Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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AFM Response to FCA consultation CP20/19, on General Insurance pricing practices

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:

   - Comment on the proposals in the consultation; and
   - Highlight some of the consequences for mutuals, and for products lines beyond motor and home insurance, and suggest an alternative approach to implementation.

2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not for profit basis). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 staff[1].

3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses[2] and to take account of corporate diversity[3].

[1] ICMIF, https://www.icmif.org/publications/market-insights/market-insights-uk-2016
[2] Financial Services Act 2012, section 138 K: http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted
[3] http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted

4. The consultation seeks to make some radical and far-reaching changes to the way people buy general insurances, and manage their ongoing cover. Any attempts to make consumers more engaged in making financial decisions is welcome, though the FCA will be aware that putting more onus on some consumers may be detrimental if, instead of taking that responsibility, they allow cover to cease.

5. FCA has undertaken extensive research into the home and motor insurance markets, and we agree with much of its analysis. However, there is a huge leap of faith, in assuming that corrective action in these mass-market, quasi-compulsory products, can be transferred with equal effect to other products. We are unconvinced that FCA has explored all general insurance products thoroughly, and concerned therefore that the misapplication of proposals may lead to consumer detriment.

6. The FCA analysis reinforces the potential impact of its proposals. The proposed implementation timescale would be onerous in ideal working conditions, but in the current pandemic we consider the proposals to be ill-advised at best, and dangerous at worst, where they will require enormous IT effort which will need to be redeployed away from consumer-support aspects of the business.

7. **We suggest the following critical revisions to the proposals: a 12 month-implementation period for all aspects of the proposals, de minimis thresholds, and a greater concentration purely on home and motor cover for the next three years.**

8. We have responded to the questions raised in the consultation below, and would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals

Our responses to questions raised in the consultation

Q1: Do you have any comments on the proposed implementation period?

We consider the implementation period is insufficient. 12 months would be a more realistic timescale to implement the full suite of proposals.

As the FCA will recognise, the new requirements, particularly those regarding the range of options to allow consumers the option to stop auto-renewals, will require significant IT systems development and testing. They will also require a clear communication strategy, so that customers understand the impacts of opting out of auto-renewal.

Q2: Do you have any comments on the possible impact of our proposals on people with protected characteristics under the Equality Act 2010?

As the consultation points out, in much the same way as the banning of gender-based pricing did, the changes proposed will produce winners and losers. We agree that it is likely that the changes will increase prices paid by the most price-sensitive of consumers, such as younger people, who tend to shop around more often.

Q3: Do you have any comments on our proposal to apply the rules on which we are consulting to firms based in Gibraltar and firms in the temporary permissions regime?

We have no comments.

Q4: Do you have any comments on our proposal to ban price walking?

We support the proposals banning price walking and would appreciate clarity on whether the FCA includes introductory offers of this nature as a form of price-walking and therefore unacceptable practice.

The proposals are silent on the practice of introductory offers including 'two-month free' deals where premiums are waived as an introductory offer. Therefore, the total premiums paid in the second year will increase, even if the monthly premium is unchanged.

Paragraph 3.9 implies that prices should not vary according to tenure. However, in home and motor insurance in particular, no-claims bonuses are regularly applied, and which may reduce the renewal price. We would like to see more explicit confirmation that FCA does not intend to ban no claims bonuses.

Q5: Do you have any comments on how our proposal would apply to products that are no longer actively marketed?

We have no comments.

Q6: Do you have any comments on our proposals to address practices that aim to frustrate the intended outcomes of the pricing remedy?

As per our comments above, we welcome clarity from FCA on whether it considers free months and other incentives as being amongst the practices that frustrates the pricing remedy.

Q7: Do you have any comments on our proposal to require senior manager confirmation that the firm is complying with the pricing remedy?
Q8: Do you have any comments on our proposal for firms to retain documentation to show how they are satisfied that their pricing model complies with our rules?
Q9: Do you have any comments on our proposals for multiproduct discounts?

We have no comments.

Q10: Do you have any comments on our proposal to apply the pricing restriction rules to all stages of the price setting chain?

The gross amount paid by the customer is the key figure in ensuring there is no differentiation between new and existing customers. FCA has not considered as part of this consultation where intermediaries and price comparison sites should include more detailed disclosure of costs to customers, including the effect of commissions and other charges. We consider greater transparency will help customers make better informed decisions and improve competitive forces in home and motor insurance.

Q11: Do you have any comments on our proposal to apply the pricing restriction rules to additional products?

We agree.

Q12: Do you have any comments on our proposal to enhance the product governance requirements concerning product value?

We agree that most of the proposals are appropriate, though we would welcome clarity on how the retrospective application of product approval processes, as covered in paragraph 4.5, are applied to products that have been designed, manufactured and distributed before 2018. For some pure protection and healthcare products, the contract may have been developed ten or more year ago.

We agree manufacturers should expect to assess fair value to their target market. We would welcome views on the roles of distributors also, as they clearly have a primary role in assessing how well a product matches the individual needs of each customer, and where the total price paid is a function of the distributor charges as well, the manufacturer and distributor have equal responsibilities.

