23 September 2015

Joanne Davis
General Insurance Policy
Financial Conduct Authority
25 The North Colonnade
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London
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Dear Ms Davis

General Insurance Add-ons Market Study – Remedies: Value Measures

BIBA welcomes the opportunity to respond to this discussion paper.

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes just under 2,000 regulated firms, who employ more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy; they arrange 54% of all general insurance and 79% of all commercial insurance business. Insurance brokers put the client's interests first; providing advice, access to suitable insurance protection and risk management.

Within our Manifesto for 2015, BIBA has set out a 10-point plan for smarter, clearer and more value for money regulation.

The following provides our specific feedback on the individual questions raised for comment.

Q1: Do you have any comments on the aspects of value discussed?

The FCA should understand that whilst the aspiration is that *"…any measure or indicator we introduce should not serve as a shortcut for consumers to use when buying general insurance",* the FCA's own behavioural economics team will no doubt confirm that this is <u>exactly</u> how customers will use the information, as this is the very nature of heuristics. Consumer groups and the financial press will use it as an absolute measure also.

There is a further risk of stifling innovation as firms limit their products to only those core covers which generate most claims rather than meet the needs of new or evolving businesses. Firms with a more extensive product offer run the risk that when accounting for premium charged for that additional cover, their policy may appear in the FCA's proposed table as of lower value.

If the primary intended audience for the data is consumer groups and the financial press (with the idea that consumers <u>may</u> like to use it), BIBA questions whether this really serves to achieve the intended outcome from the market study that consumers make more informed decisions. The three additional remedies that the FCA had put forward (deferred opt in period on GAP; banning opt-out selling; and improving information provision) serve to meet the intended outcome.

Q2: Do you have any comments on our rationale for introducing a value measure and how we see such a measure working?

BIBA accepts that there is some truth in the conclusion drawn by FCA that *"…while many consumers were happy with their products, a huge proportion had a very poor understanding of the cover provided. Consumers also frequently overestimated their cover or failed to understand excesses, restrictions or exclusions."* This being the case, it would seem logical to focus attention on improving that understanding, rather than introduce a measure or measures that could just add confusion.

BIBA believes that customers that buy via a broker are permitted greater opportunity to understand the cover so that they can make a more informed decision, as they are given advice on the products features and limitations.

Q3: Do you have any comments on the proposed scope for a value measure?

BIBA welcomes the FCA's intention to apply any requirements to EEA firms passporting on an establishment or services basis, as this will help to support a level playing field for UK-domiciled firms.

We question the decision to exclude general insurance sold as part of a packaged bank account from the scope, as anecdotal evidence gained from our members, advises us that cover such as travel insurance which is 'thrown in' as part of the package, often fails to provide the cover customers need or thought they had. BIBA has instigated further research in this area which we would be happy to share with the FCA at the appropriate time.

Where the FCA looks to exclude from *scope "no claims bonus protection – there are no claims pay-outs made on this type of policy"*, BIBA has been asked by its members to stress that 'no claims bonus protection' is <u>not</u> *"a type of policy".* It is a feature within a policy, not a policy in its own right. A customer cannot buy 'a no claims bonus protection policy' as a standalone product. BIBA is aware that the Competitions and Markets Authority (CMA) is under the same misapprehension.

Q4: Do you agree with the proposed product granularity and split by add-on and stand-alone sales? Do you think we should further split data by distribution channel?

BIBA would recommend that the FCA consider the impact of its other proposed remedies following the market study on add-ons, when looking for firms to draw a distinction in values between add-on and stand-alone sales. For example; in applying the FCA's Timely Information proposal to bring the top three 'add-ons' by sales volumes into the 'main' conversation, the sale of the additional products would be perceived by industry participants as more akin to sales of standalone products rather than add-on products. As a consequence, there would be no logical distinction.

BIBA recognises the challenges in publishing either a product ratio or sub-product ratios: a single, product-level measure, rather than the 'bronze, silver and gold cover' to use the FCA's own analogy, could deter firms from developing the silver and gold versions, which would have offered a more 'rounded' package for consumers as the greater cover products may bring the average ratio down. Conversely, sub-product measures may risk a firm being perceived as having a number of poor value products that just happen to offer wider cover, incentivising the firm to withdraw these wider cover offering and deterring the development of innovative products with new types of cover.

Q5: Do you believe the measures discussed can meet our objectives, and why? Do you have a preferred option?

BIBA does not consider the proposals offer the 'fail-safe' measure the FCA and equally importantly; consumers, may be looking for.

The claims ratio would provide no account for the value customers have obtained from using support services such as a legal helpline that comes with a legal expenses policy or a medical policy where someone is fortunate enough never to fall ill but has benefited from a free gym membership to maintain a healthy lifestyle.

As mentioned in response to Q1, whilst BIBA supports the hope that anything the FCA introduced in this area *"should be seen as a general indicator of value rather than an absolute measure"* which should be *"supplemented by additional text or information to reflect this point and reduce the risk of misunderstanding",* the reality is that consumers and consumer groups will use it as a short-cut to their decision making and the ratios will be the focus of the headlines in the financial press to the exclusion of all other factors.

BIBA would support moves by the FCA to work with the industry to improve customer understanding of the product features and limitations, rather than introduce a new element for consumers to have to consider.

