General insurance pricing practices market study

Consultation on Handbook changes

Consultation Paper

CP20/19***

September 2020

How to respond

We are asking for comments on this Consultation Paper (CP) by **25 January 2021**.

You can send them to us using the form on our website at: www.fca.org.uk/cp20-19-response-form

Or in writing to:
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1 Summary

Why we are consulting

1.1 In October 2019, we published the interim report for our general insurance pricing practices market study. We found that the home and motor insurance markets are not working well for all customers. While many people shop around, many loyal customers are not getting a good deal.

1.2 We have now completed our investigation into this market and have published our final report. The final report includes more discussion on the harm we identified, a summary of the feedback we received to the interim report and our response. In this consultation paper (CP), we consult on the package of remedies proposed in the final report.

Who this applies to

1.3 This paper will be of interest to firms in the insurance market and trade bodies representing them. While our focus is primarily on the home and motor insurance markets, we propose to apply some of our remedies more broadly to all types of general insurance and pure protection insurance.

1.4 The paper will also be of interest to consumers and consumer organisations.

The wider context of this consultation

1.5 General insurance products are important and give customers protection when things go wrong, for example if they have a car accident or their house is damaged. It is important that the general insurance sector works well for customers.

1.6 In 2018, we published the outcomes of a thematic review into pricing practices for home insurance. This review raised concerns about how current insurance pricing leads to harm. We launched the general insurance pricing practices market study to investigate these concerns in more detail.

1.7 Our work on the market study has shown that firms use complex and opaque pricing techniques for home and motor insurance to identify customers who are more likely to renew with them. Firms then increase prices to these customers each year at renewal, in a process known as 'price walking', resulting in some customers paying high prices relative to their cost to serve. In addition, some firms engage in practices that can discourage customers from shopping around. While lower prices are available for customers if they regularly switch or negotiate with their existing provider, price walking distorts competition and leads to higher overall prices for customers.

1.8 Stakeholders have also raised concerns about outcomes from general insurance pricing practices. In September 2018, Citizens Advice made a super-complaint about loyalty pricing to the Competition and Markets Authority (CMA). Home insurance was 1 of 5 markets included in the super-complaint. We continue to work closely with the CMA on the response to the super-complaint. However, the remedies we have decided to consult on are based solely on the findings of this market study.

1.9 Today we have also published a policy statement on general insurance value measures setting out requirements for firms to report and publish value measures data across a wide range of general insurance products. These rules are aimed at addressing poor product value.

The impact of Covid-19

1.10 We have carefully considered the potential impact of our remedies on a market that continues to be impacted by the Coronavirus pandemic. See Annex 2 of this paper for further analysis. Although there have been some impacts on insurance markets, for example from reduced driving mileage under lockdown, these have not fundamentally changed the way in which firms set their prices or altered our concerns about pricing practices. Therefore, we believe action is still required to address the harms we have identified. We will consider the ongoing impacts of the Coronavirus pandemic before making any final rules and issuing any Policy Statement.

What we want to change

1.11 We are proposing a package of measures to improve competition and ensure firms offer fair value products in the future.

- **Pricing remedy (Chapter 3):** we propose rules to change the way firms price home and motor insurance. We propose that, when a firm offers a renewal price to a customer, that renewal offer price should be no greater than the equivalent new business price that the firm would offer a new customer.
  This would stop firms increasing prices for customers based on their tenure. This includes customers who may be unaware of existing pricing practices and are less likely to shop around or negotiate at renewal. We do not expect the same harm to recur in the future as firms would need to ensure they offer the equivalent new business price to existing customers.

- **Product governance (Chapter 4):** We are proposing changes to the existing product governance rules in our PROD sourcebook to ensure firms have processes in place to deliver products that offer fair value to customers.
  The current product governance rules require firms to have appropriate processes in place when manufacturing, distributing and managing products manufactured or significantly adapted after 1 October 2018. We propose to extend the scope of the rules to all general insurance and pure protection products regardless of when they were manufactured. We also propose to enhance the requirements by proposing new rules that require firms to ensure their products offer fair value to their customers.

The new requirements we are proposing apply to core products and additional products, including premium finance distributed alongside insurance products. We also propose some disclosure requirements in relation to premium finance sold alongside insurance products, which we consider are an enhancement of existing requirements.

- **Auto-renewal (Chapter 5):** where contracts are set to renew automatically each year, we have found that some firms do not make it easy for consumers to change their contract. So, we propose to require firms to offer a range of accessible and easy options for consumers who want to cancel auto-renewal on their contract. We propose to apply this remedy to all retail general insurance products, not just home and motor insurance.
- **Reporting requirements (Chapter 6):** we propose new reporting requirements to help our ongoing supervision of the home and motor insurance markets.

The outcomes we are seeking

1.12 Our package of remedies seeks both to improve outcomes for consumers and to change the nature of competition. If this package is successful, we would expect to see a market where:

- Firms compete in effective and innovative ways to provide long term fair value (reflecting both price and quality) for all customers throughout the duration of their relationship with the firm. This is ingrained in their behaviour and underpinned by strong governance. All customers continue to receive fair value over the long term as technological developments advance.
- Firms do not engage in practices that that limit customers' ability to make informed choices. They are transparent with consumers about the overall cost and quality of products from the start. They do not impose barriers to consumers switching to better deals. This helps consumers make more informed choices about which general insurance products meet their needs.
- Customers can trust that firms are offering long term fair value. Consumers who remain with their insurance provider can be sure that they will not end up paying high prices simply because they have not switched provider. They no longer need to search, switch or negotiate at every renewal to avoid price walking.
- Differences in firms' products, including the type of service and quality they offer, in the evaluation of insurance risks, and in pricing structures, maintain the incentive for consumers to search and switch in the market. This drives competition and helps to ensure that all consumers receive fair value. Over the longer term, new technology helps make it easier and quicker to search and switch to better deals.

Measuring success

1.13 We will put in place a strong supervisory approach to ensure firms comply with any rules we implement. We will start to monitor the impact of these remedies immediately on implementation and undertake a longer-term evaluation to understand how our remedies are affecting the market.

1.14 The reporting proposals, set out in Chapter 6, would help us to measure success. The data we propose to collect from firms would allow us to track changes in the market and to identify firms that continue to charge some customers disproportionately high premiums. We would use this information in our supervisory engagement with firms to hold them to account.

1.15 We also intend to review the effects of the remedies approximately a year after implementation and to conduct a full post-implementation evaluation, 2 years after implementation, or earlier if deemed appropriate.

Next steps

1.16 We are seeking views on our proposals. We ask questions throughout this CP, which are also collated in Annex 1. Please send us your comments by 25 January 2021. We intend to publish a Policy Statement in Q2 2021 with our response to the consultation feedback and our final rules.

1.17 We propose that any new rules would come into effect 4 months after we publish our Policy Statement.

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

2 The wider context

The harm we are trying to reduce

2.1 The harms we have identified in the market study are:

- Distorted competition – firms do not focus on providing long term value to all consumers: Competition can be intense to attract new customers by focusing on offering low headline prices. These prices do not reflect the true long-term cost of home and motor insurance policies. Firms then increase margins for customers who stay with them over time.

- Higher prices for customers who do not switch or negotiate, many of whom are less aware of current pricing practices: Firms' pricing practices are complex and opaque and do not make clear the true lifetime cost of home and motor insurance policies. This leads some consumers to believe their renewal price is more competitive than it is. Firms also use practices that can discourage consumers from looking for better deals at renewal. These practices do not enable consumers to make effective and informed choices in these markets.

- Higher overall searching and switching costs for consumers: To avoid paying higher prices than they need to, consumers must spend significant time shopping around and switching or negotiating with their existing provider. Shopping around and switching is generally good for competition and can benefit consumers, for example where consumers want to find better quality products or better service. However, shopping around and switching merely to avoid price walking takes time and effort and can impose unnecessary costs on consumers and firms. This can lead to higher prices overall.

- High acquisition costs being passed onto customers: We think it is likely that firms know that some customers will be very profitable over the long-term. This may mean they are willing to spend significant amounts to acquire them. These costs may then be passed on to customers through higher prices.

2.2 See the final report for the market study for further discussion on these harms.

2.3 We have also identified wider concerns in the insurance market, relating to product governance and fair value more generally.

How it links to our objectives

Competition

2.4 Our proposals are designed to improve the way general insurance markets operate. At present, competition is not working effectively in the interests of all consumers. This is discussed in more detail in Chapter 3 of our final report.

Consumer protection

2.5 Ineffective competition is leading to poor outcomes for many customers. Our proposals are designed to reduce harm for these customers. Again, this is discussed in more detail in Chapter 3 of our final report.

Wider effects of this consultation

2.6 Our proposals should have a significant impact on the way general insurance markets work. We consider that intervention is needed to address the harm we have found in the market and that it is necessary for us to impose new requirements to reframe the way home and motor insurance is priced across the industry.

2.7 It is essential that firms' senior management are held accountable for delivering the desired outcome of this intervention. We propose to require a senior person in each firm to confirm each year that the firm is complying with the pricing remedy.

2.8 Our product governance proposals complement the pricing intervention but would also apply to a broader range of general insurance and pure protection products. They would require firms to consider how they offer fair value products to customers. These rules should also help drive changes in firms' culture and behaviour.

2.9 As well as our focus on changing firms' behaviour, we want to help competition work more effectively in the interests of consumers and help ensure they are making more informed decisions. We know that customers find it difficult to engage with these issues and we are not relying on changes in customer behaviour alone to drive improvements. However, making it easier for customers to cancel the auto-renewal of existing contracts will remove an unnecessary barrier to customers engaging with the market. We propose to apply this remedy to all retail general insurance products, not just home and motor insurance.

2.10 To help us supervise the market and to check that the pricing rules are being followed, we need to gather information on a regular basis. We are proposing to gather a proportionate range of information from home and motor insurance firms (both insurers and intermediaries) that would alert us to potential non-compliance issues. Where we have concerns, we can follow-up with individual firms to request more detailed information.

Equality and diversity considerations

2.11 We have considered the equality and diversity issues that may arise from the proposals in this CP. Customer research for the market study by London Economics, in association with YouGov and Kudos Research, found that, at present, younger customers are less likely to renew their contracts with the same insurer and older people are more likely to renew. The proposals set out in this CP might therefore have an impact on groups with the protected characteristic of age under the Equality Act 2010.

- Where older people renew regularly with the same insurer and currently pay higher prices than equivalent new business customers, they might find their insurance premiums are reduced to the equivalent new business price.

- Where younger people currently shop around regularly for insurance, they might find the premiums offered by new insurers increase as a result of our proposals. This is because new business discounts might not be as common or significant.

2.12 In our October 2018 review of pricing practices in household insurance, we raised a concern over the potential use of data based on race/ethnicity within firms' pricing models to produce different offered prices. We found no evidence of direct discrimination but we did find that firms were using datasets (including datasets purchased from third parties) within their pricing models which may contain factors that could implicitly or potentially explicitly relate to race or ethnicity. We remind firms that they need to ensure that the data they use in pricing does not discriminate against customers based on any of the protected characteristics under the Equality Act 2010.

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

Application to firms based in Gibraltar and firms in the temporary permissions regime

2.13 To ensure all firms serving customers in the UK are subject to the same rules, we propose to apply the rules on which we are consulting to Gibraltarian firms and firms in the temporary permissions regime.

Gibraltarian firms

2.14 Firms based in Gibraltar can sell insurance into the UK. We consider that it is important for them to be subject to the same rules as firms authorised in the UK, to ensure effective competition in the interests of consumers and an appropriate degree of consumer protection. We therefore propose to apply the rules set out in this CP to firms based in Gibraltar doing regulated business in the UK whether from an establishment here on or on a services basis.

The temporary permissions regime

2.15 The UK left the EU on 31 January 2020 and entered a transition period. During the transition period, EU law continues to apply in the UK. Firms are also currently able to provide services on a cross-border basis under relevant EU directives. After the transition period, at the end of this year, firms will no longer be able to provide passported services in this way.

2.16 The UK has a temporary permissions regime to allow inbound firms to continue operating in the UK within the scope of their current permissions for a limited period after the end of the transition period, while seeking full UK authorisation, if necessary.

2.17 Our approach is that any new rules we create will not apply to temporary permission firms, unless we expressly apply them.

2.18 We are proposing to apply the rules set out in this CP to firms in the temporary permissions regime, whether these firms are doing regulated business from an establishment in the UK or on a services basis, as well as to firms authorised in the

UK. This will ensure effective competition in the interests of consumers and that UK customers are subject to the same protections if they buy insurance from a firm in the temporary permissions regime.

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?**

3 Pricing remedy

3.1 In this chapter, we outline our proposal to introduce a pricing restriction for home and motor insurance. We propose that, when a firm offers a renewal price to a consumer, that renewal price should be no greater than the equivalent new business price that the firm would offer a new customer.

3.2 This aims to prevent firms from price walking consumers. The remedy ties the renewal price to the equivalent new business price. Therefore, firms would not be able to increase prices for renewal customers without also increasing the prices they offer the new business customers. We expect that our proposal will also tackle high prices for existing customers who have already been price walked.

Background

3.3 In our interim report, we found extensive evidence of price walking in both the retail home and motor insurance markets. Many firms price policies using estimates of how much a consumer is expected to pay over the projected duration with their insurer. This is known as lifetime value pricing. Using this method, firms win new customers through introductory discounts and recover these initial losses by increasing the premium over time.

3.4 This approach is not made clear to consumers and our analysis shows that many consumers are unaware that their renewal price is not competitive. This results in many longstanding customers, with a lack of understanding of firms' pricing practices, paying very high prices for their home and motor insurance. To address these concerns and help achieve our vision for general insurance markets, we propose to introduce a pricing remedy in both the home and motor markets.

Proposals

3.5 In the following sections, we outline our proposal to introduce a pricing remedy in the home and motor markets to ban price walking. We explain how we expect this to work for firms in different scenarios, for example when dealing with closed books or giving discounts. We also propose measures to guard against firms acting in a way that frustrates the intended outcomes and set out proposals for firms to confirm each year that they comply with the remedy. We provide further detail of why we are putting forward this remedy and the alternative pricing restrictions considered in Section 5 of the final report.

A ban on price walking

3.6 We propose that, where a firm offers a renewal price to a consumer, this should be no greater than the equivalent new business price the firm would offer a new customer.

3.7 When calculating an equivalent new business price, a firm must assume that the customer has approached the firm through the same distribution channel and is using the same payment method as when they first bought their policy.

3.8 When offering a renewal price, the firm must set the price on the same basis as if the policyholder were presenting as a new customer. This does not mean the renewal price for a consumer could not change over time. The equivalent new business price used to calculate the renewal quote may differ from last year's premium due to changes in the:

- consumer's risk since they became a customer or the last renewal
- the firm's margin (the amount of the price charged above or below the cost of underwriting the risk and serving the policy) for all customers
- pricing model that might alter margins across customers, as long as that change does not systematically lead to higher prices for renewal customers

3.9 Firms may wish to consider whether using the same pricing model for new business and renewal customers would support a firm's approach to ensuring that the firm does not differentiate customer prices according to tenure or any proxy for such information.

3.10 Where more than one firm is responsible for setting the renewal price, firms should take reasonable steps to ensure the other firms have followed the pricing rules, such as by seeking verification from them.

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

Closed books

3.11 In both the home and motor markets, some products are offered as renewal contracts to existing customers only or are not actively marketed to new customers. These are known as closed books.

3.12 In the market study, we identified a number of firms with closed books. Some of these firms had an active new book as well as their closed book, while others had no active new books.

3.13 Under our proposals, firms that have both closed books and currently active new books must benchmark their closed book renewal prices against a comparable new business offer price.

3.14 Firms can only use books that are actively marketed or distributed as a benchmark for renewal prices of closed books.

3.15 In some cases, a firm may only have closed books and not have actively marketed or distributed products to use as a benchmark. For such closed books, firms must ensure each customer's renewal price does not systematically discriminate against customers based on their tenure, as well as assuring itself of the value of the product relative to similar products available to new customers in the market.

3.16 In this way, the remedy is designed to allow firms freedom to develop and offer new products for sale as part of normal competition to meet customer desire or needs. However, when offering new products, firms must still ensure that the renewal prices offered to customers with existing products comply with the pricing remedy and offer fair value to those customers.

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

Anti-avoidance measures

3.17 We are also proposing that our pricing rules would make clear that operating in a way which frustrates the intended outcomes of the pricing remedy would be a breach of those rules. This could include, for example, arranging their business in ways that result in consumers of longer tenure systematically being offered renewal prices that exceed the price for a new customer or the quality of service or cover enjoyed by customers of longer tenure being lower than that enjoyed by customers of shorter tenure

3.18 Our proposed rules would also require firms to have appropriate policies and procedures to ensure that their pricing practices are consistent with the overall intended outcome and objectives of the pricing remedy rules.

3.19 We will also, as always, consider whether any conduct by a firm is inconsistent with our Principles and the ICOBS requirement to act honestly, fairly and professionally in the customer's best interests.

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

Attestation

3.20 We are also proposing a rule requiring regular confirmation from a senior manager that the firm's pricing models comply with the pricing remedy. The first confirmation would be required 3 months after the rules come into force. After that, we propose to require confirmation each year.

3.21 We propose to require firms to keep records of their considerations under the pricing remedy requirements. For example, we would expect firms to keep documentation of sufficient detail showing how they were satisfied that their pricing model complies with our rules.

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?

Individual and multi-product discounts

3.22 Currently, some firms offer a better price or terms to a customer who contacts them in response to their renewal offer price. Our proposed remedy does not prevent such negotiation, so a firm would still be able to make a revised offer below the quoted renewal offer price.

3.23 When offering multi-product pricing (such as combined home and motor insurance) firms would be required to comply with the same pricing rules for the combined price and any components within scope of the rules. So, firms would be able to offer a discount for taking both policies with the same firm. However, the combined renewal price offered to the consumer must be no higher than the equivalent combined new business price.

Q9: Do you have any comments on our proposals for multi-product discounts?

Distribution channels

3.24 The pricing rule would apply to all insurers and all intermediaries involved in price-setting. This means our pricing restriction would apply to each stage in the price setting chain.

3.25 For example, insurers often provide insurance to an intermediary at what is termed a 'net rated price'. The intermediary then then sets a 'gross price', which is the final retail price the consumer pays (with the addition of Insurance Premium Tax (IPT)). An insurer would be required to set the net rated price for renewal so that it did not exceed the net price to an equivalent new customer. An intermediary that adds commission to a net price would be required to set a gross price no greater than would be offered to an equivalent new customer.

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

Additional products

3.26 We propose to apply these rules both to the price of the home or motor policy and to additional products, such as other types of insurance and premium finance that may be sold with the policy. Currently, the price for additional products and premium finance typically do not usually differ between new and renewing customers. Our proposal is that the renewal price for additional products, including premium finance, must be no greater than that offered to an equivalent new customer. Firms would also have to ensure that these products offer fair value. We discuss this further in the next chapter.

