FCA Official

Assessing and monitoring value to customers

Initial learnings from the FCA's 2024 multi firm review of smaller mutuals

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Today’s session

- Background to review
- Customer outcomes
- Longer-term outlook
- Monitoring

Multi-firm review

Objectives:

- To **increase our engagement** with **and understanding** of the mutual sector and the customers you are serving.
- **Understand the value** being delivered to customers purchasing insurance products from mutual organisations.
- Examine the **longer-term future** of the sector and any barriers to growth.
- Gain insight into **what matters most** to the future of mutual organisations.

Approach to the review

- Value assessments and T&C’s
- Business plans, sales achieved and analysis of change of Own Funds
- Own Risk and Solvency Assessments (ORSAs)
- Compliance with COBS 20.2 (Treating WP Customers Fairly)

We aimed to minimise burden on firms and follow up with meetings to test our understanding.

Examples of strong customer focus

- The level of **understanding of their customers** by some firms in the sample was good.
- Evidence of **products being tailored** to suit the target market or individual customers.
- Consideration around the **best process for distributing** to customers taking into account their circumstances.
- We are also aware that smaller mutual organisations provide products to **underserved or harder to reach groups** which clearly has wider societal benefits.
- We observed **wider value** that firms were providing through their work beyond the core product offering.

Value isn't only about price

- Key discussion point with firms was **difficultly in quantifying holistic value**.
- **Monitoring** of complaints, indicators of customer experience and claims upheld are helpful indicators.
- **Add-on benefits** can have value but it wasn't always clear if these were being used.
- **Thresholds** used to measure value **can account for the level of service provided** and can help firms understand if the balance is right.

