



Under the spotlight

General Insurance: Distribution and value

Recent Background

In its 2019/2020 Business Plan, the FCA called out the “fair treatment of existing customers” as one of its continuing priorities. This follows the super-complaint concerning the “loyalty penalty”¹ made by the Citizens Advice Bureau to the Competition and Markets Authority (“CMA”) in September 2018. The CMA issued a response in December 2018, with a Loyalty Penalty Working Group having been formed to oversee the implementation of its recommendations, of which the FCA is a member. The CMA is due to issue an update on its progress in Summer 2019.

It remains to be seen how the CMA will view the FCA’s recent activity, and in particular whether its recommendation, which was endorsed by the Treasury Committee in May 2018², that it be made mandatory for firms to publish their loyalty penalties on an annual basis to consumers will come to bear.

FCA Activity

The FCA is concentrating on value and distribution. Over recent months, we have seen the FCA issue:

- April 2019 – TR19/2: Thematic Review – General Insurance Distribution Chain;
- April 2019 - GC19/2: The GI distribution chain - Proposed guidance for insurance product manufacturers and distributors – FCA has requested comments by **9 July 2019**;
- April 2019 – Dear CEO Letter (FCA Expectations of GI Firms);
- January 2019 – CP19/8: General Insurance Value Measures Reporting;
- October 2018 – TR18/4: Pricing practices in the retail general insurance sector: Household Insurance; and
- October 2018 – MS18/1: General Insurance Pricing Practices Market Study.

Summer 2019 will see further output from the FCA, including:

- An Interim Report following its Market Study, with the Final Report anticipated in December 2019;
- A Policy Statement following CP19/8 concerning Value Measures;
- A Consultation Paper following the Call for Input: Access to Insurance issued in June 2017 and Feedback Statement in June 2018 relating to customers with pre-existing medical conditions obtaining travel insurance; and
- An evaluation of its PS16/21: Increasing Transparency and Engagement at Renewal in General Insurance Market.

What firms should do

In TR19/2, the FCA clearly sets out that it is seeking to achieve a “*step change*” and considers that its recent publications should “*serve as an immediate call to action to all GI firms. They must urgently address the issues of culture and governance, and the accompanying failure to consistently focus on customer outcomes which remain widespread within the sector*”.

¹ The Citizens Advice Bureau defined this as “the cost of being a long-standing customer, compared to a new customer receiving the same product of service”. Citizens Advice believe that the average consumer could be paying up to £1,000 per year due to the loyalty penalty.

² <https://www.parliament.uk/documents/commons-committees/treasury/Reports/1642%20large%20print.pdf>
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Firms should ensure that:

1. they do not wait for the results of the Market Study to be published before taking action. The language in the Dear CEO Letter was very strong; it highlighted previous enforcement activity and confirmed that the FCA will not hesitate to take further action.
2. the issues raised are being considered at a sufficiently senior level within their business. The FCA will be concerned to ensure that firms can demonstrate that they are focused on positive customer outcomes (in particular, price and limiting complexity in the distribution chain, including operating effective oversight).
3. there is sufficient "buy-in" across the business to undertake a holistic review of the end to end distribution process and pricing models to enable them to undertake effective gap analysis as against the FCA's expectations.

Our track record

We can assist in reviewing existing processes as against FCA's expectations.

Eversheds Sutherland has a track record in advising insurers and intermediaries in respect of FCA supervisory activity, from advising upon products and distribution processes to assisting with notifications to the FCA and remediation schemes.

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