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

4 Product governance

4.1 In this chapter, we propose amendments to the rules on product oversight and governance that apply to general insurance and pure protection products, such as term life insurance. We also propose rules for firms offering or arranging premium finance to help finance a retail contract of insurance.

4.2 These proposals are designed to ensure firms focus their behaviour on delivering fair value products to customers and have strong governance and oversight arrangements in place to support this. This would be achieved by both broadening the scope of the current regime in our Product Intervention and Product Governance Sourcebook (PROD) and enhancing it with new obligations on firms to address the harms identified in the interim report and the wider concerns we have identified in the insurance market.

Background

4.3 We have long been concerned with how firms design and distribute their products. The then Financial Services Authority (FSA), now FCA, introduced The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD) guidance in 2007 to set out our expectations of firms under rules including the Principles for Businesses. This guidance applies to all sectors we regulate, including insurance.

4.4 We have specific rules on product oversight and governance for insurance firms in Chapter 4 of PROD. We introduced them as part of the implementation of the Insurance Distribution Directive (IDD) and they took effect on 1 October 2018. The content of PROD 4 came not only from IDD, but also reproduced provisions from a delegated Regulation which is directly applicable to firms in scope of the IDD that manufacture and distribute insurance products. We also included some additional rules where we considered them relevant.

4.5 PROD 4 applies to new products, or significant adaptations of existing products, made on or after 1 October 2018 and requires firms, among other things, to:

- Maintain, operate and review a product approval process before products are marketed or distributed.
- Specify a target market for each product including, where relevant, identifying groups of customers for whom the product is generally not compatible.
- Design products to be compatible with the needs, characteristics and objectives of the target market.
- Select distribution channels that are appropriate for the target market, and take steps to ensure that the product is distributed to the target market.

4.6 In November 2019, we published guidance on our insurance distribution rules, including in Chapter 4 of PROD, Chapter 2 of ICOBS and Chapter 19F of SYSC, for general insurance distribution chains. This sets out our expectation that firms should consider product value when designing and distributing non-investment insurance products, including the need to act in accordance with wider Handbook rules including the Principles and the customer's best interests rule in Chapter 2 of ICOBS. The proposals below build on our previous expectations, including under this guidance, and transpose aspects of this guidance into Handbook rules.

4.7 In the market study interim report, we said that we were considering making changes to the PROD rules. Our suggested changes included:

- applying the PROD rules to all products, not just those manufactured or significantly adapted on or after 1 October 2018
- requiring firms to consider the value of the product to the target market, and
- that a senior manager should take responsibility for the value of products to the target market

General insurance value measures policy statement

4.8 Alongside our final report, we have also published a policy statement on value measures. This introduces new rules for reporting and publishing value measures data across a wide range of general insurance products.

4.9 These rules also include product governance requirements designed to help address the risk of firms not delivering fair product value and to reduce the risk of unsuitable general insurance products being sold. The value measures-related product governance requirements (based in the PROD Sourcebook) will, from 1 January 2021, introduce new requirements for firms to ensure that products offer fair value, taking into account a range of factors. We consider that the proposals set out in this CP complement and build on these value measures rules.

Proposals

4.10 We think that the product governance rules can be improved in some key areas, which we have set out below.

Enhancing the requirement to ensure products offer fair value to customers

4.11 We propose to amend our rules to require manufacturers and distributors to consider whether their products represent fair value for customers. This would build on the distribution chain guidance and the rules introduced as part of our work on value measures.

4.12 Our proposals include measures to :

- Set out that value means the relationship between the total price to the end customer and the quality of products and services. We have also set out the factors firms must take into account when carrying out a value assessment.

- Require manufacturers to consider the value of the product through their product approval process. Manufacturers (whether insurers or intermediaries) would be required to ensure that products are intended to provide fair value to the target market.

- Introduce an evidential provision to make clear that we consider certain price optimisation practices would not offer fair value. Examples include, pricing based solely on whether the customer is using auto renewal or premium finance or if the customer has characteristics that might indicate vulnerability. Firms are reminded of the need to meet their obligations under the Equality Act 2010, including to avoid unlawfully discriminating against actual or potential customers due to protected characteristics when setting prices or in their insurance products.

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

Application to products manufactured before 1 October 2018

4.13 The PROD rules currently only apply to new products being manufactured, or to significant adaptations of existing products, on or after 1 October 2018. This captures a significant proportion of products on the market but there are many existing products which have not been required to be put through a PROD-compliant approval process.

4.14 We propose to apply the PROD rules, including the new rules, to all general insurance and pure protection (non-investment) products, regardless of whether they are newly manufactured or have been significantly adapted. Firms would need to apply a product approval process to existing products which do not currently fall within PROD scope. Where PROD already applies, firms would need to update their approval for any products to take into account the new requirements on fair value. In both cases, we expect firms to complete this within 1 year of the rules coming into effect, and to take steps to ensure products provide fair value going forward.

4.15 Our proposed product governance rules are intended to be forward-looking and focus on firms ensuring the products they manufacture or distribute in the future are providing fair value, including at renewal. We do not expect firms to assess the past performance of products against standards that were not in place at the time. However, if, as part of its review process, a firm discovers that its products or practices were in breach of rules that applied at the relevant time, then they should consider taking appropriate steps to remedy any consumer harm.

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

Application to non-investment insurance products and additional products

4.16 Our existing rules in PROD 4 apply to all general insurance and pure protection products. We propose that the changes to PROD outlined in this chapter, should apply with the same scope. In our view, the requirement to provide fair value products is equally relevant to, and consistent with our approach for, all insurance products. This would apply irrespective of whether the insurance product is sold as a core product or as an additional products.

4.17 Where a customer buys a policy and additional products, including premium finance, as a package, value should be considered for each individual component and in the aggregate. This includes premium finance, where this is a component of the package.

> **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?**

Ongoing review and remedial action

4.18 We propose to introduce a minimum requirement to review products at least every 12 months which we expect would already be the usual minimum review period for many products. Firms would need to consider if a more frequent or ad hoc review is necessary because a product has a higher risk of generating harm for customers.

4.19 We propose to introduce new provisions setting out the actions that firms should consider if they find their products are not providing fair value.

> **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?**

Requirements on product distributors

4.20 In addition to the changes for product manufacturers, we also propose to make changes to the product governance rules for insurance distributors. These rules would complement the proposed changes to the requirements for manufacturers. Distributors would be required to:

- Ensure that they understand the value assessment that the manufacturer has undertaken, so that they can distribute the product accordingly.
- Consider the impact that their distribution strategy and process has on the value of the product. This includes considering any remuneration they receive as part of the distribution strategy, and ensuring that it does not result in the product failing to offer fair value to the end customers. The rules set out a number of matters which distributors should consider.
- Provide information to support the manufacturer in their product reviews. This includes information on remuneration where this has an impact on the value of the product.
- Amend their distribution processes if they identify it results in harm to customers. This should include taking appropriate remedial action.

4.21 We are also taking this opportunity to remind distributors of their existing obligation to meet all relevant insurance distribution requirements. This includes the requirement under ICOBS 5.2 to assess customer demands and needs before concluding a contract of insurance. Firms are reminded in particular that ICOBS 5.2 applies at renewal, as well as for new business. Firms need to ensure they have sufficient up-to-date information to be able to assess customer demands and needs before arranging a renewal contract for long-standing customers.

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

Premium finance

4.22 We remind firms that premium finance is an additional product and is subject to existing rules within the Insurance Conduct of Business Sourcebook (ICOBS) and, in particular, the requirements in ICOBS 6A.2 (optional additional products) and 6A.3 (cross-selling). When selling insurance with premium finance, we also remind firms that the remuneration, or associated incentives, firms receive in connection with it, must be consistent with the firm's obligations under ICOBS 2.5-1R. Firms must not propose premium finance arrangements to customers where this would be inconsistent with the firm's obligations, including the customers' best interest rules. For instance, where the firm proposes premium finance with a higher annual percentage rate (APR) than would be available elsewhere (for example, directly from the insurer, or from another finance provider), based on the remuneration the firm will receive, this may conflict with the firm's obligations including the customers' best interests rule.

4.23 Where firms offer or arrange premium finance to finance a contract of insurance, we propose to require that firms ensure that:

- They give clear information about the cost of premium finance arrangements, and make clear to customers that the use of premium finance makes the contract more expensive.
- When firms give customers a choice on whether or not to take out premium finance, they must do more than simply ask the customer to choose between paying monthly or annually.
- Firms are not influenced by remuneration to offer premium finance at higher rates of interest than are available elsewhere. To meet this requirement, firms will need to review regularly the premium finance they offer to ensure that it does not adversely impact the value of the product. We understand that many firms will have existing arrangements with premium finance providers, and will currently receive remuneration from them. Some of these may be exclusive arrangements. Firms will need to consider whether these arrangements are compliant with the existing requirement to act in the customer's best interests and the new requirement to deliver fair value.

4.24 We will look closely at firms increasing the cost of premium finance to offset changes to the cost of the insurance product. Where the customer faces higher costs for the insurance product as a result of paying on credit, for example due to a higher premium compared to the cost if paying without credit, the additional cost may constitute a credit charge and, if so, the APR must reflect these costs. If it does not, firms may be in breach of the Consumer Credit Act 1974 and the associated regulations.

Q17: Do you have any comments on our proposals for premium finance?

Senior manager responsibility

4.25 Firms are reminded a firm's governing body has ultimate responsibility for the product governance arrangements for non-investment insurance products including the product approval process. To this end, their governing body will need to ensure that the firm is complying with all relevant product level requirements whether in PROD 4 or elsewhere, including ICOBS 6B.

4.26 While we are not proposing to make any changes to the Senior Management and Certification regime at this stage, we remind firms that they must have a senior manager responsible for compliance with the regulatory system. This includes product governance and pricing. We expect both manufacturers and distributors to set out clearly which senior manager has responsibility for these areas. As discussed in Chapter 3, we are also proposing that firms must confirm each year that they comply with the pricing remedy.

> **Q18:** **Do you have any comments on our proposals for senior manager responsibility for compliance with our proposed remedies?**

Contracts of large risk and reinsurance contracts

4.27 We are not proposing to make any change to the current exclusion from PROD rules for products which are contracts of large risks and reinsurance.

5 Cancelling auto-renewing policies

5.1 This chapter sets out our proposals to require firms to:

- clearly explain at point-of-sale and at renewal whether a policy is set to auto-renew and what this means for the consumer
- provide consumers with a range of accessible and easy options to stop their policy from auto-renewing
- communicate these options to consumers at point-of-sale and at renewal, and
- not impose unnecessary barriers on customers wanting to stop auto-renewal

Background

5.2 We are concerned that some firms are using auto-renewal in a way that could discourage consumers from switching when it would be in their interest to do so. Some firms can impose unreasonable barriers on consumers exiting auto-renewing contracts, for example, requiring contact by phone rather than allowing cancellation online.

Proposals

Proposed changes to our rules

5.3 We propose to require firms to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing.

5.4 Firms would be required to provide consumers with the option to stop their contract from auto-renewing using a range of methods including:

- by telephone
- email or online, and
- by post

5.5 Our rules would not prevent firms from offering additional channels for consumers to stop their contract from auto-renewing, such as by text message.

5.6 We also propose guidance setting out that an easy method is one that does not place any unnecessary barriers on the customer. For example, if a consumer 'phones a firm to stop their policy from auto-renewing, they should not face excessively long waiting times or unnecessary questions to do so. Similarly, the process for cancelling auto-renewal online or by post should be straightforward.

5.7 The rules would require that consumers can make use of these options at any point during the contract term.

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?

5.8 Under our proposal, firms would also need to communicate the options available to consumers to stop their contract from auto-renewing. This information would need to be given at the point-of-sale and in good time before renewal.

5.9 Finally, to guard against consumers taking out a policy that auto-renews without understanding the implications, we propose the addition of rules to require firms to explain whether a policy is set to auto-renew and what that means for the consumer.

Q20: Do you agree with our proposed rules and guidance in relation to auto-renewal?

Product scope

5.10 Our proposals for auto-renewal apply to all types of retail general insurance.

5.11 The main benefit of these proposals, that barriers to exit are reduced, apply across all types of general insurance. Our Financial Lives Survey has shown low levels of awareness among insurance customers about whether their policy will auto-renew. For example, 26% of respondents with mobile phone insurance and 12% of respondents with pet or home emergency insurance say they don't know whether the policy automatically renews. As such, we think our proposals are likely to have a similarly beneficial impact on all consumers across the general insurance market.

5.12 We also consider that the proposals have a low risk of causing harm to consumers. For example, we consider the risk that they could lead to some consumers becoming uninsured is relatively low. This risk is one reason we are not consulting on taking forward some of the other remedies, such as banning the use of auto-renewal, we set out in our interim report to address barriers to switching. See the final report for more discussion on this point.

Q21: Do you agree with our proposal to apply the auto-renewal measures to all types of general insurance?

6 Reporting requirements

6.1 This chapter sets out our proposed requirements for firms to submit regular information to us for home and motor insurance. This reporting is designed to help us monitor the effectiveness of our remedies package and its impact on the market.

Background

6.2 Our proposals seek to ensure a balance between getting sufficient data to help us monitor the market effectively, while not placing an unreasonable burden on firms. The data we propose to collect is not designed to provide a deep-dive analysis of firms' pricing models. Instead, the data should provide a snapshot of firms' pricing practices, changes over time and highlight where further investigation or follow up might be needed to get information to support a more detailed analysis.

6.3 We considered other options, including requiring all firms to provide us with transaction-level pricing information. We do not consider this would be proportionate. We expect the metrics set out below would provide sufficient information to enable us to monitor the market, alongside ongoing supervision.

6.4 Reporting is one part of our overall supervisory approach to the pricing practices remedy package. As set out in Chapter 3, we propose requiring that a senior person at a firm confirms that they are complying with our pricing rules and that their pricing practices do not discriminate against customers of longer tenure. Where we have deeper concerns, or want to test implementation of the new rules, we may also use other supervisory tools, including requiring that firms undertake a skilled person's review, using the approach set out in SUP 5 of the Handbook.

6.5 We are not proposing to publish any data we collect through monitoring requirements on a regular basis. However, we may choose to do so in future if we consider there would be value in doing so, for example to increase scrutiny of firms' pricing practices.

6.6 We consider that our reporting proposals are complemented by the value measures rules that we published today. These rules require firms to report and publish value measures data, including claims frequencies, claims acceptance rates, average claims pay-outs and claims complaints as a percentage of claims, across a wide range of general insurance products. These rules give an indication of the value consumers receive from general insurance products and help support our assessment – alongside the reporting proposals set out in this consultation – of how well the market is working for consumers.

Proposals

Proposed scope of the reporting requirements

6.7 We propose to require firms to submit regular reports to us for retail home (home-only, contents-only and home and buildings) and motor insurance. Where firms sell additional products, including premium finance, alongside this insurance, we also propose to gather information about those products.

Q22: Do you agree with our proposed scope for the reporting requirements?

Reporting granularity

6.8 Consumer outcomes can vary depending on a range of factors, including sales channel, tenure and book of business. We propose to require firms to submit data split by these factors to better reflect consumer experiences.

6.9 In order to understand the impact of our remedy package on customers we propose to gather information for each product, split by:

- The sales channel, including direct (phone, online and branch), intermediated, intermediated via price comparison websites, and affinity/partnership channels. This will allow us to see if customers experience different pricing outcomes depending on the distribution model that firms use.
- The length of time a customer has held their insurance with the firm. For example, we would ask for information for new business customers and for customers who have held polices from 1 to 10 or more years. This would allow us to see if prices continue to rise with tenure.

6.10 We will also ask firms to provide us with information for each product by:

- Large books of business (100,000 or more policies).
- Closed books of business.

6.11 Information on these books of business will need to be split by product and tenure but not by sales channel.

6.12 We also propose to require insurers and price-setting intermediaries to split out parts of their reporting on a net-rated and gross-rated basis. This is to ensure we gather information to understand the differences in outcomes for customers that may occur under different business models. We are not requiring that price-setting intermediaries report data on large books and closed books of business.

Q23: Do you agree with our proposed reporting granularity?

Reporting metrics

6.13 The metrics set out in this section aim to help us assess whether prices are higher for some groups of customers relative to others and where there may be value issues.

Monitoring compliance against the pricing remedy

6.14 To help monitor compliance against our pricing remedy, we propose to require firms to report the following data:

- *The total and average premium charged to customers, net of Insurance Premium Tax*
  This information would show how much, on average, customers are paying by tenure and for different sales channels.

- *Net and gross price for intermediated and affinity/partnership sales*
  This information would help show the difference between the net price charged for a product (the technical price set by an insurer) and the gross price the final customer pays.

- *The number of policies sold/renewed during the reporting period*
  This information will help us understand changes to customer numbers.

- *The number of policies in force at the reporting date*
  This information would show the distribution of customers across firms, by tenure.

- *Expected claims cost*
  This shows how much an insurer expects to pay out in claims. By comparing this to the total premium, it can give an indication of the product's expected value.

- *Expected claims ratio*
  The expected claims ratio estimates how much of the premium paid by customers is expected to go towards the costs of claims and other operational costs. Looking at the expected claims ratio across tenure and over time could provide an indication of where some customers may not be receiving value for their product.

Identifying instances of consumer harm

6.15 To help identify where there may be instances or pockets of consumer harm, we propose requiring firms to submit the following data:

- *The proportion of customers with average expected claims ratio 10 percentage points and 30 percentage points below the average for the reporting channel*
  This information would help us understand whether some customers within a tenure group are paying much more than others in that same group. Typically, home and motor products would have expected claims ratio of 50% or higher.
  Where a firm has an average claims ratio of 50% for a reporting channel, they should report the proportion of customers with expected claims ratio 40% or below and 20% or below for that reporting channel.

- *Gross incurred claims ratio at an aggregated level*
  This information would help us understand the actual claims experience of firms. It shows the ratio of claims settled against the premiums collected in a year. Higher ratios indicate that more money is being paid out in claims, so this is an indication that the product could represent better value to customers.

- *Total prior year's reserve releases*
  Reserve releases come about where the amount held in reserve to pay notified claims in the prior year was greater than the amount actually paid out in claims. This data will help us understand where firms have had to release surplus reserves to manage incurred claims ratios.

- *Total prior year's reserve strengthening*
  Reserve strengthening comes about where the amount held in reserve the prior year to pay notified claims in the prior year was set below what was actually paid out. This data will help us understand where firms have had to strengthen reserves to manage incurred claims ratios.

- *The proportion of customers paying high and very high premiums, defined as a premium 1.5 times to 2 times (high) or more than 2 times (very high) the average across the product.*
  Firms would be required to report the percentage of their customers, by product, paying premiums considered high and very high. This information would show where some customers may be paying more than average for their product and whether paying above average is linked to tenure. For example, if the data shows that in one of a firm's books of business, more longstanding customers pay high or very high premiums than shorter-tenure customers, we might want to explore this further with the firm. We would seek to assess this metric alongside average expected claims costs or average claims ratio.