Q6: Do you have any comments on the proposed calculations? What challenges do the calculations raise, and how might these be overcome?

AS mentioned above in response to Q5; the claims ratio would provide no account for the value customers have obtained from using support services such as a legal helpline that comes with a legal expenses policy, for example.

On the average claims pay-outs (being the total claim pay-out divided by the total number of claims), BIBA wonders whether customers might confuse this with what they can expect to be paid on submitting their particular claim.

Whilst the three options presented in 4.27 in the discussion paper may not distinguish between the different distribution channels, BIBA would suggest that they are distribution-channel-neutral so do not need to make such a distinction. Whilst insurance brokers will work to obtain a fair settlement for their clients, ultimately it is the insurer's final decisions that will determine the claims acceptance rates or average claims pay-outs.

Q7: Do you have any comments on our proposals for reporting?

BIBA would like to seek clarification to point 5.5 in the discussion paper which identifies for the Lloyd's market that *"Managing General Agents are in the best position to calculate the potential measures".* Does the FCA mean 'Managing General Agents' or 'Managing Agents' as these entities both operate within the Lloyd's market, but are not the same thing.

Q8: Do you have any comments on our proposals for publishing and contextualising data?

BIBA agrees with the FCA view that publishing in bands could help overcome confidentiality issues, where exact figures could provide insight into a firms' business model, or the way in which it sets prices.

Where banding is used, any publication of market averages would logically need to be banded as well.

Contextualisation, whilst a necessary element to support clarification of any ratio, is almost inevitably going to be ignored as people's short-cuts to decision-making has them focusing solely on the ratio.

Q9: Are there any measures you think we should consider for point of sale disclosure to consumers in the future?

BIBA has no suggestions to put forward at this time

Q10: What costs – both type and scale – would be incurred in delivering the different value measures discussed? Are there any ways to reduce these?

BIBA has no data on costs at this time, however we would like to remind the FCA of the significant costs being incurred by the insurance industry following the CMA's final order on NCB protection.

Q11: Do you have any comments on the alternative measures discussed? Or do you have any suggestions for how another measure might meet our objectives for this work?

Customer satisfaction measures add colour to the service a customer feels they have received. It could be the case that a claim has been turned down, but the customer has had a clear explanation of why this is the case and had a discussion or received advice which would help them going forward. These discussions and the outcome of a happy customer would not be captured in a claims ratio.

BIBA refers the FCA to the impending change that the Enterprise Bill intends to make to the Insurance Act, which should reduce the issue of delays in paying valid claims and should have the effect of impacting the annual claims ratios.

Q12: Should we consider commission disclosure – either as a transparency measure or as a point of sale disclosure remedy? How should any such measure be calculated and by whom? What are the benefits and costs of a measure highlighting distribution costs?

Evidence from behavioural economic research (Loewenstein, Cain, and Sah 2011) as well as consumer surveys (Federal Reserve Board 2011 – as quoted in the FCA's Smarter Consumer Communications work) detail the unintended poor consumer outcomes that can arise from commission disclosure. Evidence from these pieces of work indicated that consumers would focus too heavily on the commission element and not enough on the value of the product itself and the disclosure was seen to create an element of distrust in the advice but an emotional obligation to take that advice however reluctant they might be to do so.

With the potentially overwhelming amount of information being presented to consumers as part of existing as well as scheduled and proposed disclosure requirements (this would include the CMA requirements around NCD protection and the FCA's own work on presenting last year's renewal premium), adding another number to the information presented to clients, runs the real risk of creating information overload.

It should be noted that in the development of the Insurance Distribution Directive (which should be published in the EU's Official Journal before the end of 2015) considered and discounted commission disclosure as a remedy for consumer protection (instead opting for 'nature and source' disclosure as per the current UK regime).

BIBA would also highlight the market reality that where sales are made through a chain of intermediaries and where the intermediaries receive their remuneration as a share of the commission paid, the commission level set by the insurer and agreed with the (wholesale) intermediary with which it deals, does not change as links are added to the chain. Instead each intermediary would share a proportion of that commission amount. (So a sale involving two intermediaries who have agreed a 50/50 share of the commission on a sale for which an insurer pays 20% commission would mean each intermediary would take 10%.)

Where intermediaries in a chain charge a fee for their services, this is separate to the insurance contract and would not be picked up in any claims ratio (making the claims ratio a misleading measure).

BIBA members take exception to paragraph 6.4 where the accusation made is that distributors erode value and that commissions can also encourage intermediaries to sell products that are not right for consumers, contributing to poor consumer outcomes and low value. It should borne in mind that the commission model permits consumers to receive free advice at point of sale and all insurance intermediaries are heavily regulated and so take very seriously their obligations under both the PRIN and ICOBs rule books on ensuring suitability of any recommendation and from SYSC in managing conflicts of interests.

It should also be noted that insurers may not operate from the same net rate in their intermediated sales channel, as they use in their disintermediated sales channel, making a direct comparison of ratios a flawed approach.

We do agree with the three potential remedies already consulted on separately (deferred opt in period on GAP, banning opt-out selling and improve information provision for general insurance add-ons)and feel that it this is sufficient.

We would be happy to discuss any of our points further if this would assist.

Yours sincerely

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