomes in line with the Duty rules. This should not be seen as a compliance exercise.
- Firms should continue to consider how they can improve their culture, this includes consideration of whether their leadership, governance, recruitment and remuneration policies drive good customer outcomes. Additionally, firms should review their non-financial misconduct policies to ensure that should such misconduct arise, it is dealt with appropriately.
- Firms should ensure their fair value assessments stand up to FCA scrutiny, and that they are able to adequately justify where they have set their commission levels.
- Firms should carry out monitoring to ensure they are confident that their pricing practices do not discriminate against customers with protected characteristics.

### Next steps

Over the next two years the FCA will assess firms against its priorities and expectations as set out in the portfolio letters. The next set of portfolio letters will be published in 2025.