Monitoring the market

6.16 We are concerned that some firms may seek to respond to our remedy package by raising prices for premium finance, additional products, or fees and charges to compensate. So, in addition to the metrics laid out above, we propose to gather the following information:

- *Premium finance charged to customers (total charged, number of policies sold with premium finance, APR range)*
  We would be asking firms to provide us with information on the total amount of premium finance charged during the reporting period and the number of policies sold with premium finance. Gathering information on APR would help us understand the changes to the costs of policies with premium finance.

- *Additional products (total charged and number of additional products policies sold)*
  Additional products are products sold alongside the main insurance policy. We propose to ask firms to provide us with information on the total amount charged for all additional products sold with the core product during the reporting period and the total number of additional product sales.

- *Pre-contractual fees and charges (average charged, total charged and number of policies sold with charges)*
  We would be asking firms to provide us with information on all pre-contractual fees and charges separate to the premium (eg policy administration charges, brokers' fees, partner/affinity charges) to monitor changes over time.

- *Post-contractual fees and charges (average charged, total charged and number of policies sold with charges)*
  We would be asking firms to provide us with information on all post-contractual fees and charges separate to the premium (eg midterm adjustments and cancellation fees) to monitor changes over time.

6.17 We will analyse the metrics we are gathering to monitor compliance against our pricing remedy on an ongoing basis to understand market compliance. We intend to use metrics on pockets of consumer harm and market changes to analyse trends over time to understand outcomes.

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?

Reporting responsibility

6.18 Responsibility for reporting the data in paragraphs 6.14 and 6.15 would fall on insurers and price-setting intermediaries. The data in paragraph 6.16 would be required from insurers and all intermediaries, not only price-setting intermediaries.

6.19 We propose that intermediaries working with Gibraltarian or temporary permissions regime insurers must report in the same way as firms working with UK authorised insurers, as explained above.

6.20 Both insurers and intermediaries would be expected to report even where data may overlap.

Q26: Do you agree with our proposals on reporting responsibility for insurers and intermediaries?

Reporting period and frequency

6.21 We propose to collect data on an annual basis, using calendar years (1 January to 31 December). We consider annual reporting appropriate as most insurance products provide cover for 12 months.

6.22 We propose that firms must submit their pricing practices report on or before 31 March each year.

6.23 Initially, we would need data from firms soon after any rules come into force in order to monitor market changes. So, we propose that firms should submit quarterly data, using a secure FCA mailbox. We will expect firms to submit quarterly reports until the 12-month transition period has elapsed and firms are able to submit their first full annual report. For example, if the rules come into effect in June 2021, we would expect firms to start submitting quarterly data to us from September 2021 until they submit a full-year report during the 12-week window from 2 January 2023.

6.24 We also propose to ask that firms notify us if they make significant changes to their pricing models that might lead to potential problems for customers.

Q27: Do you agree with our proposals on reporting periods and frequency?

Annex 1
Questions in this paper

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

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

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?**

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

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

Q6: **Do you have any comments on our proposals to address practices that aim to frustrate the intended outcomes of 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 multi-product discounts?**

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

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

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

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

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?**

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?**

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

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?**

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?**

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?**

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

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?**

Annex 2
Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents the analysis and estimates of the impacts of our proposals. We provide monetary values for the impacts where we believe it is reasonably practicable to do so.

3. This cost benefit analysis is set out in the following sections:

- Problem and rationale for intervention
- Our proposed interventions
- Baseline and key assumptions
- Summary of costs and benefits
- Costs
- Benefits
- Distributional effects between customers
- Revenue effects on other firms in the distribution chain

Problem and rationale for intervention

4. In October 2019, we published the interim report of our general insurance pricing practices market study. The interim report found that the home and motor insurance markets are not working well for all consumers.

5. Alongside this Consultation Paper, we have published our final report for our General Insurance Pricing Practices Market Study. The final report sets out the harms in the market and the underlying drivers on both the demand-side and supply-side. These interact with one another to generate the outcomes we see in the market today. Together, these drivers cause harm in the form of high prices for consumers who do not switch or negotiate at renewal, and high overall switching costs. We observe these drivers of harm in both the home and motor insurance markets, though to a larger extent in the home market.

6. The scope of some of the proposed remedies is wider than home and motor to ensure consistency in related markets. We are applying our remedy on auto-renewing policies as barriers to exiting auto-renewing polices apply across all types of general insurance. The requirement to provide fair value products is equally relevant to all insurance products.

Our proposed interventions

7. Our package of interventions includes:

- **Pricing remedy:** We are proposing that when a firm offers a renewal price to a consumer, that renewal price should be no greater than the equivalent new business price that the consumer would be offered by the firm. The remedy ties the renewal price to the equivalent new business price. Therefore, firms would not be able to increase prices for renewal customers without also increasing the prices they offer the new business customers.
- **Product governance:** We propose to apply the amended PROD rules to all non-investment insurance products, not just those manufactured or significantly adapted after 1 October 2018. Firms will need to assess all existing products within 1 year of the rules coming into effect, and take appropriate actions to ensure that products provide fair value going forward. The proposed changes would apply in the same way to both the core product and additional products, including premium finance sold with insurance. We have also proposed new disclosure requirements where insurance distributors offer customers retail premium finance and the need for firms to consider their remuneration arrangements in relation to premium finance.
- **Cancelling auto-renewing measures:** We propose to require firms to provide customers with a range of accessible and easy options to stop their general insurance policy from auto-renewing. Firms would be required to provide customers with the option to stop their contract from auto-renewing by telephone, online (including via email), and by post. Firms will also need to tell customers of the options available to customers to stop their product auto-renewing. This information would need to be communicated in good time before any contract is entered into, whether on first sale or on renewal.
- **Reporting requirements:** We also propose to collect data from firms on an annual basis to support our supervision of compliance with the pricing remedy. In the first year the data will be submitted quarterly.

8. Our remedy proposals affect different insurance products and different customer groups:

- Our pricing remedy applies to consumer motor and home insurance and additional products sold alongside them (including premium finance), as do our reporting requirements.
- Our proposals on cancellation of auto-renewal apply to all general insurance.
- Our proposals on product governance apply to all retail and commercial GI and pure protection insurance, as well as premium finance sold alongside insurance.

Table 1: The scope of our proposed remedies

Remedy	Products subject to the proposed rules	Types of firm subject to the proposed rules
Pricing	When sold to consumers (except when arranged as group policies as defined in the FCA Handbook) the following products would be subject to the proposed rules: • home insurance: buildings, contents and combined buildings and contents • motor insurance: insurance for any vehicle sold to a consumer Additional products sold alongside the above products, including premium finance	Applies to firms, including intermediaries, that have a role setting any part of the premium for insurance products within scope of the remedy, or any other element of the final price paid by the consumer
Product governance	The following products, whether sold to retail or commercial customers, would be subject to the proposed rules: • all general insurance policies and additional products sold alongside them, including premium finance (except contracts of large risk and reinsurance) • all pure protection insurance (except reinsurance)	Applies to firms manufacturing or distributing products within scope of the remedy.
Auto-renewal	All general insurance products would be subject to the proposed rules.	Applies to all firms selling products within scope of the remedy.
Reporting	As for the pricing remedy, the following products, when sold to consumers, except when arranged as group policies (as defined in the FCA Handbook), would be subject to the proposed rules: • home insurance: buildings, contents and combined buildings and contents • motor insurance: any vehicle sold to a consumer Additional products sold alongside the above products, including premium finance	Most of the proposed requirements apply to firms, including intermediaries, that have a role setting any part of the premium for products within scope of the remedy. Some of the proposed requirements apply to intermediaries that do not have a price-setting role.

9. In figures 1 to 3, we set out how we expect our proposed intervention, if implemented, to lead to a reduction in the harm. We have not included a causal chain for the reporting remedy as the reporting remedy enables us to effectively monitor the impact of the other remedies in the motor and home insurance markets.

Figure 1: Causal chain for our pricing remedy

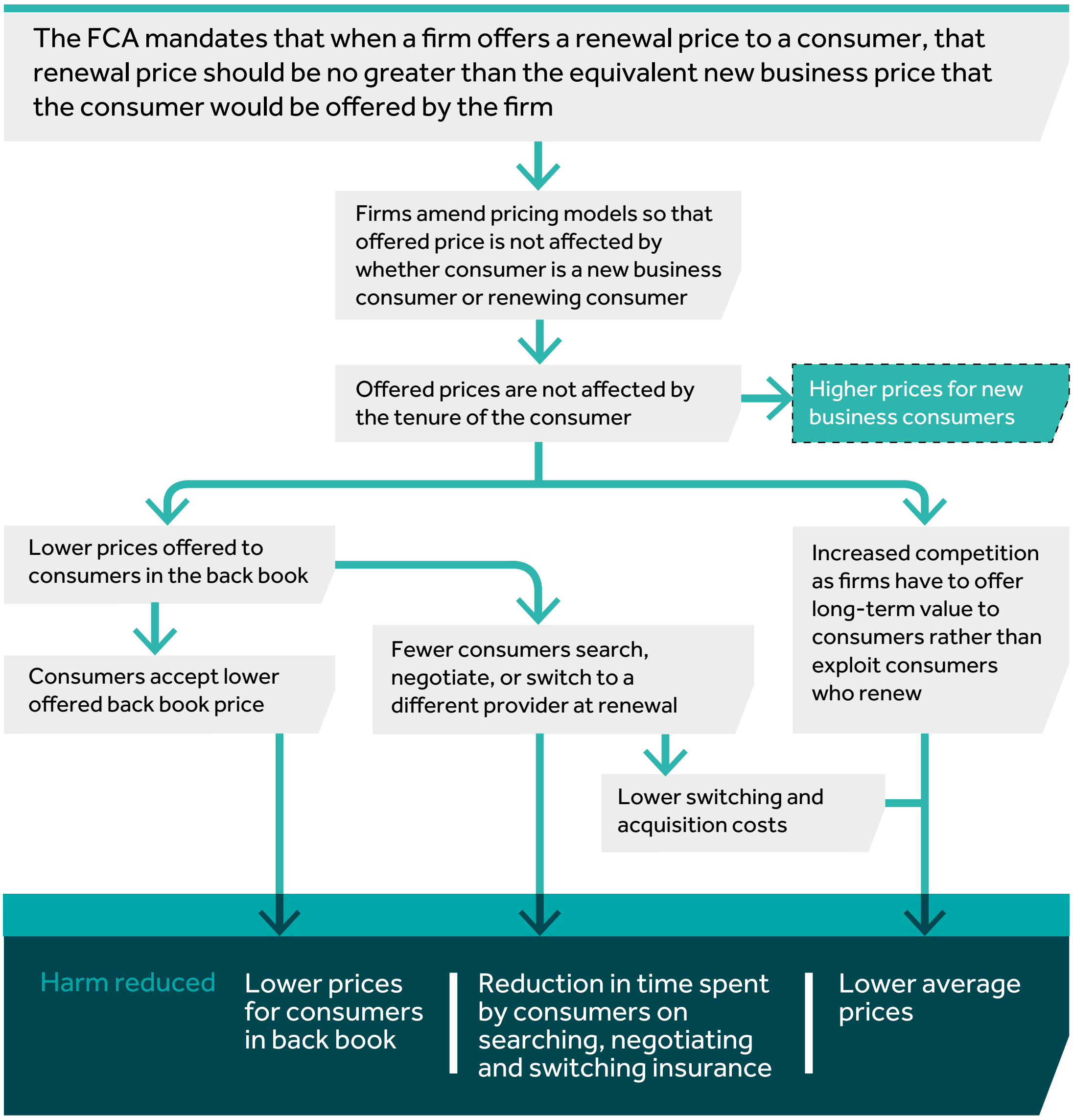


Figure 2: Causal chain for our product governance remedies

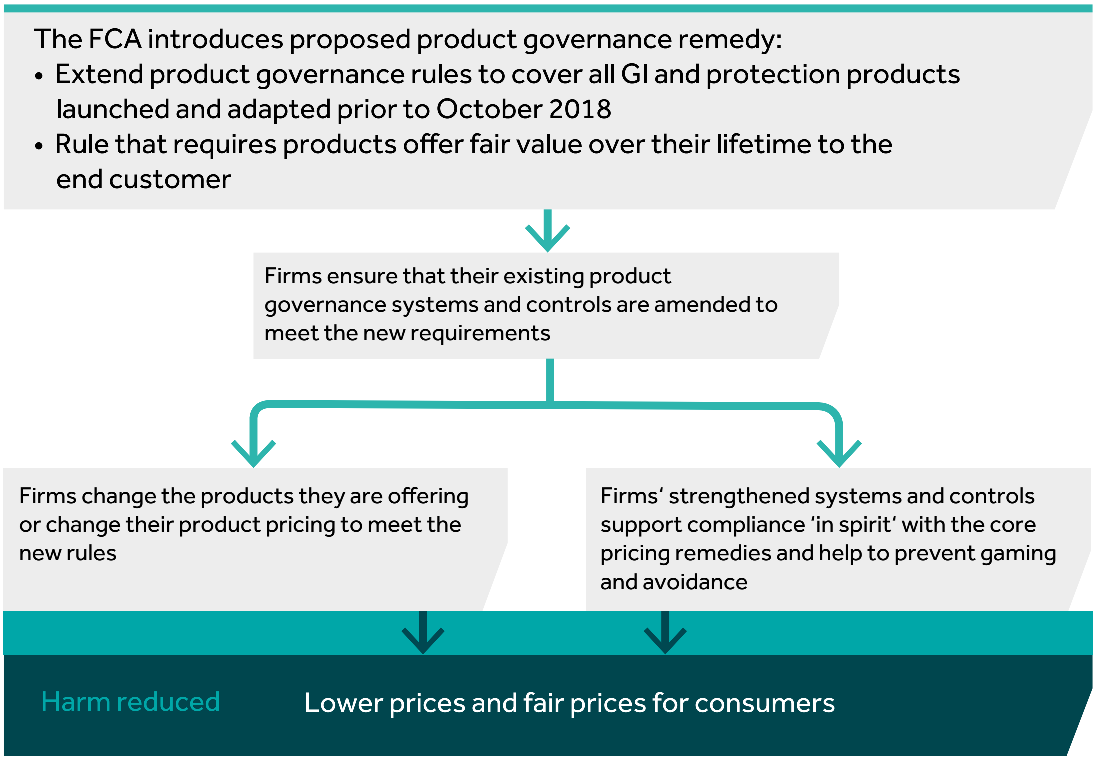
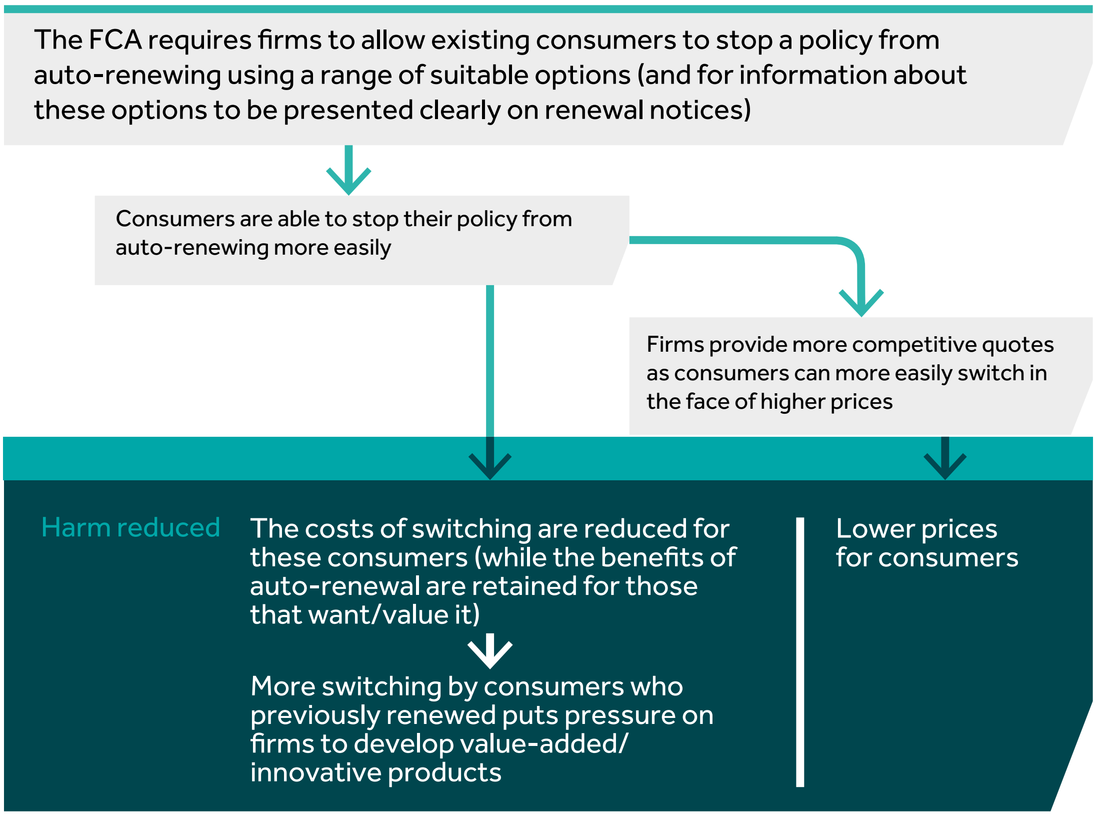


Figure 3: Causal chain for our remedy to make cancelling auto-renewal easier



Baseline and key assumptions

Analysis of baseline

10. To assess the impact of our proposed remedies we need to compare the remedies we are proposing with what would happen absent our proposals. We have qualitatively assessed the baseline but also modelled the development of the motor and home insurance sectors. We describe our modelling of the baseline in the next section (and in more detail in Annex 2: Simulation of remedy impact).

11. As part of the interim report, we published an annex on future trends in insurance. In the coming years, we might expect that there will be changes that impact on the motor and insurance sectors. For example, changes in technology (such as self-driving cars) or the impact of climate change on the risk associated with home insurance. It is difficult to predict with any certainty how the market will change over time but we expect that while the market will change in the longer term we do not foresee any material changes in the next few years that would affect the nature of our analysis or assessment of the appropriateness of the proposals in this Consultation Paper.

12. We have now also published our GI value measures rules. These include requirements that firms have in place procedures to ensure that, on a continuing basis, GI products offer fair value to customers in the target market, and take into account a number of things such as the value measures information. We did a cost benefit analysis when we consulted on those rules so we do not assess the impact of the value measures rules in this cost benefit analysis.

13. Our proposed remedies build on existing requirements. In the following paragraphs, we consider how these existing requirements are captured in our baseline and in our assessment of the impact of our remedies.