Review of customer outcomes

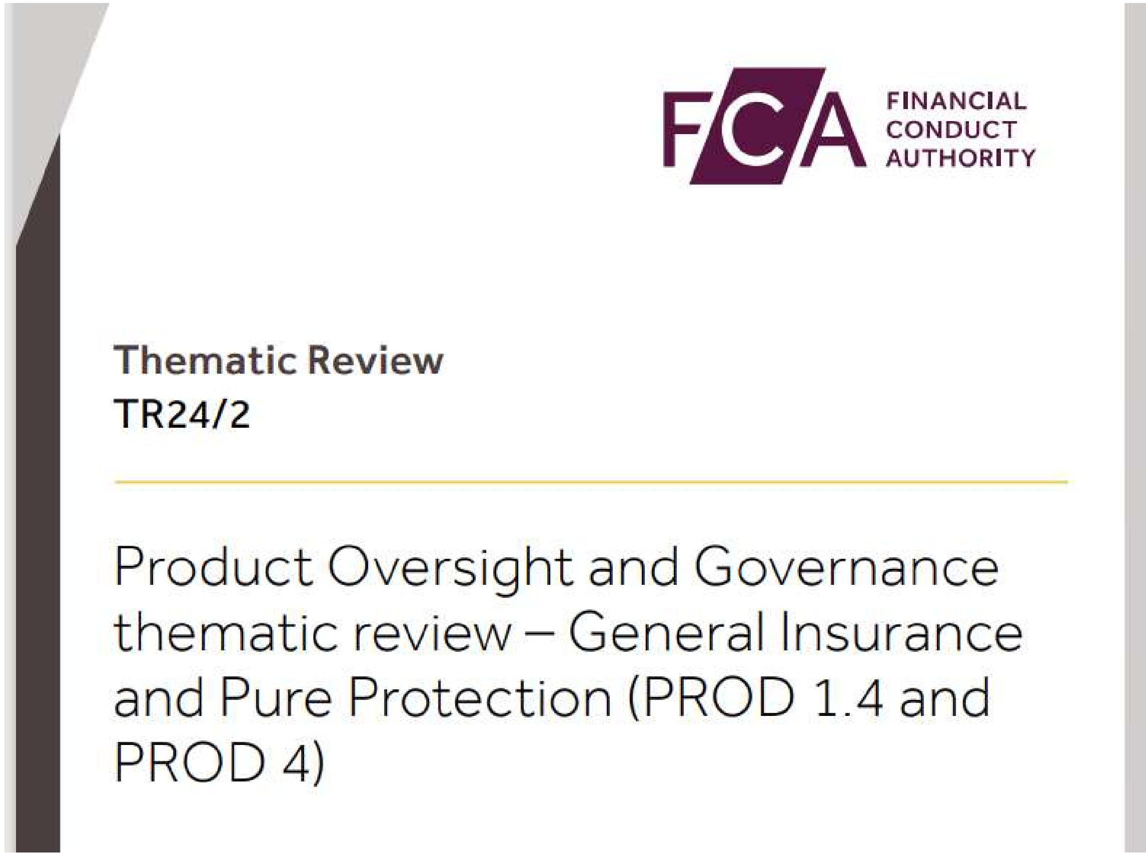
Savings products

- We expect firms to consider **risk and return** when they consider the value provided to policyholders.
- We identified products where firms were **not able to demonstrate the value of the product**: either through low rates of return, high charges/expenses or the customer not being compensated for a lack of flexibility.
- Some firms provided **no analysis of financial value** in the value assessments or the information to support these.
- Some firms used the **ease of buying** from them as a justification for the lower value of the product.

Review of customer outcomes

Protection products

- **Difficulty in demonstrating financial value** of products.
- Need to have a way to measure the value of products to ensure they offer value **over a reasonably foreseeable period**.
- **Target markets were more general** than we would expect.
- **Benchmarking** is useful but you **need to do more** to ensure fair value.



FINANCIAL CONDUCT AUTHORITY

Thematic Review
TR24/2

Product Oversight and Governance thematic review – General Insurance and Pure Protection (PROD 1.4 and PROD 4)

[TR24/2: General insurance and pure protection product governance thematic review | FCA]

The key findings of TR24/2

- Most product manufactures materially strengthened their product oversight and governance arrangements.
- Many manufactures were **not able to adequately evidence** how and why they concluded that their products **offered fair value** and **good outcomes**.
- **Not having sufficient MI** to assess value or appropriate metrics to identify fair value to **all customers.**
- Many manufactures had **not appropriately considered their distribution arrangements** given product and target market**.**

Good example of measuring value for pure protection

- A firm selling a pure protection product had **clearly defined value metrics** to assess value.
- This was a **forward-looking assessment** that captured the expected **costs of commission**, **expenses** and **margins for profit**.
- This had **minimum thresholds** with a **clear rationale** for why these thresholds represented customer value.
- Outcomes were **considered for different groups of customers across the target market**, helping to ensure that different cohorts received fair value.
- This was subject to a **formal annual product assessment with regular monitoring**.

Long-term customer outcomes

Expense management:

Evidence of consistent expense overruns.

Optimistic expense assumptions.

High levels of expenses charged to asset shares.

With-profits customers:

Some firms were not able to demonstrate what the new business strategy meant for with-profits customers.

This was particularly concerning where these customers were running off quickly.

Poor value products:

There is a risk in some firms, that products that firms are not able to evidence that they are delivering fair value to customers could be supporting current strategies.

Financial projections:

Some plans contained little analysis to understand the long-term impacts of the planned sales on the future of the firm.

This included linking together the planned sales with the run-off of the existing business and the impact on the scale of the firm in the future.

What do you consider in your assessment of your new business strategy?

What do you consider in your assessment of your new business strategy?

- Are you selling material levels of with-profits business?
- Is business being sold on terms that is not expected to be detrimental to existing policyholders?
- If relevant, how will profits from non-profits business be distributed to with-profits customers?
- How are the different cohorts of business expected to run-off?

Monitoring is needed

Key finding of the review is that firms need to have monitoring in place to:

- Ensure long-term customer value.
- Identify when a change of strategy is needed to achieve this.
- To enable them to act early, from a position of strength, to address issues.

Example of monitoring

Example of monitoring

- Solvency
- Liquidity
- Volumes of new business
- Total number members
- Expected expense base and implications on new business pricing
- Expected estate generation
- Other flags: complaints, future strategic investment needs, societal or political changes.

Consumer Duty Board Monitoring


Insurance multi-firm review of outcomes monitoring under the Consumer Duty

Multi-firm reviews | **Published:** 26/06/2024 | **Last updated:** 26/06/2024

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Firms must regularly monitor the outcomes retail customers receive to identify whether they are meeting their obligations under the Consumer Duty.

Summary

Under the Consumer Duty (the Duty) firms must regularly assess, test, understand and evidence the outcomes their customers are receiving. Without this, it will be impossible for firms to know that they are meeting the requirements set out in the Duty.

This publication sets out the key findings from our review of larger insurance firms' approaches to outcomes monitoring under the Duty.
We recognise this represents a new expectation of firms and have set out examples of good and poor practice to help all firms raise their standards where necessary.

Firms that identify gaps in their compliance with our rules should act immediately, putting robust plans in place to address any shortcomings.

[Insurance multi-firm review of outcomes monitoring under the Consumer Duty | FCA]

Questions

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