Q13: Do you have any comments on our proposal to apply the product governance rules to products regardless of when they were launched?

The application of a product approval process on a retrospective basis is, we suggest, disproportionate in respect of products that are in run-off and may have a very limited number of customers. This could lead to customer detriment if firms apply resource on low-risk products rather than towards products with far greater numbers of customers, or that may be higher-risk. Further, when dealing with a particularly small pool, some of the percentage tolerances a firm might set that are appropriate for a large book, could be completely inappropriate and inconclusive.

Whilst we support the retrospective application of a product approval process if customer numbers are significant, we suggest a de-minimis figure, or exceptions, should be applied to the requirement to complete product approvals and fair value assessments within a year of the rules coming into effect.

For example, the Handbook changes in PROD introduced following PS20/9 will apply a reporting threshold of £400,000 written premium and 3,000 policies in force. We suggest a consistent approach to the application of thresholds may be proportionate and potentially avoid customer detriment.

Q14: Do you have any comments on how we propose to apply the product governance rules to non-investment insurance products and products sold as part of a package?

We have no comments.

Q15: Do you have any comments on our proposals for ongoing product reviews and remedial actions firms must consider where it is identified that the product is not providing fair value?

As per our response to Q13 above, a review cycle of 12 months for products in run-off and with few customers may require disproportionate effort and lead to customer detriment. Again, we suggest a de-minimis figure and/ or exceptions should apply.

Q16: Do you have any comments on our proposed requirements for product distributors?

We agree with these proposals.

Q17: Do you have any comments on our proposals for premium finance?
Q18: Do you have any comments on our proposals for senior manager responsibility for compliance with our proposed remedies?

We have no comments.

Q19: Do you have any comments on our proposals to require firms to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing?
Q20: Do you agree with our proposed rules and guidance in relation to auto-renewal?
Q21: Do you agree with our proposal to apply the auto-renewal measures to all types of general insurance?

We disagree with these proposals, as whilst the proposals may have been considered extensively in relation to some general insurance products, they do not have the same effect across all:

- Due to the nature of private medical insurance (PMI) policies the proposals may have the potential to lead to consumer detriment. In particular, PMI policies are only underwritten at inception, and the application of terms and exclusions is only carried out at that time. Special terms or exclusions cannot be amended or added at renewal, regardless of any claim history. Therefore, customers that fail to renew, whether inadvertently or not, may find terms or medical exclusions are required when they re-apply, or they may be declined cover.

  Further, many customers 'in claim' may be vulnerable due to ill-health or hospitalised and unable to deal with the payment of a renewal premium, leading to a policy lapse and a failure to provide continued cover at the time of greatest need.

  We suggest auto-renewal has positive benefits for many PMI policyholders in comparison to most over general insurance products and should be regarded as out of scope.

- Health cash Health cash plans are written as a monthly renewable contract in most cases. They require limited underwriting and the customer benefits from a pre-funded sum available across a range of different health treatments to draw down each 12 months, albeit the way the annual benefit is calculated varies between providers. The economics of the product, from both the provider and the customers perspective, relies on continued access: preventing auto-renew would potentially mean the customer or their employer having to go through a constant cycle of review and renewal. Costs will increase significantly to the extent the current design of the products would not be viable.

We would be happy to talk through the specifics of health cash plans with the policy team, if that would be helpful.

Q22: Do you agree with our proposed scope for the reporting requirements?
Q23: Do you agree with our proposed reporting granularity?
Q24: Do you agree with the list of metrics we propose to ask firms to report?
Q25: Are there any other metrics we should consider asking firms to report?
Q26: Do you agree with our proposals on reporting responsibility for insurers and intermediaries?
Q27: Do you agree with our proposals on reporting periods and frequency?

We agree with the proposals in general, though also think FCA should consider applying de minimis requirements to small books of business.

Q28: Do you have any comments on our cost benefit analysis?

Assessing the potential costs and benefits of detailed new rules, such as those proposed in the consultation, is complex. We recognise significant effort has been made by FCA, to capture information and analyst it. Even so, as the extensive amendments to the original consultation show, it is easy to make errors or apply false assumptions.

Whilst directionally the analysis appears valid for motor and home insurance, we are concerned that very little data was gathered to analyse the impact of the proposals on other product lines. As we illustrate in our responses to previous questions, the consequences can be significantly different for other product lines, and punitive for smaller organisations such as mutual and not-for-profit healthcare providers. We are disappointed the analysis appears to have made sweeping assumptions on the impact of product lines where little or no data has been collected: and we consider some of these assumptions are likely to contain errors.

We note that FCA has stated it ‘engaged with mutual societies throughout the market study’, but we are unaware of any AFM members that were actively involved, and would appreciate further clarity on this.

Q29: Do you have any comments on the way we have estimated the impact of the pricing remedies?
Q30: Do you have any comments on the way we have estimated the impact of the non-pricing remedies?
Q31: Do you agree with the assumptions we have made in our analysis?

We have no comments.