14. Prior to October 2018, insurance products were subject to the guidance in the Responsibilities of Providers and Distributors for the Fair Treatment of Customers sourcebook (RPPD), which set out expectations under our rules including various of the Principles. Since 1 October 2018 and the introduction of the Insurance Distribution Directive (IDD) in PS18/1, PROD 4 of the Product Intervention and Product Governance Sourcebook (PROD), relating to the manufacture and distribution of insurance products, has been in place setting out rules, guidance and reproducing provisions of directly applicable EU legislation. Any products that were either newly developed, or significantly adapted, on or after 1 October 2018 are subject to these PROD rules (and where relevant the directly applicable provisions in the IDD delegated act on product governance). Products manufactured before that date remain subject to product governance requirements under our high-level rules explained in non-handbook guidance in the RPPD and elsewhere.

15. In November 2019 we published *The GI distribution chain: Guidance for insurance product manufacturers and distributors* (FG 19/5) which set our expectations of how firms should consider the value of the insurance products they offered.

16. In this CBA, we intend to estimate the costs and benefits of the remedies proposed in this Consultation Paper only, and not those of the above, already existing, requirements. In this section, we outline whether any costs or benefits brought about by existing requirements could, however, have been included in our estimates of the impact of the proposed remedies.

17. We asked firms to provide us with costs estimates for potential remedies. When responding to our survey, firms would have already implemented any necessary systems and controls changes to meet the requirements of PROD 4 and therefore we would expect that firms took PROD 4 and the subsequent guidance on value as given and provided us with estimates that relate to the additional costs of our remedies.

18. Given that the value measures rules have only now been confirmed, firms may not have used these rules as the baseline for assessing the additional cost of complying the proposals set out in our interim report. Therefore, we might expect that we are overestimating the costs of our proposed package here.

19. Our benefit estimation is based on data collected prior to the rules and guidance introduced in FG19/5 and PS18/1, as well as the value measures rules. Therefore, to the extent that some of the benefits we present here were brought about by these previous initiatives, there might also be some overestimation of our benefits.

20. We do not think that the impact of any of the new PROD rules, the guidance and value measures would materially affect our estimates of the costs and benefits of the package of remedies assessed in this cost benefit analysis.

Impact of Coronavirus

21. Coronavirus has affected the GI and protection markets. We consider these effects and how this affects our baseline.

22. We have identified three main effects:

- During the early part of the crisis and during the peak of lockdown, there was a significant reduction in the number of journeys by car and therefore a significant reduction in the risk that car insurers had to cover for their customers (see Transport use during the coronavirus (COVID-19) pandemic). This was temporary in nature but may lead to longer term changes in behaviour. For example, there has been an increase in the use of cycling during the crisis. In August, the number of car journeys had broadly recovered to previous levels and therefore broadly we would not expect to see material changes in risk over the longer term.
- The pandemic has led to a significant impact on the economy and financial position of insurance customers, both in the short-term but also in the coming year. There will likely be an increase in the amount of significant financial distress for some households. This might reduce demand for insurance. For example, people might stop driving (and therefore no longer require cover) or reduce their insurance coverage for their property. There might also be greater numbers of uninsured drivers or uninsured property owners (even when required by mortgages contracts). More uninsured drivers may increase costs for insured drivers and their insurance in the event of crashes (as the costs of uninsured drivers falls on insured drivers through funding for the Motor Insurers' Bureau).
- There was a significant reduction in the level of switching and use of price comparison websites during the initial stages of the crisis. We would expect this impact to be short-term and switching levels to have recovered by the time of implementation of our remedies.

23. We collected the data used to inform this cost benefit analysis prior to the coronavirus situation. We have considered whether there are any of the above effects of the crisis that we should take into account in our analysis. We have considered the impact of

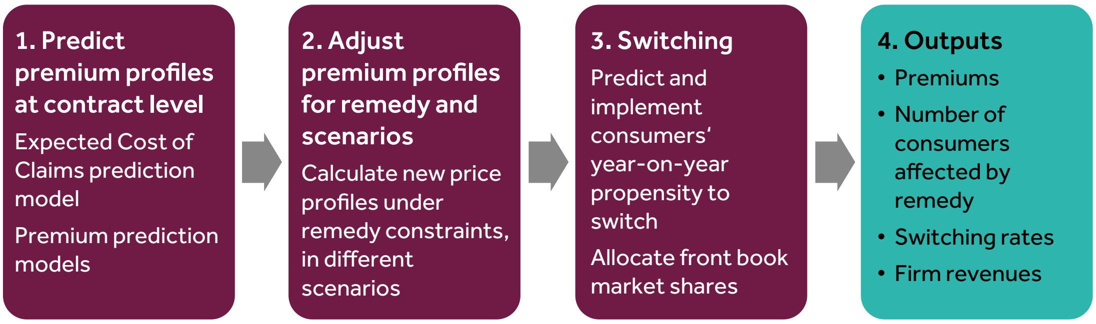
coronavirus and current economic conditions, and whilst these have clearly had an effect on general insurance and pure protection markets, they have not materially impacted their structure or the way they function. Nor is there clear evidence to suggest that coronavirus will lead to long term impacts on the size of the affected markets and hence materially affect our baseline. Therefore, we believe that our estimates of the impact of our remedies remain a reasonable prediction of the outcome from our proposed remedies.

Simulation of the pricing remedy

24. To estimate the impact of our pricing remedies, we have simulated the pricing against the baseline (where we do not implement the pricing remedy). The simulation exercise, which is described in more detail in Annex 2: Simulation of remedy impact, lets us compare market outcomes in the baseline scenario to the proposed pricing remedy scenario. We also use the results of this modelling to estimate the impact of our remedy to make it easy for consumers to stop their motor or home insurance policy from auto-renewing for motor and home insurance.

25. The process shown in Figure 4 describes the simulation exercise at a high level. The process consists of several steps that involve a combination of empirical and theoretical models, described in the boxes.

Figure 4: Overview of simulation exercise



Key assumptions

26. To enable estimation of the impacts of the remedies, we have made some assumptions.

27. As with any data analysis, there has to be a point at which data collection ends and data analysis begins. The data we collected and analysed ends in July 2018 so captures the nature of the market up to this point in time. We acknowledge that the industry has taken steps to reduce prices for consumers paying very high margins in the recent past. ABI and BIBA published their 'Guiding Principles and Action Points for General Insurance Pricing' in May 2018. The review of this initiative found that there were pricing interventions across motor and home of £641 million over 20 months. We would expect that this has reduced the prices some consumers have paid when renewing insurance, especially those paying very high prices. This would have the effect of reducing harm we have identified and lower the benefits to consumers of lower back-book prices we set out in the benefit section of this cost benefit analysis. Nevertheless, without the regulatory measures proposed in this consultation paper, we would expect incentives for firms to charge higher prices to renewing consumers to remain. As the data we collected ends in July 2018, it is unlikely to identify much of the effect of the May 2018 guidance. We do not think it would have been proportionate to collect significant further amounts of data to try to include the effect of these principles in our baseline. This is because the data collection would have been a significant burden for firms and for us and we do not believe having more recent data would materially affect our assessment of the overall proportionality of our remedies.

28. As part of the market study, we are also developing our approach to open finance in the insurance sector. Any proposals we bring forward on this will have a cost benefit analysis at the time we consult on our proposals and have not been included as part of our baseline here.

29. We have also made some important assumptions in our simulation, as described in Annex 2: Simulation of remedy impact. One important assumption in the simulation is how firms rebalance prices under the pricing remedy. To model this, we consider two scenarios. In the first scenario, to set the margins for front-book customers, we assume firms multiply the premiums of new contracts under the baseline with a market-level 'uplift' factor such that the expected profit (i.e. the margin) of the average contract in that market remains the same as in the baseline. In the second, we cover a situation in which greater competition, due to consumers being better able to compare premiums for longer tenures, drives a reduction of the average profit of new contracts. We apply the same method as in Scenario 1, but now the uplift factor is calculated on the assumption that the new margin level will yield 80% of the expected profit compared to the baseline. With these scenarios, we can illustrate the potential effects of our proposed pricing intervention. They should not be taken as the upper and lower bounds of the expected impact. Rather, the two scenarios provide two different illustrations of the impact of the pricing remedy. It is important to note that the two scenarios are based on empirical inputs: notably the market-level cost information provided to us by firms. We chose 80% because operational cost data submitted to us by firms indicated losses below this level.

30. We have discounted the estimated costs and benefits that occur in the first ten years of the remedies to enable comparison between costs and benefits falling at different times over these 10 years. We have used a 3.5% discount rate. In our simulation, we assume a 2% increase in claims costs per year. Hence, the simulation outputs of revenues and prices are nominal rather than real variables. We must put them into a single price base to enable comparison with other costs and benefits in this cost benefit analysis so we convert them to real prices assuming a 2% rate of inflation.

Summary of costs and benefits

31. Costs and benefits are estimated in present value terms over ten years.

32. We have estimated the main costs as compliance costs of implementing our package of proposals of £1.06bn.

33. It is not possible to quantify all of the benefits from our remedies, but the key benefits are:

- £3.7-11.0bn in the form of lower prices as a result of increased competition from our pricing remedy and the reduction of prices for consumers in the back book in motor and home insurance. This saving is a transfer from firms to consumers and is therefore also a cost to firms in the form of a reduction in revenue. The range reflects the two scenarios we have used in our simulation model rather than a lower and upper bound.

- A reduction in inefficient switching from our pricing remedies in motor and home insurance (£503-594m in lower costs to firms and an additional £294-346m for consumers in time savings).
- A direct saving in time for customers for our remedy on auto-renewals in general insurance (because customers will spend less time having to go through the process of cancelling auto-renewal) (£189-191m).
- Efficiency benefits from competition, which are likely to be substantial but we may not have fully estimated. Competition benefits are included in one of the two pricing remedy simulation scenarios, but our simulation only gives an indication of the potential price reductions for consumers from greater competition. It is not reasonably practicable to estimate how improvements in competition will lead to efficiencies in the supply of insurance or bring new consumers into the market. But we have explained why and how we think these will materialise.

34. Further unquantified benefits from the governance remedies and premium finance requirements. These benefits arise across all general and pure protection insurance (including additional products and premium finance) as customers buy fair value insurance and consequently pay lower prices or purchase insurance with greater coverage or better service.

Table 2: Summary of costs and benefits for package of remedies (discounted over 10 years)

	Costs	Transfers from firms to customers and between firms	Benefits
Firms	Compliance costs – £1.06bn	Reduction in revenue – £3.7-11.0bn Loss of profit within the distribution chain – not quantified	Reduction in cancellation and new policy costs as customers switch less – £503.5-594.1m
Customers			Lower average prices for customers renewing – £3.7-11.0bn Customer time saving from fewer switches– £294.3-345.9 million Time saving for customers who stop their insurance policy from auto-renewing – £189.3-191.4m Further benefits of competition – Not quantified Fairer value and more suitable purchases in general and pure protection insurance – Not quantified

35. There are important distributional effects within the costs and benefits in terms of transfers between firms and customers (as described above), transfers between firms and transfers between customers. These considerations are important for understanding the likely impact of our proposals:

- Transfers between firms: the largest revenue effects will be felt by firms that have engaged in price walking most in the past. We would expect that the insurance market will change as a consequence of this package of remedies, with firms successfully adjusting their business models. Improved competition will redistribute market shares, revenue and profits between firms and potentially across the distribution chain as switching falls and firms ensure customers receive fair value from the distribution chain.

- Transfers between consumers: consumers overall gain considerably from our proposals, both from a reduction in the average prices they pay and in avoiding the time and effort taken to switch insurance policies. Some of those consumers who switch regularly, though, may be worse off. The extent of any upward pressure on prices will be significantly constrained by the intensity of competition for new customers, which we expect to continue to be strong.

36. We consider that the policy package is net beneficial. The overall impact of the proposed remedy package is to lower prices for consumers and reduce the time spent switching. We estimate the total benefits from reduction in inefficient switching and inefficient auto-renewal cancellation (£1-1.1bn) to be at least as high as the estimated compliance costs to industry. We also expect benefits for consumers of £3.7-11bn from lower prices. Although this is a transfer from firms to consumers, we note that the revenue loss for firms is a direct effect of tackling the price walking harm identified in our Market Study. Finally, as noted above, we have not been able to fully quantify all the competition benefits resulting from the package of remedies.

Costs

37. This section sets out the costs of our package of remedies. We consider:

a. the compliance costs of each individual remedy and the costs to firms of familiarising themselves with the proposals
b. the revenue costs to firms from the pricing remedy, which are a transfer to consumers and a benefit to them as a result of tackling the harms identified in the market study
c. the revenue impact of the auto-renewal remedy.

Compliance costs

38. Firms will incur costs in implementing and operating processes to comply with the remedies. Some of these costs will be one-off as firms adjust their systems and processes, while other costs will continue beyond the first year for firms to meet the requirements on an ongoing basis.

39. This section sets out our approach, analysis and estimates for the compliance costs of our package of remedies.

Approach to estimating compliance costs

40. To investigate the costs of potential remedies, we sent out a survey to 30 firms who supply motor and home insurance in October 2019 and received 21 responses in December 2019. The survey asked firms to estimate the costs to implement several different potential policy proposals that would seek to address the harms identified in the market study.

41. We used the responses from firms to refine and assess our approach to the development of the remedies. Therefore, the proposals we are consulting on do not precisely match the remedies for which we asked firms to provide cost information. We have used the costs from this survey to estimate costs of our proposed remedies where we believe those costs are reasonable estimates of the costs imposed by our remedies.

42. To avoid bias, the sampling unit we used for the survey was at group level. We group together insurers, distributors and managing general agents where they are subsidiaries in the same group. Collecting information from only underwriters or distributors would have created biases in our estimates and would have ignored the overall cost of the proposals on industry. This is because the compliance costs from the remedies are likely to arise at different stages of the supply chain of insurance. For example, our requirements on pricing may lead an underwriter to change their pricing approach. Equally, where a distributor sets prices, costs from the pricing remedy will fall on the distribution stage. Costs will fall differently on underwriters or distributors depending on the business model that is used by a particular provider.

43. We estimate that there is a population of 66 groups of companies providing motor or home insurance. For assessing the costs of the remedies, we have split these firms into two categories: small and large. Large groups are those providers who have more than £500m in Gross Written Premium in motor and home insurance. We use this distinction as there are significant differences in the size of different groups in our sample and in the population of groups. In response to our survey, larger firms typically reported much larger costs. These differences can be seen in our cost estimates where the average costs for large groups are much larger than for smaller groups. While our survey covered only a relatively small number of firms we have captured a significant part of the overall insurance market with these firms.

44. Our non-pricing remedy proposals affect different numbers of groups:

- Our proposals on cancellation of auto-renewal apply to all general insurance sold to customers, rather than only motor and home insurance. We expect that up to 200 retail insurance groups will be affected by these proposals.
- Our proposals on product governance apply to all general and pure protection insurance (both retail and commercial), which we assume affects around 390 groups.
- As well as applying to the groups affected by the pricing remedy, some of the reporting requirements apply to intermediaries that don't set prices for motor and home insurance. We estimate there are up to 2,100 firms affected.

Table 3: Number of groups affected by our remedies and motor and home insurance groups responding to our compliance costs survey

	Number of groups				
	Responded to the survey (motor & home)	Affected by the pricing remedy (motor and home)	Affected by the easy cancellation of auto-renewal remedy	Affected by the governance remedy	Affected by the reporting remedy (motor and home)
Small	11	55	185	365	55 groups (plus up to 2,000 distributors of motor and home insurance)
Large	10	11	15	25	11
Total	**21**	**66**	**200**	**390**	**c. 2,100**

45. We have estimated the costs of all groups involved in the supply of the affected insurance products. Within our sample are groups that have entities in Gibraltar or passporting EEA firms. We have also included these types of firms in our overall assessment of the costs of our proposed remedies.

46. In the survey, we asked firms to provide cost information on a variety of remedies covering pricing, governance, changes to auto-renewal, sunlight, reporting. For each remedy, we asked firms to report costs in the following categories: analysis and modelling, IT, training, terms and conditions, strategy, governance, customer transaction and sales, inbound customer engagement and other. For our governance and auto-renewal remedies, we asked firms to report the costs of applying remedies to all general insurance.

47. In their responses, respondents sometimes did not classify their expected costs among the categories, but provided an overall estimate of the costs by remedy. This was often because it was not straightforward to provide detailed cost estimates for the high-level description of a potential remedy. Some respondents did not provide cost estimates for all remedies as they felt they needed more information and more time to consider the impact of particular options to come up with cost estimates but most firms provided an estimate even if uncertain about the precise impact. Whilst it is possible that the non-respondents on the costs of particular remedies might incur higher than average costs for particular remedies, it is also possible that some may incur lower than average costs. We do not expect our estimates to be severely biased one way or another by these non-responses. We consider that the number of responses we had is a sufficiently sound basis to extrapolate costs for the entire industry.

48. We have made several **assumptions** in how we use the costs provided by survey responses to provide an estimate of the costs of our proposals. Where we have needed to make assumptions to estimate costs, we have made assumptions that will likely overestimate the costs rather underestimate them. The assumptions we have made are:

- Where firms have provided ranges, we have used mid-points for the cost estimates. Additionally, some firms provided only upper bounds for their cost estimates. In these instances, we have used this upper bound as the cost estimate.
- We assume that the costs are additive and that there are no synergies from implementing remedies together. This is because we collected information on remedies individually without asking how costs would change if implemented together, because at the time of asking there were too many permutations to ask firms to respond in this way. In reality, we would generally expect some synergies from implementing the package of remedies together. However, in some instances, implementing remedies together may increase costs as additional resources may need to be used. For example, external consultants may need to be used to enable multiple remedies to be implemented. We do not attempt to adjust costs for these impacts.
- We have used the costs reported by home and motor insurance groups and applied them to the whole industry for the non-pricing remedies. We asked motor and home insurance groups about the cost of applying our renewal and product governance remedies to all their general insurance business. We then apply these costs to non-motor and home groups. We believe the costs of motor and home insurance groups are a reasonable proxy for the costs to the wider set of groups affected. We think this is reasonable as similar processes are likely to be used for different products.
- Our product governance remedies additionally apply to pure protection insurance so in our cost estimates we have reflected the greater coverage of these remedies by applying the survey costs also to groups which provide pure protection only. We have also adjusted costs to recognise that groups selling general insurance will incur higher costs than reported in the survey. This is because our remedy covers pure protection as well as general insurance, but in the survey we only asked firms about the costs of applying these rules to general insurance. We have assumed that the additional cost of applying the remedies to pure protection is proportional to the relative size of pure protection to general insurance. Again, we think this is reasonable as similar processes are likely to be used in reviewing and monitoring pure protection and general insurance.
- We asked firms to provide the costs of any other adjustments they expected to make to their business as a consequence of each pricing remedy proposal in our costs survey. Most providers did not provide any additional costs for this category. Those firms that did report additional costs reported either redundancy costs or additional costs from reviewing partner contracts to ensure compliance. There may be redundancy costs as firms adjust business models but also as pricing may be simpler under our proposals and hence less resources may be required to set prices. We have not included the redundancy costs, as over time redundancy reduces the ongoing resource costs that firms would incur rather than purely increasing one-off costs. We would expect the ongoing saving to outweigh the one-off cost and therefore we are overestimating the costs by doing this.
- We have not split the costs between motor and home insurance or other types of insurance. This is because we asked firms to provide costs of the pricing remedies for motor and home combined. Most providers in our sample sell both motor and home insurance. We expect that there will be some synergies implementing our remedies together for different types of insurance and hence the costs of implementing the remedies together for different types of insurance will not be the sum of implementing the remedies separately for motor and home insurance.
- We have omitted a large ongoing cost saving for one firm who reported that there would be a reduction in firm calls. This is because the benefits of lower transaction costs from our pricing remedy are estimated separately in our assessment of

the reduction in switching. However, we note that we may underestimate these benefits as we have not explicitly measured the benefits from reduced customer complaints or queries that arise from our pricing remedies.

- Part of our reporting remedy applies to intermediaries who do not set prices, in addition to those intermediaries that set price. We assume that reporting costs for these firms are 25% of the cost of groups for the wider reporting remedy. We think this is reasonable as the data requirements are smaller. We might also expect that the data collection required by these firms needs fewer resources to collate.

Summary of compliance costs

49. The following tables set out our overall estimates for the compliance cost of our package of remedies. We then explain the compliance costs of each of these remedies in turn.

Table 4: One-off costs by remedy and group size

	Average costs, £ 000		Total costs, £m		
	Small group	Large group	Small group	Large group	Total
Pricing	1,740	5,770	95.6	63.5	159.1
Product Governance	170	840	60.9	21.0	82.0
Auto-renewal	220	2,680	40.8	40.3	81.1
Reporting	20	120	37.9	1.3	39.3
Total			**235.3**	**126.1**	**361.4**

Table 5: Ongoing costs by remedy and group size

	Average costs, £ 000		Total costs, £m		
	Small group	Large group	Small group	Large group	Total
Pricing	120	170	6.4	1.8	8.2
Product Governance	80	150	28.4	3.8	32.3
Auto-renewal	90	330	17.0	5.0	22.0
Reporting	10	70	20.8	0.7	21.5
Total			**72.5**	**11.4**	**83.9**

Pricing remedy

50. We have analysed and estimated the costs of implementing the pricing remedy in two parts to reflect the fact that we asked for cost estimates separately in our cost survey, when the precise nature of the intervention was still being determined. Firstly, we consider the one off and ongoing cost of implementing the ban on price-walking. We then consider the one-off compliance costs from applying the pricing remedy to existing customers.

A ban on price walking

51. We did not specifically ask firms for costs on this remedy in our survey. We therefore estimate the costs of this remedy using the estimates for the closest remedy that we asked information for in our survey. We asked firms to provide estimates of the costs of fixing the margin charged at the first purchase of their policy. This potential remedy option has a similar effect to the remedy we are proposing – rather than fixing the margin over time, firms have to offer a renewal price no greater than the equivalent new business price to the consumer. We think the costs of this similar proposal provide the best indication of the likely costs of our remedy.

52. We note that our remedy also applied to additional products sold alongside motor and home insurance. We are not aware of any insurers that price walks additional products sold alongside motor or home insurance and therefore we do not believe any compliance costs arise from this element of the remedy.

53. The costs of the remedy are presented in Table 6.

Table 6: Costs of implementing a ban on price walking

	Average costs, £ 000		Total costs, £m		
	Small	Large	Small	Large	Total
One-off	750	2,430	41.1	26.7	67.9
Ongoing	120	170	6.4	1.8	8.2

54. Most firms' one-off costs arise from firms changing their IT systems and undertaking the analysis and modelling to comply with the remedy. Firms that sold insurance through intermediated channels said that there would be significant IT costs in complying with any pricing remedy for these channels.

55. The ongoing costs of the proposals are more evenly spread over different cost categories. Firms still allocated significant costs to IT and analysis. We might expect that these additional costs would reduce over time as pricing under the remedy becomes business as usual and because pricing decisions will be simpler under our proposals. However, in our analysis we have not made any adjustment for this reduction in costs over time.

56. One large respondent only provided costs for some parts of their business. This was because assessing the impact on some elements of their business was particularly challenging. We do not think that this omission will materially affect our cost estimates.

Applying the pricing remedy to existing customers

57. In this section, we consider the one-off compliance costs from applying the pricing remedy to existing customers.

58. In our survey, we did not ask firms for the costs of the precise remedy we are proposing to implement to address high back-book costs. We asked firms to report on the costs of resetting customers to the new business prices once they had renewed three or more times. We have therefore used cost estimates for this similar potential remedy to estimate the costs of this particular remedy. Although different in terms of effect on outcomes in the market, we think the implementation and compliance costs are likely to be similar. This is because the changes required to systems to reset prices will be similar, even if the changes apply to a different cohort of customers. We also note that we might be overestimating costs as our analysis estimates the cost of the pricing remedy by aggregating the costs of two different remedies but, in reality, there is only one pricing remedy.

59. To estimate the costs of our proposed intervention, we therefore assume that firms incur (i) the one-off costs from implementing this potential remedy and (ii) only one year of the ongoing costs reported in the survey, as consumers in the back-book have their prices reset to the new business premium. We add in this one year of ongoing costs as some of these ongoing costs may be incurred in resetting the prices of consumers in the existing back book in the year after we implement this remedy as consumers come up for renewal. There will not be any ongoing compliance costs from this element of the pricing remedy as it is a one-off exercise.

60. There is an argument that these costs might underestimate the costs of this remedy. This is because we are applying the remedy to all back-book consumers rather than only those who have renewed three or more times. We do not think this will mean we materially underestimate the costs as the implementation costs will be largely fixed in nature. For example, changing systems to ensure that the prices set comply with the requirement.

61. We report our estimated average and total costs in Table 7. We have included one year of reported ongoing costs in the one-off costs. There are no ongoing costs in subsequent years.

Table 7: Costs of applying the remedy to existing customers

	Average costs, £ 000		Total costs, £m		
	Small	Large	Small	Large	Total
One-off only	990	3,340	54.5	36.7	91.3

62. Where firms did categorise costs, they mostly related to IT or analysis costs. In cases where this is outsourced, firms indicated an increase in transaction costs to software houses to calculate both new business price and renewal price. Respondents apportioned the largest share of costs to IT development (45%). Other costs indicated included calling up customers for additional information, making inferences about customers who do not respond to data requests, broker price engine changes (i.e. changing IT for sending prices sent to brokers) and testing requirements.

Attestation

63. We also propose that a senior person attests to the fact that their firm's pricing meet the pricing rules. As part of this process, we propose to require firms to keep records of their considerations under the pricing remedy requirements and to consider appropriate expert input and advice to check they are complying with the rules. We acknowledge that firms may incur some additional costs to ensure this senior person is satisfied that the obligations are met. We do not believe that the new requirements significantly increase the costs of our remedies. This is because we would expect firms to ensure that their business is complying with the proposed new rules and to have evidence of their actions under existing high-level systems and controls rules, regardless of whether there are specific requirements on a particular senior manager, for records to be kept or expert input to be sought. The cost of the attestation itself is minimal once a senior person has satisfied themselves the requirements are met.

Product Governance remedies

64. This section provides analysis and estimation of the compliance costs of the product governance remedies. We provide costs for the changes to the scope of PROD and the requirement for firms to ensure products offer fair value. We also consider the impact of the additional product governance requirements.

Changing PROD scope

65. The FCA Handbook contains a Product Intervention and Product Governance Sourcebook (PROD). Chapter 4 of PROD applies to insurance intermediaries and insurers, with respect to product governance arrangements they must have in place for manufacturing and distributing insurance products.

66. Product governance relates to the systems and controls firms must have in place for the design, approval, marketing and ongoing management of products throughout their lifecycle.

67. Currently, PROD 4 only applies to products introduced or significantly adapted after 1 October 2018. The proposed remedy would introduce a new application provision in PROD to the effect that PROD 4 will apply to all general insurance and pure protection products (life/sickness/personal accident policies with no investment element) regardless of when the product was introduced.

68. Some firms reported that all their products were already compliant with PROD 4, as it was applied regardless of when it was introduced or adapted, and hence they would not incur additional costs from this requirement. This is likely to be because for these firms it is easier from an organisational perspective to have one process that applies to all products irrespective of when they were manufactured. However, other respondents would incur additional costs.

69. The costs are presented in Table 8. These costs apply to all GI and pure protection rather than only motor and home insurance. As explained above, the costs are extrapolated from our firms' cost survey.

Table 8: Costs of change in PROD scope

	Average costs, £ 000		Total costs, £m		
	Small	Large	Small	Large	Total
One-off	90	480	34.1	11.9	45.9
Ongoing	50	80	16.4	1.9	18.3

70. For large groups that said they would incur costs from this remedy, they reported that the majority of one-off costs arise from reviewing or changing their terms and conditions, and from adapting current IT systems or implementing new ones. Large firms also told us that they expected their ongoing costs also to be largely made up of costs of changing terms and conditions, however increased costs from internal governance procedures were expected as well.

71. Many of the small firms that said they would incur costs from this remedy attributed a large proportion of the one-off costs incurred from this remedy to 'other costs', without specifying what these would be. For the costs that were specified, significant expenses included IT costs and costs arising from reviewing internal governance procedures. The ongoing costs were also largely attributed to analysis and modelling. Revising internal governance procedures also contributed to rising ongoing costs and there was an expectation of a small increase in ongoing IT costs.

Enhancing the requirement to ensure products offer fair value to customers

72. We are proposing to amend our rules to require manufacturers and distributors to consider whether their products represent fair value for customers.

73. These requirements apply equally to core products and additional products including premium finance distributed alongside insurance products. This will involve the manufacturer obtaining all available value related data (for example, distributors' remuneration and a breakdown of the overall cost to customers) in order to carry out a value assessment of the products. Whilst the new rules and guidance will require firms to obtain additional data, we would not expect significant extra costs from this requirement as manufacturers should already have access to some of this (for example, manufacturers should already know the final premium paid by customers for Insurance Premium Tax purposes) and have processes in place to obtain other sales related information from distributors to satisfy the existing requirements under PROD 4 (for example, under PROD 4.3.10EU). We have estimated the average and total costs for small firms and large firms and we present these costs at Table 9. These costs apply to the whole of GI rather than only motor and home insurance. In our survey, we did not ask for the costs of including additional products and premium finance within these proposed rules. There may be additional costs from applying these rules to these products that we have not estimated.

Table 9: Costs of a requirement for firms to ensure products offer fair value over their lifetime to the end customer

	Average costs, £ 000		Total costs, £m		
	Small	Large	Small	Large	Total
One-off	70	370	26.9	9.1	36
Ongoing	30	80	12	2	13.9

74. For large groups, respondents reported that costs arising from this remedy would be from reviewing or changing their terms and conditions, analysis and modelling and reviewing internal governance procedures both for one off and ongoing costs. We expect that the terms and conditions cost category includes costs that arise as firms change their products to ensure customers receive fair value.

75. Some of the small firms that responded to our survey gave high cost estimates that were not attributed to a specific cost category. Therefore, we cannot say how this large proportion of the costs will arise. Costs from changing or revising existing internal processes are a significant proportion for both the one-off and ongoing costs. Analysis and modelling costs were the other significant category of costs for small firms.

Other governance proposals

76. The new rules propose reviews of products and distribution arrangements for products at least once a year. Firms must also consider whether more regular or ad hoc reviews may be required – for example if the product is deemed to be of high risk of customer harm. We do not expect significant additional costs from our requirements on ongoing regular reviews and distribution arrangement reviews after the product has been approved for continued distribution. This is because current PROD 4 rules already require 'regular review' of products. Consequently, we would expect firms already to be undertaking regular reviews of their products and distribution arrangements for products within scope of PROD 4. In our survey, when firms reported the additional costs of bringing other products outside PROD 4 within scope, we expect that they also included the ongoing costs of regular reviews within their estimates.

77. In addition to the changes for product manufacturers, we also propose to make changes to the product governance rules for insurance distributors. The changes include: understanding the value assessment, consideration of the impact of the distribution arrangement on the overall value of the insurance product, providing information to manufacturers to support regular reviews and amending distribution arrangements if they identify harm. We do not expect significant additional costs from these requirements as in FG19/5 we set out our expectation that under existing PROD 4 requirements we expect distributors to consider the impact that their distribution strategy and remuneration has on the overall value of the product to the customer. Also, we would expect distributors to have processes in place to provide relevant sales related information to manufacturers to support their product reviews, under existing PROD 4 requirements (for example, under PROD 4.3.10EU).

78. Nor do we expect significant additional costs associated with the requirements applicable to premium finance sold together with insurance products. This is because these requirements expand on existing requirements rather than placing significant new responsibilities on firms. Premium finance falls within the definition of 'additional products' in ICOBS 6A.2, which requires that firms must not charge for additional products unless the customer has actively elected to obtain that product. Additionally, ICOBS 6A.3.1R requires that, where a non-insurance ancillary product is sold as part of a package with an insurance product, firms must provide customers with an adequate description of the different components and provide customers with separate evidence of the costs and charges of each component. We expect that firms will not need to provide new information to consumers but will need to change the way information is presented and so there may be some costs that arise from this change in presentation.

Cancelling auto-renewing policies

79. We are proposing a new rule requiring firms to provide customers with a range of accessible and easy options to stop their policy from auto-renewing for all retail general insurance products. Firms would be required to provide customers with the option to stop their contract from auto-renewing (by telephone, online (including via email), and by post). We also proposed that firms will need to tell customers if their product is set to auto-renew, what this means in practice and how customers can opt out.

80. In the survey we sent out to firms, we asked them to provide estimates of the one-off and ongoing costs arising from a requirement that they allow customers to cancel auto-renewal at any point for all general insurance policies by each and all of the following methods: online, by telephone, by text message or in writing.

81. This is not identical to the remedy we are proposing, as we do not propose to require firms to offer cancellation of auto-renewal by text. This means that our estimates are likely to overestimate the actual costs of implementing this remedy. For example, one firm told us that to include text capability to cancel renewals would drive a significant proportion of the costs.

82. In the survey, firms reported significant ongoing costs from customer contact from these proposals, both in terms of additional costs in the sales process and ongoing customer contact. We do not believe that firms will incur these additional costs from easy cancellation of auto-renewal as we would expect the changes to mean that cancelling auto-renewing policies will be much cheaper for firms in the future. For example, the additional costs of cancelling an auto-renewing policy online will be close to zero. Additionally, we see no reason why customers will contact their insurer more often as a result of our proposals (other than for cancellation). We have therefore excluded these costs of additional customer contact from our estimates.

83. Cancellation online will reduce resource costs for firms in the longer term. We deal with these savings in the benefits section. We note one large firm reported that there will be a reduction in inbound customer engagement costs such as calls.

84. Our estimates of the average and total one-off and ongoing costs are shown in Table 10.

Table 10: Costs of a requirement for firms to offer easy cancellation for auto-renewal

	Average costs, £ 000		Total costs, £m		
	Small	Large	Small	Large	Total
One-off	220	2,680	40.8	40.3	81.1
Ongoing	90	330	17.0	5.0	22.0

85. For the industry, a significant majority of one-off costs arise from having to update or change a firm's IT infrastructure. These costs will be incurred in changing systems to enable consumers to cancel by the means required (for example, the costs incurred in changing telephone systems to enable easy cancellation by consumers). Our estimates suggest there will be minimal expenditure in other categories. Most ongoing costs were not allocated to a particular category of cost.

Reporting Requirements

86. We are proposing to implement a requirement for firms to report information to the FCA on an annual basis on motor and home insurance. Our proposals cover insurers, price-setting intermediaries and non-price setting intermediaries.

87. In the survey we sent to firms, we asked them for the costs relating to this remedy. While the survey gathered information on the costs of reporting data for the core insurance product, we are also proposing to require firms to report data in relation to additional products sold alongside the core product, premium finance and additional fees and charges. We do not expect these additional data requirements to add significant costs beyond those for reporting on the core product only.

88. In our survey, we asked for cost estimates for a high-level reporting remedy at brand and book on expected cost of claims, margin, Gross Written Premium and tenure. We also asked firms to consider the costs of undertaking calculations on premiums across different consumers profiles. This broadly matches the requirements we propose here.

89. In the first year of this remedy, firms will be required to report quarterly rather than annually. This may have the effect of increasing costs in first year. Overall, we do not think that this increased frequency in the first year will materially increase the costs above those we have estimated.

90. The costs of the reporting requirement are shown in Table 11.

Table 11: Costs of a requirement for firms to report to the FCA on an annual basis

	Average costs, £ 000		Total costs, £m		
	Small	Large	Small	Large	Total
One-off	20	120	37.9	1.3	39.3
Ongoing	10	70	20.8	0.7	21.5

91. Most of the one-off costs arise from the need to implement or adapt IT systems. Analysis and modelling, and adapting internal governance procedures also make up a significant proportion according to our estimates.

92. Ongoing costs were a similar spread to one-off costs for this remedy in the survey.

Familiarisation and gap analysis

93. We expect that firms will incur costs from familiarising themselves with the remedies we are proposing.

94. In total, we expect there are up to around 30 large groups and up to 2,400 small groups and other distributors of insurance that may be affected by our package of the proposals.

95. We are using our standard approach to estimating familiarisation costs. These are in addition to the significant costs we have already estimated for the remedies. Firms may have included familiarisation costs in their estimates above but we present these costs here to ensure they are captured.

96. We use standard assumptions to estimate these costs. We anticipate that there will be approximately 30 pages of policy documentation with which firms will need to familiarise themselves.

97. Assuming that there are 300 words per page and a reading speed of 100 words per minute, it would take around 1.5 hours to read the policy documentation. It is further assumed that 20 compliance staff at large groups and 5 staff compliance staff at small groups read the document. Finally, using data on salaries from the Willis Towers Watson UK Financial Services survey, the hourly compliance staff salary is assumed to be £57 at large groups and £61 at small groups, including 30% overheads.

98. Using these assumptions, we expect total one-off industry-wide costs of familiarisation of approximately £1.1m.

99. We also expect those affected will undertake a legal review of the new requirements against current practices. We, again, use standard assumptions to estimate these costs. There are around 70 pages of legal instrument to review. It is assumed that 4 legal staff at the largest groups, and 2 legal staff at small groups, will review the legal instrument. It is further assumed that each legal staff member will review 50 pages of legal text in 28 hours at large groups and in 21 hours in small groups. Finally, using data on salaries from the Willis Towers Watson UK Financial Services survey the hourly legal staff salary is assumed to be £67 at large groups and £53 at small groups, including 30% overheads.

100. Using these assumptions, we estimate that the total one-off gap analysis costs would be £9.8m.

101. In total, we estimate one-off familiarisation and gap analysis costs of £11.0m.

Industry revenue reduction from the pricing remedy

102. We have modelled the impact of the pricing remedy on motor and home insurance over 10 years (see Annex 2: Simulation of remedy impact). Our remedy package may lead to some customers paying higher prices if they currently benefit from significant new business discounts as inducements to switch. Price setters could rebalance these prices so that they do not lose any revenue over the lifetime of these new business consumers. Alternatively, firms may be unable to rebalance prices fully and so they will lose revenue. In our modelling, we assume price setters will rebalance prices so they can recoup all (100%) or some (80%) of the lifetime profits they would lose on new business consumers for whom they can no longer increase prices over time.

103. The 100% scenario describes a scenario with no increase in the intensity of competition compared to the baseline, where firms are able to design new premium schedules such that average lifetime profit of a given policy (starting at tenure 0) remains the same. This is a relatively conservative scenario, as it does not assume a downward pressure on premiums from increased competition (e.g. due to easier price comparisons or other aspects of the remedy package). The 80% scenario represents a more competitive situation leading to a reduction of average lifetime profit per policy. This scenario was designed to model a situation where there is downward pressure on premiums from greater competition. We chose 80% because operational cost data submitted to us by firms indicated losses below this level.

104. Our range of assumptions for this rebalancing leads to the range of estimates presented here as the change in firms' revenue.

105. We note that the revenue changes are not true costs but transfers from industry to consumers. The costs to industry are benefits to consumers that stem from tackling the harm identified in the market study.

106. The impact on industry profits is similar to the effect on revenues in our estimation. This is because the number of contracts in all individual home and motor is fixed in our modelling. Consequently, changes in revenue broadly directly impact profit. Small differences do arise in the modelling as consumers' expected claims costs (ECC) change slightly when a consumer buys from a different provider. This change in expected cost of claims is explained in the section on the ECC prediction model in the technical annex.

107. We consider the effect of our pricing remedies on firms' revenue from the existing and new business separately. **Overall,** we expect **firms' revenues to be lower by £3.7-11.0bn (discounted) over the first ten years** of the pricing remedy from the combined first and second effect. The range reflects the two scenarios we have used in our simulation model rather than a lower and an upper bound.

First effect: on existing policies

108. We first assess the impact on revenues from consumers who have purchased a policy prior to implementation of the pricing remedy and who continue to renew this policy. Here we present the revenue earned on these policies under the baseline and the

pricing remedy. Once a policy is cancelled, we do not report the revenue from these consumers at different providers. This enables us to illustrate the impact of the pricing remedy on revenue from consumers in the back book prior to implementation.

109. The pricing remedy would result in a direct reduction in firms' revenue from consumers in their pricing at the time of implementation. This remedy would provide an immediate benefit to customers who have been price walked over several years by significantly reducing the prices they are paying.

110. The impact of this remedy on the existing back book is dependent on how firms set new business prices in future as back-book prices will then be set to this new business price. This creates some uncertainty in our estimates of the effect on the current back-book over the first 10 years of our proposed remedy. The higher the new business price set, the lower the revenue loss from current back-book consumers over the first 10-years of the policy.

111. Overall, our modelling suggests that firms' revenue from back-book consumers will be £5.3-6.7bn (discounted) lower over the first 10 years of the remedy (undiscounted £6.7-8.4bn). The table sets out the reduction in revenue that arises from the remedies for the different types of insurance product affected. The estimates reflect the two (100% and 80%) scenarios discussed above, with the first figure in the 'revenue under the pricing remedy' column representing the 80% revenue recoupment scenario, and the second figure the 100% revenue recoupment scenario.

112. We note that revenue falls even under the 100% revenue recoupment scenario. This is because for existing policies the remedy reduces revenue from renewals as there is no opportunity to raise new business prices to maintain revenue overall for this cohort of consumers. This is because these consumers have already received any new business discount and therefore the only impact of the remedy is to reduce their ongoing renewal prices.

Table 12: Future revenue loss from existing policies (discounted)

	Revenue under the baseline, £bn	Revenue under the pricing remedy, £bn	Reduction in revenue, £bn
Home – building	1.7	1.4 – 1.4	0.3 – 0.3
Home – building and contents	14.4	12.5 – 12.9	1.5 – 1.8
Home – contents	1.6	1.3 – 1.4	0.3 – 0.3
Motor	28	23.8 – 24.8	3.2 – 4.2
Total	**45.8**	**39.1 – 40.5**	**5.3 – 6.7**

Second effect: on policies initiated after implementation

113. Our pricing remedy will also affect the revenue firms earn for new business introduced after the remedy is implemented. Here we consider the revenue from consumers that switch to a new provider after the implementation of the pricing remedy.

114. We have considered 80%-100% revenue recoupment from higher new business prices in our analysis.

115. The following table sets out the forward-looking impact on revenue from sales of policies that are first purchased after we implemented the pricing remedy.

Table 13: Future revenue change from policies initiated after implementation (discounted)

	Revenue under the Baseline, £bn	Revenue under the Pricing remedy, £bn*	Change in revenue, £bn
Home – building	1.6	1.5 – 1.8	-0.1 – 0.2
Home-- contents	12.7	12.1 – 13.6	-0.6 – 0.9
Home – building and contents	2.0	1.9 – 2.3	-0.1 – 0.3
Motor	68.0	64.4 – 68.1	-3.6 – 0.2
Total	**84.2**	**79.9 – 85.7**	**-4.3 – 1.5**

* The low range corresponds to the 80% scenario and the high range corresponds to the 100% scenario

116. We observe that, for policies that are initiated after implementation, revenue may fall or increase depending on the rebalancing of prices. This is because the pricing remedy has the effect of bringing forward revenue into the period we consider in our analysis. For example, for a consumer purchasing insurance in 2027 their new business price may be higher than it would have been but after this they will pay lower prices than without the remedy. However, some of these lower prices will occur outside our simulation period and therefore in the data presented we only observe the effect of those prices that are higher than without the remedy (i.e. before the point at which the benefits kick in for that consumer over their time with the firm in question). Additionally, there are fewer new business customers as, due to the reduction in switching, fewer consumers switch from the back-book under the remedy. This lowers the total revenue earned from these consumers.

Revenue impact of the auto-renewal remedy

117. Our remedy on auto-renewal has the effect of reducing the time and effort it takes for a customer to stop their general insurance policy from auto-renewing. In addition to reducing the time it takes for customers to cancel policies, we also expect a change in customer behaviour. We would expect customers to learn that it is easier to cancel an auto-renewing contract, albeit it may take time before they take this fully into account in their decision-making. This may result in a range of effects that may affect the extent of switching in the market:

- Some customers may be more likely to cancel an auto-renewing policy and switch to another policy. This will lead to an increase in switching relative to our expected level of switching under our pricing remedies (or under the baseline). This will have the effect of increasing competitive pressure on firms and hence providers will need to offer lower prices to prevent customers from switching. This will mean providers will lose revenue and profits from these lower prices and lower retention rate, because of the auto-renewal remedy.
- Some customers may be more likely to choose an auto-renewing policy. More customers having auto-renewing insurance will benefit firms if it means that some customers who otherwise forget to renew now do so. This will remove periods where customers are uninsured and therefore more policies will be purchased. It will also benefit customers that decide to renew as they avoid the costs of taking action to renew policies and the risk of being uninsured.

118. Given that this change will occur alongside our pricing remedies for motor and home insurance and the difficulty in predicting how customers will change their decision-making in general insurance, we do not think it is reasonably practicable to estimate the revenue impact of these behavioural changes. We do not think that in the short-term the effects will be particularly large as it will take time for customers to change behaviour in response to the remedy.

Benefits

119. This section on benefits is arranged as follows:

a. Benefits arising from the pricing remedy

- **ii.** Reduction in average prices
- **iii.** Lower levels of switching
- **iv.** Competition benefits

b. Benefits arising from the product governance remedy
c. Benefits arising from the auto-renewal remedy

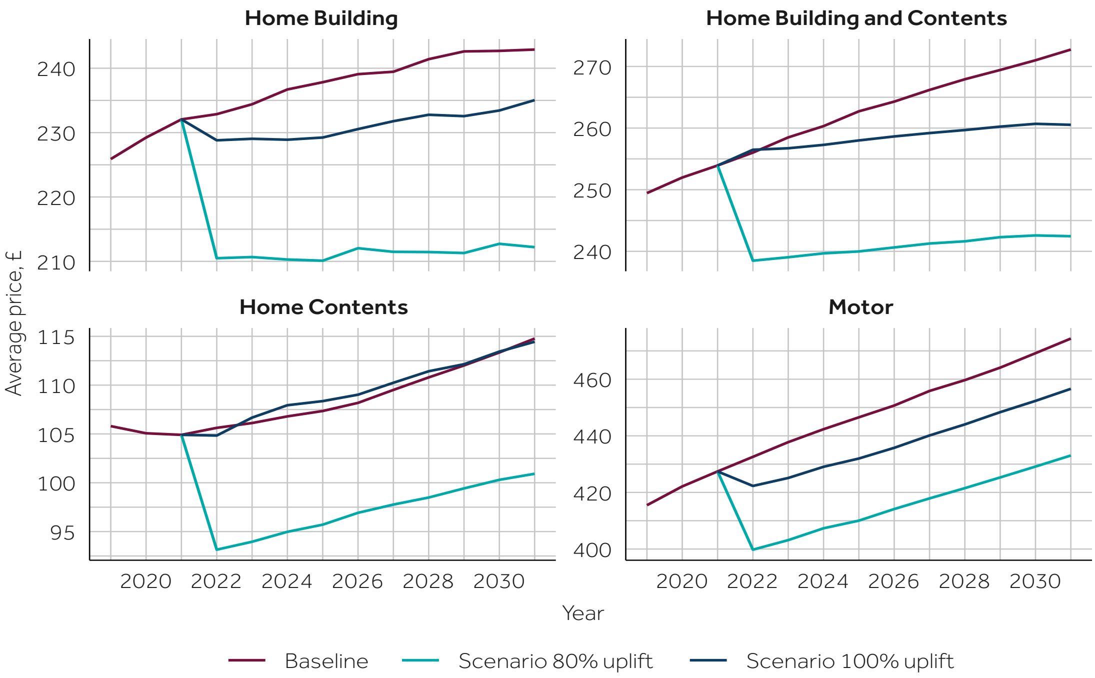
120. We have not estimated the benefits of reporting remedy. This is because the reporting remedy supports the pricing remedy and helps ensure the benefits from that remedy arise.

Lower average prices

121. We expect average prices overall to fall as a result of our pricing remedy. Figure 5 shows how we simulate average price may change relative to the baseline (please see Annex 2: Simulation of remedy impact). These lower prices arise from two effects. First, prices for existing customers fall as they now pay the lower new business price rather than the higher prices that result from price walking. Second, the increase in new business prices for new customers offsets the fall in renewal prices.

122. Figure 5 shows the trajectory of average prices under the baseline and our two scenarios under the pricing remedy. We note that prices are increasing under the baseline. This is because in our simulation we assume a 2% increase in claims costs per year. This is to ensure that the nominal values of initial ECCs and premiums account for inflation.

Figure 5: Average Prices



123. To give an indication of the change in average prices we simulate that in the 10th year after implementation we estimate average prices to be £8-31 lower for home buildings, £0-14 lower for home contents, £12-30 lower for home contents and buildings combined, and £18-41 lower for motor insurance.

124. Over the first ten years following the implementation of the remedies (2022-2031) we estimate the **discounted total savings for consumers to be between £3.7-11.0bn**. As noted above, this is a transfer from firms to consumers. Although this is a transfer from firms to consumers, we note that the revenue loss for firms is a direct effect of tackling the price walking harm identified in our Market Study.

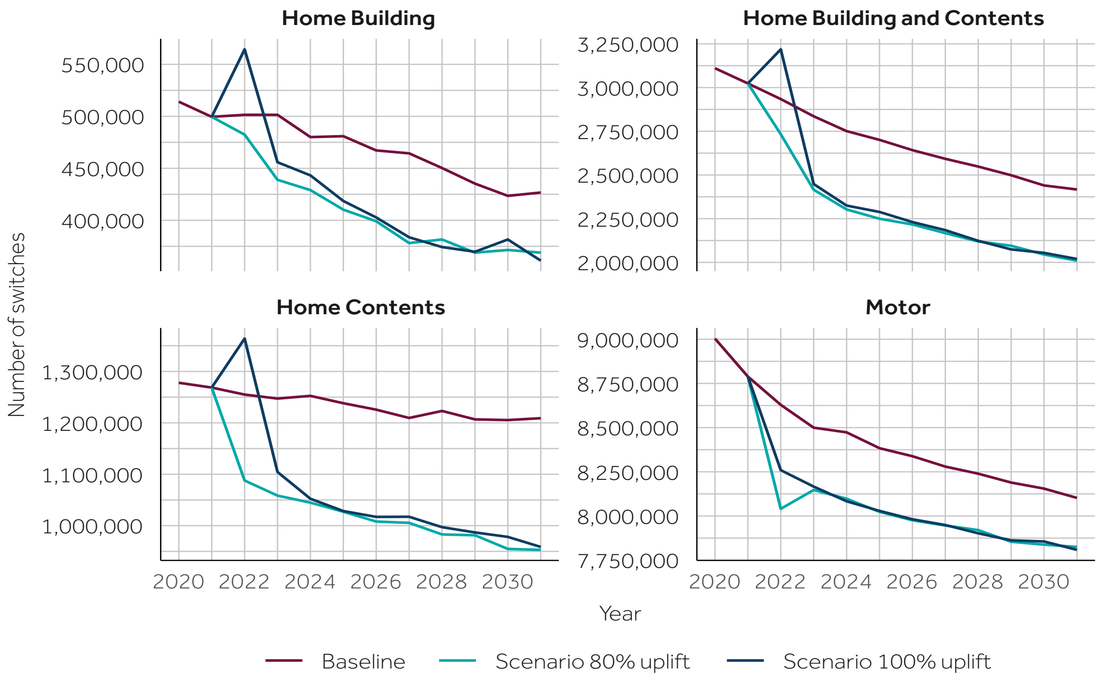
Lower levels of switching

125. Switching, and the ease of switching when better alternatives are available, is important to the function of competitive markets. However, we found in the market study that there are inefficient levels of switching due to the pricing structure we observe in the market. Switching entails costs to both customers and firms:

- on providers, through cancellation costs, policy set up costs and acquisition costs.
- on customers, through the shopping around and switching or negotiating with their existing provider.

126. Our modelling of the pricing remedy shows that the total number of policies switched will fall by approximately 9.0-10.4 million over the next ten years. We model the realised premiums, and do not simulate negotiation. We are therefore unable to estimate any benefits from lower levels of negotiation. Figure 6 shows switching in the buildings, contents, buildings and contents, and motor insurance markets under the baseline and the pricing remedy. We note there is a short-term spike in switching for insurance post remedy. This is because in our modelling price rises for new customers prompts customers to switch (as customers in our model switch when price increases from the previous year). In practice, we might not expect to see such a jump in switching, but more customers may shop around in the first year of the pricing remedy.

Figure 6: The number of customers switching under our pricing remedies



127. We consider the cost savings from this reduced switching for firms and customers in the following sections.

Customer time savings from reduced switching

128. Customers incur time costs from searching for alternatives to their existing policy and switching if they identify a better offer. They must notify their current insurer of their decision if their policy would otherwise auto-renew. They will often spend time negotiating and refusing new offers, or providing their new insurer with their relevant details to provide a quote. Under our pricing remedy fewer customers will switch as they will no longer face price rises if they do not switch.

129. In our customer survey for the interim report, we asked respondents how much their price would need to increase to justify switching policies and the average response was about £40. We consider that this reflects the cost to the average customer of switching. This implies that for each switch that no longer occurs because of our pricing remedy, the customers save time costs of £40 from avoiding the hassle and time lost from the switch.

130. We apply this £40 estimate to the 9.0-10.4 million fewer switches we expect under the pricing remedy to estimate the total customer time savings. We estimate that the discounted time cost saving for customers from the pricing remedy is between £294.3-345.9 million.

Firm cost saving from reduced switching

131. Firms incur significant additional costs when customers switch compared to when they renew. Given our remedies reduce inefficient switching, firms will make substantial cost savings. Compared to renewal, firms overall incur more significant costs when a new policy is taken out. These are:

- Costs arising for the existing provider from cancelling a policy
- Costs for a new provider setting up the new policy
- Costs of acquisition for this new policy.

132. As for the customers' time saving above, in our survey of firms, we asked firms to provide estimates of the costs arising switching or renewing policies. We use these estimates for the following analysis. Again, the extent of saving depends on whether a policy is usually auto-renewed:

- Cancellation costs saved: If a customer chooses to cancel an auto-renewing policy, a firm must receive and process this cancellation. If a customer's policy does not auto-renew and they choose not to renew, they will do so by taking no action and letting their policy expire. Therefore, for customers without auto-renewing policies, we assume firms do not incur any additional costs which are unique to those customers who chose to cancel rather than renew.
- Renewal costs incurred instead: A policy that is not switched will need to be renewed. If a customer's policy auto-renews then firms are obliged to provide customers with a renewal notice showing the price during the previous policy period, and the price for the next policy period. If a customer takes no action then the policy will renew. If a customer's policy does not auto-renew, firms are still obliged to provide customers with a renewal notice showing the price during the previous policy period, and the price for the next policy period, but the customer must then notify the firm of their wish to renew, so the costs of activating this renewal are higher than in the case of auto-renewal.

133. Costs of acquisition and of setting up a policy are not altered by whether a customer chooses to auto-renew.

134. We have omitted a large customer-specific acquisition cost for home insurance from one firm as it was much higher than other respondents and it was not clear this was representative of the wider market. This has the effect of lowering the benefits set out here.

Table 14: Firm savings for each policy no longer switched

	Home, £		Motor, £	
	Auto-renewing	Non-auto-renewing	Auto-renewing	Non-auto-renewing
Cancellation (A)	4.38	0	4.38	0
Firm setting up a new policy (B)	38.61		25.56	
Customer specific acquisition (C)	47.45		42.14	
Renewal (D)	4.06	35.93	4.06	13.70
Total (A+B+C-D)	**86.38**	**50.13**	**68.02**	**54.00**

135. We use these estimates to calculate the saving to firms overall if a customer no longer switches between policies. E.g. for each auto-renewing home insurance customer that no longer switches, we estimate firms save £86.38. We note that this analysis looks at the additional overall costs to the industry of a switch, rather than to a particular firm.

Cancellation and renewal costs (A and D) affect the existing provider and new policy and acquisition costs (B plus C) affect the potential new provider.

136. In the interim report, we found that 68% of motor insurance policies and 59% of home insurance policies auto-renew. Applying these savings to the approximately 9.0-10.4 million fewer switches over the next ten years, we can estimate total firm savings. Over ten years (2022-2031), firms will save between £503.5-594.1 million (discounted), with £323.1-399.6m coming from the home insurance market and £180.4-194.5m coming from the motor insurance market.

137. In our simulation model, overhead costs and other components of the margin above expected claims costs are recovered over the lifetime of the policy. Where overheads are spread over a longer period the average price over the lifetime of policies fall. Some of this change in revenue may arise because consumers will, on average, switch less and stay with their insurer for longer reducing the costs of bring about new policies. Hence, the estimates here may capture some of the benefits arising from lower prices and reduction in overall revenue that arise in the simulation model. We nevertheless consider that it is important to identify these cost savings as part of the impact of the remedy. We do not consider that the partial overlap here between the cost savings identified here and the price reductions identified previously alter our overall assessment of the costs and benefits of the proposed remedies.

138. Total, firm and consumer savings from lower switching are reported in Table 15.

Table 15: Total ten-year switching and renewal discounted savings range – Home and Motor, £m

	Home	Motor	Total
Consumers	180.7-223.5	113.6-122.4	294.3-345.9
Firms	323.1-399.6	180.4-194.5	503.5-594.1
Total	**503.8-623.1**	**294.0-316.9**	**797.8-940.0**

Competition benefits

139. The effect of our remedy package depends on the impact on the nature and intensity of competition for new customers. Our pricing remedy will constrain the way that firms set prices by tying the renewal price to the equivalent new business price. This will mean that it will only be possible for firms to increase prices to customers that do not switch or negotiate by also increasing prices to new customers.

140. Competition for new customers is intense and we expect that to continue. We expect the nature of competition to improve, with consumers having more clarity on the cost of the product when they choose an insurance provider and firms more focused on delivering fair value to customers.

141. In our interim report, we noted that firms told us that they compete intensively to attract customers who they expect to be more profitable over time (lifetime value). We expect this to continue.

142. Because our pricing remedy links the renewal price to the new business price, if a firm were to set high prices to customers who do not switch or negotiate they would lose new customers.

143. We also note that different firms have different business models and different competitive and pricing strategies. This includes some firms that do not charge higher prices to customers who do not search or negotiate. We expect these firms to constrain the pricing behaviour of the firms most affected by our remedy.

144. Our pricing remedy will mean that consumers will be able to make more informed decisions when they switch. The quote that a consumer receives from a firm will be a better indication of the price that they will pay in future years if they do not search or negotiate. This will intensify competition and improve the nature of competition.

145. We anticipate that our remedy will most affect firms who price walk steeply, those with large back books, and those with lower attrition rates. Consequently, more intensive competition may affect these firms more than firms that price walk less steeply. Consequently, under our pricing remedy there may be a redistribution of market shares, revenues, and profits between firms as competition evolves.

146. Other parts of our remedy package will make it easier for customers to switch and this will also intensify competition. Our proposed package of remedies addresses the potential misuse of auto-renewal by firms to discourage customers from switching. This will be reduced by remedies that make it easier for customers to decline auto-renewal and to cancel the auto-renewing feature during the life-time of the contract.

147. Our remedies package will reduce some of the switching costs that consumers incur in order avoid being price walked. Regular switchers spend time searching, switching and/or negotiating with their firm each year, even if they are happy with their current provider and nothing has changed with their risk.

148. Our remedies package will also help drive changes in firms' culture and behaviour and this will support the improvement in the nature of competition. We want to promote good governance and reduce potential harm to customers by making senior individuals more accountable for firms' conduct. Senior manager oversight of fair value for customers should help to embed cultural improvements within the firm. We expect these proposed rules to ensure firms focus on offering fair value to all customers in their target market over the longer term.

149. Overall, we expect intense competition for new customers to continue and that this package of remedies will improve the nature of competition. Our remedy package will lead to lower prices for customers who are paying higher prices because they do not switch or negotiate. It is difficult to predict to what extent the changed competitive dynamics will reduce the cost of supplying insurance and how these lead to lower prices for customers. We would expect that competition that is focussed on delivering fair long-term value to customers will improve outcomes in insurance markets. However, we are unable to predict how competition will intensify.

150. As discussed above, our 80% scenario accounts for intensified competition, but it is uncertain whether the 80% scenario accounts for all or only for some of the expected competition benefits in motor and home insurance. Therefore, we do not think it is reasonably practicable to estimate any further benefits that arise from this competition in motor and home insurance. For other insurance markets, it is not reasonably practicable to estimate the extent to which competition will be affected be improved by our remedies. This is because it is not possible to predict how the market dynamics will be affected by the remedies.

Benefits arising from our product governance proposals

151. The product governance remedies ensure firms focus on providing fair value insurance to customers across all general and pure protection insurance. This reduces the number of customers in GI and pure protection markets who purchase poor value products. As a result of the product governance remedies, customers will be assured that their general insurance or pure protection product offers fair value.

152. The product governance remedies also help to ensure that the benefits from the pricing remedy are brought about in motor and home insurance.

153. We do not believe it is reasonably practicable to estimate the benefits of our governance remedies. This is because estimating the benefits depends on estimating the extent to which firms would sell poor value or unsuitable products under the baseline and it is not possible to predict this.

Benefits arising from our auto-renewal remedy

154. Our remedy on auto-renewal has the effect of reducing the time and effort it takes for a customer to stop their general insurance contract from auto-renewing.

155. We assume this policy is applied alongside the pricing remedy. We take the switching behaviour as a given under the pricing remedy and then calculate the time savings to customers from the increased ease in which they can stop their contract from auto-renewing. For non-motor and home insurance products, we estimate switching rates from our Financial Lives survey. We expect this policy will affect customer behaviour. Customers will learn that it is slightly easier to cancel an auto-renewing contract. This should result in two effects:

- Some customers may be more likely to choose an auto-renewing policy
- Some customers may be more likely to cancel an auto-renewing policy and switch to another policy.

156. Switching costs restrict customers' ability to switch and hence reduce competition.[1] Reducing switching costs will have the effect of increasing competition. This will occur gradually as it will take some time for customers to change their behaviour: they would need to become aware that it is easier to exit auto-renewal and begin to take this into account in their decision-making over whether to switch provider. We expect that competition benefits from easier switching will improve quality and decrease average prices. However, it is not reasonably practicable to estimate these benefits (and, as noted above, for motor and home insurance some of these benefits may already be accounted for in our 80% scenario).

157. If customers can easily exit auto-renewing insurance then some customers may be more likely to choose auto-renewing insurance and this will benefit them in two ways. Firstly, it will prevent some customers who otherwise forget to renew from being left uninsured. We would expect that the difficulty, or perceived difficulty, of exiting auto-renewing contracts would have put off customers from purchasing an insurance policy that auto-renews. Secondly, renewing is costless in terms of time and energy for customers with auto-renewal once the choice has been made to renew or not.

1 See https://www.nuffield.ox.ac.uk/users/klemperer/competition.pdf for a survey of the effects of switching costs on competition.

158. Given that our proposal would be implemented alongside our pricing remedies and the difficulty in predicting how customers will change their decision-making, we do not think it is reasonably practicable to estimate the effect of these behavioural changes.

159. Auto-renewing also benefits firms in the form of significant cost savings. Using the costs reported from firms, we estimate that, compared to manual renewal, auto-renewal is about £28-35 cheaper (about 85%) for home insurance and £7-12 cheaper for motor insurance. We are unable to predict the increase in use of auto-renewal and therefore the overall savings to firms but if significant numbers of customers change behaviour the saving could be considerable.

160. Even under our remedy, customers will spend some (albeit less) time stopping their contract from auto-renewing. As part of our survey of firms, we asked firms how long it took customers to stop a policy from auto-renewing. Using these responses provides an estimate of 8 minutes for motor and home insurance. We assume that this is a reasonable estimate of the time it takes to cancel other forms of insurance. We assume that under our auto-renewal remedy we would reduce this time by 50% as it will still take some time for a customer to cancel. This means that for every cancellation of insurance the customer saves approximately 4 minutes.

161. We use our estimates of the number of switches and the proportion of auto-renewing polices to estimate the number of switches affected by the auto-renewal remedy (68% of motor insurance policies and 59% of home insurance policies auto-renew). We use our estimate of customer time from our survey, where we estimated that customers would need to save £40 to search and switch. Assuming searching and switching takes 1 hour (a shorter time would increase the benefits), this implies each hour of customer time to search and switch a policy costs £40. Multiplying this by 116-117m switches over 10 years resulting from our simulation model, we estimate that the discounted benefit to customers of the quicker cancellation time is approximately £168.4-170.5m in motor and home insurance (£178.8-180.9 undiscounted).

162. These remedies also apply to other products as well as motor and home. To provide an estimate of the benefits associated to these other products we use estimates of the number of multi-trip travel insurance and pet insurance policies written in 2019 from the ABI, 9.4m and 3.4m respectively. We use these products as to estimate the benefits in other general insurance products, as these products are a significant proportion of the remaining general insurance market affected by auto-renewal. We also use information from our Financial Lives survey, to estimate the number of customers of these products who have auto-renewing contracts and who switched in the last year. We estimate around 940,000 customers of multi-trip and pet insurance had auto-renewal contracts and switched last year. Assuming this number of customers switch each year, the benefits from this remedy for these products is around £20.9m over 10 years discounted.

163. In combination, the benefit for customers from the time saving from easier cancellation is £189.3-191.4m over 10 years (discounted).

164. We might expect this is an underestimate as we would expect more customers to use auto-renewal under the pricing remedy. This is because under the remedy customers will not be worried about the difficulty of cancelling a policy that they expect to be price walked upwards.

Distributional effects between consumers

165. The pricing remedy will lead to changes in prices for many consumers. The impact of these changes will depend on the consumer's insurance purchasing behaviour – at one extreme, there are those that are currently regular switchers who will receive a new business price each year; and at the other extreme there are those that have been on the back book for a long time and have been price walked to a very high price. This section gives an indication based on our simulation (see Annex 2: Simulation of remedy impact) as to how these different consumers might be affected following the remedy. We consider:

- The impact on consumers that currently switch each year
- The impact on existing customers that are being price walked
- The impact on consumers that switch to a new business price in future and then continue to renew

Impact on consumers that currently switch each year

166. In our simulation model, consumers buying new policies under the pricing remedy will, on average, face higher prices than compared to the baseline. Figure 7 shows the trajectory of average new business prices over the first 10 years of the pricing remedy based on our simulation.

167. The higher new business prices under our pricing intervention will affect those consumers who in the baseline would regularly purchase a new policy at the new business price. Consumers may continue to purchase these new policies and pay the higher price or they may decide to renew their existing policy. The modelling does not estimate any effect on consumers who decide no longer to buy insurance.

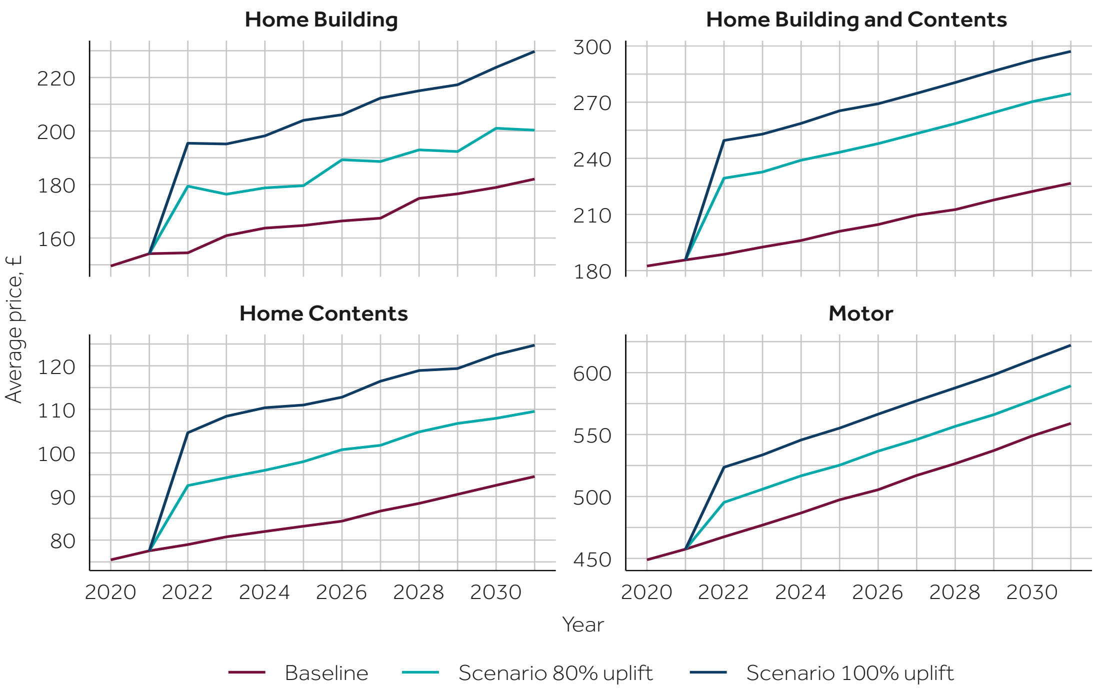
168. There is significant uncertainty in the modelling but it does provide an insight into the potential distributional impacts of the pricing remedy. There is a steady increase in the average new business price in the baseline. This reflects the assumption used in the modelling to increase claims costs at 2% each year to reflect inflation.

169. As can be seen, the simulation model predicts that new business prices will increase following the introduction of our pricing remedy. In the 100% scenario, in the first year of the remedy, we have simulated that average new business prices may increase by £61 for building and contents insurance, £41 for buildings insurance and £26 for contents insurance. For motor insurance, we simulate that new business prices may increase by £56. In this scenario, over the 10 years from 2022 to 2031, we simulate that the average new business price relative to the baseline may be up to £70 higher for buildings and contents insurance, £48 higher for buildings insurance, £30 higher for contents insurance, and £63 higher for motor insurance.

170. These results from the simulation model are based on a mechanical application of the model and do not take into account the effects of competition pressure that may constrain increases in front book prices. In the 80% scenario some allowance is made in the simulation for an increase in competitive pressure.

171. In this 80% scenario, in the first year of the remedy, we have simulated that average new business prices may increase by £41 for building and contents insurance, £25 for building insurance and £13 for contents insurance. For motor insurance, we simulate that new business prices may increase by £28. In this scenario over the 10 years from 2022 to 2031, we simulate that the average new business price relative to the baseline may be at least £40 higher for buildings and contents insurance, £15 higher for buildings insurance, £14 higher for contents insurance, and £28 higher for motor insurance.

Figure 7: Average new business prices



Impact on existing consumers that are being price walked

172. Consumers who have purchased motor or home insurance and paid a new business premium prior to the introduction of our pricing remedy, and who continue to renew their insurance, will pay lower prices over the lifetime of their renewals with that provider, relative to the baseline. These consumers benefit from the reduction in prices when the pricing remedy is introduced and after that, as they are no longer price walked.

173. We simulate that consumers who purchased a new policy prior to the implementation of our pricing remedies (whether it be just prior or many years prior) and who then continue to renew, save significant sums relative to the baseline in both scenarios of the modelled remedy. We present the lowest price reduction, for the 100% scenario, and the highest price reduction, for the 80% scenario, that can be seen during the 10 year period from 2022 to 2031: in the 100% scenario, we simulate the average premium is at least £19 less for buildings insurance, £11 less for contents insurance, £16 less for buildings and contents insurance and £37 less for motor insurance every year. In the 80% scenario, we simulate the average premium is up to £122 less for buildings insurance, £44 less for contents insurance, £75 less for buildings and contents insurance and £94 less for motor insurance.

Impact on consumers that switch to a new business price in future and then continue to renew

174. Consumers who purchase insurance with a new provider after the implementation of the remedy and thereafter continue to renew will also pay lower prices than they otherwise would under the baseline over the period modelled.

175. Initially we simulate that these consumers pay higher prices (as the new business price is higher under our pricing remedy scenarios). However, over time we see that the average prices consumers pay are lower than the baseline. As an example, we look at consumers who buy a new policy a year after we implement the remedy (in 2022 in our simulation). At the fourth renewal , the average premium for these consumers is £6-28 less for buildings insurance, £17-27 less for contents insurance, £24-42 less for buildings and contents insurance and £59-77 less for motor insurance. At the ninth renewal, the average premium is £44-65 less for buildings insurance, £34-40 less for contents insurance, £68-86 less for buildings and contents insurance and £64-83 less for motor insurance. Again, the range reflects the two scenarios we have used in our simulation model rather than lower and upper bounds.

Revenue effects on other firms in the distribution chain

176. Other firms in the distribution chain (eg price comparison websites and brokers) are likely to have less business as the level of switching falls due to the pricing remedies. This is likely to be especially true for price comparison websites whose business models rely on customers switching between providers. We are not anticipating fundamental changes in the use of brokers as they are not reliant on switching in the same way as price comparison websites.

177. Lower switching will lead to lower revenues, costs and ultimately profits for firms whose businesses rely on switching. Some of the switching cost savings will represent lower costs for the distribution chain. The reduction in costs represents a benefit, but the reduction in profits in the supply chain represents a transfer from the distribution chain to insurance providers and customers. This redistribution of profits depends on the level of competition distributors face.

178. We might also expect to see manufacturers removing products from a particular sales channel where there are concerns about the value to customers. Additionally, there may be changes to the use of premium finance or switches in the provider of premium finance. Some firms may lose revenues from this reduction in sales.

179. We do not think it is reasonably practicable to estimate the costs to the distribution chain from our package of remedies. This is because it is not possible to predict how firms will adjust their offering as a result of the new rules, nor to predict how prices in the distribution chain will adjust and affect profits along the distribution chain.

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

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?

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

4. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

5. The proposals set out in this consultation are intended to advance the FCA's operational objectives of:

- **Promoting effective competition in the interests of consumers:** At present, firms often discount premiums to attract new customers and then increase premiums when customers renew, targeting increases at those who are less likely to switch. Our remedies aim to ensure that competition works effectively in the interests of all consumers. For example, we propose to require firms to ensure they offer fair value products and that renewal offer prices on home and motor insurance must be no greater than the equivalent new business price.

- **Securing an appropriate degree of protection for consumers:** by improving outcomes for consumers who are less aware of current insurance pricing practices and pay a high price relative to the risk being insured. We aim to secure an appropriate degree of protection for all consumers.

6. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by s. 1F FSMA.

7. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

8. We will put in place a strong supervisory approach to ensure firms comply with any rules we implement. The reporting requirements will assist with the efficient supervision of these rules.

The principle that a burden or restriction should be proportionate to the benefits

9. We have carried out a cost benefit analysis, set out in Annex 2, and are satisfied that the benefits of implementing the remedies are likely to be significant and proportionate to the potential costs involved.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

10. We have had regard to this principle and do not believe our proposals undermine it. Our proposals will make this market more competitive and deliver greater overall consumer benefits.

The general principle that consumers should take responsibility for their decisions

11. At present, while many customers shop around for the best insurance prices, others do not and are subjected to a significant loyalty penalty. While consumers should take responsibility for their decisions, the current market is not working well for everyone and the consumers suffering harm are often less aware of current insurance pricing practices. Customers will still need to decide which insurer to use but firms will need to ensure that they do not exploit customers who are less able to protect themselves.

The responsibilities of senior management

12. Our proposals will lead to review of product pricing and value by senior managers. This will improve senior management oversight and monitoring, and, where appropriate, encourage them to make improvements to their products.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

13. Differences between firms do not affect the need to improve competition and consumer outcomes from home and motor insurance. Our proposals would allow different models to operate, subject to measures designed to promote effective competition in the interests of customers and to secure an appropriate degree of consumer protection.

14. We have proposed to apply the auto-renewal remedies to all general insurance products, and the product governance remedies to all retail general insurance and pure protection products, as we believe they are relevant across the market. We do not consider that it would be appropriate to require firms to consider these issues only for some products but not others.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

15. As set out in Chapter 6, we will consider whether it would be appropriate to publish any of the information reported to us. If we decide to do this, we would expect the information to help drive competition in the market, demonstrating compliance with the rules and helping lead to improved product value and consumer outcomes.

The principle that we should exercise of our functions as transparently as possible

16. By consulting on the remedies, we are acting in accordance with this principle. We have also taken account of feedback to the interim report in developing our proposals. Stakeholders should also review the final market study report for more information on our work.

17. In formulating proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Expected effect on mutual societies

18. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. We have engaged with mutual societies throughout the market study.

Equality and diversity

19. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity

between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

20. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is set out in Chapter 2 of this paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

21. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily. We consider that this will lead to improved outcomes for consumers and addresses the issue identified in the market. We also believe the proposals are proportionate and will result in an appropriate level of consumer protection when balanced with impacts on firms and competition

22. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance. This consultation is a way for firms to let us know their views of our proposals. We have identified the potential risks of not taking action by articulating potential harms and how firms' behaviour could cause those harms. The CP and instrument will allow firms to understand the requirements of them. We are also setting out transparently what our policy aims are so that firms can take those into account.

Annex 4
Abbreviations used in this paper

APR	Annual percentage rate
CBA	Cost benefit analysis
CMA	Competition and Markets Authority
CP	Consultation Paper
ECC	Expected claims cost
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSMA	Financial Services and Markets Act 2000
ICOBS	The Insurance Conduct of Business Sourcebook of the FCA Handbook
IDD	Insurance Distribution Directive
IPT	Insurance Premium Tax
LRRA	Legislative and Regulatory Reform Act 2006
PROD	The Product Intervention and Product Governance Sourcebook of the FCA Handbook
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers guidance in the FCA Handbook
SUP	The Supervision of the FCA Handbook
SYSC	The Senior Management Arrangements, Systems and Controls Sourcebook of the FCA Handbook

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1
Draft Handbook text

NON-INVESTMENT INSURANCE: PRODUCT GOVERNANCE, PREMIUM FINANCE, GENERAL INSURANCE AUTO-RENEWAL AND HOME AND MOTOR INSURANCE PRICING INSTRUMENT 2021

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers);
(3) section 138C (Evidential provisions); and
(4) section 139A (Power of the FCA to give guidance).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Insurance: Conduct of Business sourcebook (ICOBS)	Annex C
Product Intervention and Product Governance sourcebook (PROD)	Annex D
Supervision manual (SUP)	Annex E

Notes

E. In this instrument, the notes shown as "Note:", "**Note:**" or "*Editor's note*" are intended for the convenience of the reader but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Non-Investment Insurance: Product Governance, Premium Finance, General Insurance Auto-Renewal and Home and Motor Insurance Pricing Instrument 2021.

By order of the Board
[*date*]

[*Editor's Note*: the text in this instrument is based upon the version of the FCA Handbook which will be in place at the end of the transitional period.]

Annex A

Amendments to the Glossary

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

additional product	an *optional additional product* or *mandatory additional product*.
affinity/partnership scheme	where a *firm* forms a scheme with another business (usually a brand whose main business is not insurance) to *distribute home* or *motor insurance* products to *consumers* under the partner's brand name. Examples of partners include banks, building societies, trade associations, charities, membership organisations and franchise networks.
channel	(in *ICOBS* 6B and *SUP* 16.28) the distribution method through which the *customer* purchases a *policy*. Examples of *channels* include: (a) direct sales where the *customer* and *insurer* communicate directly without a third party present. This would include (as separate *channels*) sales: (i) by telephone; (ii) via the internet; (iii) through a branch; (b) sales through a specific price comparison website; (c) sales through a specific *insurance intermediary*; and (d) sales via a specific *affinity/partnership scheme*.
close matched product	a *home* or *motor insurance* product which provides a *customer* with core cover and benefits which are broadly equivalent to the core cover and benefits enjoyed by the *customer* under their existing *policy*.

closed book	(in *ICOBS* 6B and *SUP* 16.28) an individual *home insurance* or *motor insurance* product which meets the following criteria: (a) its *policies* may be *renewed* by existing *customers*, and (b) either: (i) its *policies* are not available for purchase by other *customers*; or (ii) the *firm* has not sold, or does not expect to sell, on an annualised basis, more than 15% of active *policies* under the product to *new business customers*.
equivalent new business price	the price a *firm* would offer to a *customer* to purchase a particular *policy* if the *customer* were a *new business customer*.
Gibraltar-based firm	has the same meaning as in the *Gibraltar Order*.
gross incurred claims ratio	the proportion of the premiums (gross of *reinsurance*) received paid out as claims (gross of *reinsurance*).
gross price	(in *ICOBS* 6B and *SUP* 16.28) for intermediated sales, the gross retail price charged to *consumers* (excluding insurance premium tax). The *gross price* includes the *net rated price* and all elements of the price charged to *consumers* set by the *insurance intermediary*.
home insurance	(in *ICOBS* 6B and *SUP* 16.28) a *contract of insurance* that provides insurance against loss of or damage to any of the following: (a) the structure of domestic properties, (b) the contents of domestic properties, (c) cover against risks of incurring liabilities to third parties where: (i) the liabilities arise out of injuries sustained within the boundary of a domestic property; and (ii) the cover is provided in relation to either the structure or contents of a domestic property.
mandatory additional product	a good, service or right of any description, whether or not financial in nature, that a customer is required to obtain in connection with or alongside a non-investment insurance contract.
motor insurance	(in *ICOBS* 6B and *SUP* 16.28) a *contract of insurance* within the *motor vehicle liability* or *land vehicle* class, where the *contract of insurance* was purchased by a *consumer*.

net rated price	(in *ICOBS* 6B and *SUP* 16.28) for intermediated sales, the price set by an *insurer* or *managing agent* which includes the risk price and the *insurer*'*s* or *managing agent's* profit margin.
new business customer	a prospective *customer* for a *policy* where the *policy* being taken out is not a *renewal*.
non-investment insurance product	an insurance product sold or underwritten as individual *non-investment insurance contracts*. [Note: *PROD* 1.4.2G indicates that an insurance product may be read as being a reference to the product for distribution to *customers* generally and is not intended to refer to each individual contract of insurance being sold or underwritten (unless the context indicates otherwise).]
optional additional product	(in *ICOBS* and *PROD* 4) a good, service or right of any description, whether or not financial in nature, that a *customer* may obtain (or not, as the case may be) at their election in connection with, or alongside, a *non-investment insurance contract*. This includes *retail premium finance*.
renewal price	the *premium* offered by a *firm* to *renew* a *home insurance* or *motor insurance policy*. This includes where more than one *policy* is sold together as part of a package.
retail premium finance	a credit agreement (whether a *regulated credit agreement* or not) entered into with a view to its use by a retail *customer* to finance all or part of the *premium* for a *non-investment insurance contract*.
RPPD non-investment insurance product	(in *PROD*) a *non-investment insurance product*: (1) that was *manufactured* prior to, but not significantly adapted on or after, 01 October 2018; and (2) is either: (a) still being marketed or is available to be *distributed* to *customers* (including in the form of a renewal of an existing *policy*); or (b) not still being marketed or distributed but there are *policies* under the product that remain in force.
tenure	the number of years a *customer* has held their *policy*, including any *renewal* of the *policy*.

Amend the following definitions as shown. Underlining indicates new text and striking through indicates deleted text.

APR	(1)	…
	(2)	…
	(3)	(in *CONC* for all other *credit agreements*, *ICOBS* 6A.6 and in *SUP* 16.28) the *annual percentage rate of charge* for credit determined in accordance with the rules in *CONC* App 1.2 and *CONC* 3.5.13R.
distribute	(1)	…
	…	
	(2)	(in relation to *ICOBS* 1, *ICOBS* 6B, *PROD* 1.4 and *PROD* 4) advising on or proposing a *contract of insurance* to a *customer*.
remuneration	…	
	(3)	(in *SYSC* 19F.2, *PROD* 4, *ICOBS* and, in relation to a *life policy*, in *COBS* 6.1ZA) any commission, *fee*, charge or other payment, including an economic benefit of any kind or any other financial or non-financial advantage or incentive offered or given in respect of *insurance distribution activities*. [Note: article 2(1)(9) of the *IDD*]
renewal	(1)	(except in *ICOBS* 6B) carrying forward a contract, at the point of expiry and as a successive or separate operation of the same nature as the preceding contract, between the same contractual parties.
	(2)	(in *ICOBS* 6B) the entry into by, a *customer* of a *general insurance contract* which: (a) is of the same product type as that *customer's* existing *general insurance contract*, (b) is obtained from the same *firm* (including an *insurer*, *insurance intermediary* or *managing agent*) as that *customer's* existing *general insurance contract*, and (c) will take effect following the termination or expiry of the *customer's* existing *policy*.

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

19F Remuneration and performance management

…

19F.2 IDD remuneration incentives

…

Retail premium finance

19F.2.3	R	The requirement in *SYSC* 19F.2.2R applies to *remuneration* an *insurance distributor* receives in relation to *retail premium finance*.
19F.2.4	G	*ICOBS* 6A.6 includes further *guidance* on remuneration in relation to *retail premium finance*.

…

Annex C

Amendments to the Insurance: Conduct of Business Sourcebook (ICOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Application

…

1 Annex 1 Application (see ICOBS 1.1.2R)

Part 1: Who?			
Modifications to the general application rule according to type of firm			
…			
6	…		
7	Gibraltar-based firms and TP firms		
7.1	R	The following parts of this sourcebook apply to *Gibraltar-based firms* and *TP firms* carrying on *regulated activities* in relation to *policies* marketed or *distributed* in the *UK*, whether or not they are carried on from an establishment in the *UK*:	
		(1)	The provisions on automatic renewal in *ICOBS* 6.2 and *ICOBS* 6A.5;
		(2)	The provisions on *retail premium finance* in *ICOBS* 6A.6; and
		(3)	*Home insurance* and *motor insurance* pricing provisions (see *ICOBS* 6B).
7.2	G	Where the provisions in 7.1 apply to a *Gibraltar-based firm* or a *TP firm* it applies to its *regulated activity* business in relation to *policies* marketed or *distributed* in the *UK* or to *UK customers* whether this is done via an establishment in the *UK* or from outside the *UK*.	

…

6 Product information

…

6.2 Pre-contract information: general insurance contracts

…

6.2.5 R …

Auto-renewal

6.2.6 R (1) A *firm* must:

(a) inform a *customer* whether the terms and conditions of their *policy* provide for the *policy* to automatically *renew* at the end of the term;

(b) provide a *customer* with an explanation of the effect of automatic *renewal* for the *customer*, and

(c) provide a *customer* with information on the right to cancel the automatic *renewal* element of the *policy* at any time.

(2) The information on the right to cancel the automatic *renewal* element must include:

(a) the existence of the right;

(b) the conditions for exercising it;

(c) the consequences of exercising it; and

(d) the practical instructions for exercising it.

(3) The information in (1) and (2) must be provided:

(a) in good time before conclusion of the contract, and

(b) in writing or in another *durable medium*.

…

6.5 Renewals

Renewals

6.5.1 R …

(3) …

(c) a statement alongside (a) and (b) indicating that the *consumer*:

(i) should check that the level of cover offered by the renewal is appropriate for their needs; and

(ii) is able, if they so wish, to compare the prices and levels of cover offered by alternative providers; and

(d) a statement informing the *consumer* whether the contract will automatically renew or whether the *consumer* needs to take action to accept the renewal offer.

…

…

6A.2 Optional additional products

Restriction on marketing or providing an optional product for which a fee is payable

6A.2.1 R (1) …

~~(7) An optional additional product is a good, service or right of any description, whether or not financial in nature, that a *customer* may obtain (or not, as the case may be) at their election in connection with, or alongside, a *non-investment insurance contract*.~~

…

6A.2.5 G *Firms* are reminded that *retail premium finance* is an *optional additional product* for the purposes of *ICOBS* 6A.2.1R.

For "optional additional product", substitute "*optional additional product*" in the following provisions. Where the term is used in the plural, maintain the pluralised form in the substituted italicised term. The new text is not shown as underlined and the deleted is not shown as struck through.	
6A.2.1R(1)	one instance
6A.2.1R(2)	one instance
6A.2.1R(3)	two instances
6A.2.1R(5)	one instance
6A.2.1R(8)	one instance
6A.2.1R(9)	one instance
6A.2.1R(10)	three instances
6A.3.5G	one instance

Insert the following new sections ICOBS 6A.5 (Cancellation of automatic renewal) and ICOBS 6A.6 (Retail premium finance: disclosure and remuneration), after ICOBS 6A.4 (Travel insurance and medical conditions). The text is not underlined.

6A.5 Cancellation of automatic renewal

Application

6A.5.1 R This section applies in relation to all *general insurance contracts* which have an automatic *renewal* feature.

Purpose

6A.5.2 G The purpose of this section is to support TCF outcome 6 – "Consumers do not face unreasonable post-sale barriers imposed by *firms* to change product, switch provider, submit a claim or make a complaint", by making it easier for *customers* who wish to prevent their *policy* from automatically *renewing* to cancel this feature of their *policy*.

Requirement for a range of cancellation methods

6A.5.3 R A *firm* must provide a *customer* with a range of different easy and accessible methods for cancelling the automatic *renewal* feature in the *customer's* contract.

6A.5.4 R The methods provided by a *firm* in accordance with *ICOBS* 6A.5.3R must include, but are not limited to:

(1) telephone;

(2) post; and

(3) email or online.

6A.5.5 G An easy and accessible method for cancelling an automatic *renewal* feature is a method that does not place any unnecessary barriers on the *customer* who uses it. Unnecessary barriers may include one or both of the following:

(1) significantly longer call waiting times to cancel the automatic *renewal* feature than to purchase a new *policy*;

(2) unnecessary questions or steps before the *customer* is able to confirm their instructions to cancel the automatic *renewal* feature.

The times a customer may cancel

6A.5.6 R A *firm* must allow the *customer* to exercise their right to cancel the automatic *renewal* feature:

(1) at the time the *customer* purchases the *policy* and at any time during the duration of the *policy*; and

(2) free of charge.

6A.6 Retail premium finance: disclosure and remuneration

Other requirements in the Handbook

6A.6.1 G This section does not affect the application of other requirements in the *FCA Handbook* applying to *firms* in relation to a *regulated credit agreement*.

Pre-contract information

6A.6.2 R In good time before the conclusion of a *policy* including on any *renewal*, a *firm* offering *retail premium finance* in relation to that *policy* must give to the *customer*:

(1) price information about:

(a) the total cost of the *policy* if purchased without *retail premium* finance;

(b) the total cost of the *policy* with *retail premium finance* including costs of or associated with the *retail premium finance*; and

(c) any difference in the costs in (a) and (b),

alongside each other;

(2) a description that the use of *retail premium finance* arrangements will be more expensive for the *customer* compared to paying for the *policy* upfront, unless there is no difference;

(3) any difference between the duration of the *policy* and that of the *retail premium finance*;

(4) where the information given to the *customer* includes the price presented on any basis other than annually, an explanation alongside that basis of any difference between the total price to be paid by the *customer* when buying with or without *retail premium finance*.

6A.6.3 R The information in *ICOBS* 6A.6.2R must be communicated:

(1) in a way that is accessible and which draws the *consumer's* attention to it as key information; and

(2) in accordance with *ICOBS* 4.1A.

Active election

6A.6.4 G For the purposes of *ICOBS* 6A.2.2R providing the *customer* with the choice between paying monthly or annually will not be sufficient to show the *customer* has made an active election to obtain the *retail premium finance*.

Premium finance related remuneration

6A.6.5 R A *firm* must not propose or arrange the use of any particular *retail premium finance* where that would be inconsistent with the *firm's* obligations in the *FCA Handbook*, including the *customer's best interest rule*, *SYSC* 19F.2 or *CONC*.

6A.6.6 G (1) *Firms* are reminded of their obligations elsewhere in the *FCA Handbook* including:

(a) Principles 1 and 6 to act with integrity and treat customers fairly;

(b) Principle 8 to manage conflicts of interest fairly, both between itself and its *customers* and between a *customer* and another *client*. This principle extends to the *remuneration* a *firm* receives including soliciting or accepting inducements where this would conflict with a *firm's* duties to its *customers*;

(c) conflicts of interest requirements in *SYSC* 3.3 (for *insurers*) or *SYSC* 10 (for *insurance intermediaries*);

(d) the *customer's best interests rule*, and *SYSC* 19F.2 to ensure remuneration arrangements do not conflict with their duty to comply with the *customer's best interests rule*.

(2) An inducement is a benefit offered to a *firm*, or any person acting on its behalf, with a view to that *firm*, or that person, adopting a particular course of action. This can include, but is not limited to, cash, cash equivalents, commission, goods, hospitality or training programmes.

6A.6.7 G (1) *Firms* should consider, at inception and then on a regular basis, their arrangements with providers or distributors of *retail premium finance* and whether they could give an incentive to act in a way that is inconsistent with the *customer's best interests rule* or otherwise could risk breaching any of the provisions referred to in *ICOBS* 6A.6.6G above. For example, a *firm's remuneration* arrangements should not provide an incentive to offer *retail premium finance* having greater costs to the *customer* (including a higher *APR*) where another *retail premium finance* arrangement, better aligned with the customer's interests, is available to the *firm* in the market .

(2) Where the *remuneration firms* receive in relation to *retail premium finance* conflicts with the duty to comply with the *customer's best interests rule* they will need to take appropriate actions to address the situation including, where necessary, changing *retail premium finance* providers.

Insert the following new chapter ICOBS 6B (Home insurance and motor insurance pricing), after ICOBS 6A (Product Specific Rules). The text is not underlined.

6B Home insurance and motor insurance pricing

6B.1 Application and purpose

Application

What?

6B.1.1 R This chapter applies where a *firm* carries out any of the following activities in relation to a *home insurance* or *motor insurance policy* or any related *additional product* sold to a *consumer*:

(1) setting the *renewal price*; or

(2) setting the price for any *additional product* offered to the *customer* at *renewal*; or

(3) determining the level of remuneration earned by the *firm* when distributing a product at *renewal*.

Exclusions

6B.1.2 R This chapter does not apply to *group policies* where these include, or are sold alongside, *home insurance* or *motor insurance* products.

Purpose

6B.1.3 G The *rules* in this chapter:

(1) promote competition through ensuring *consumers* have a realistic picture of the long-term cost of their chosen product when purchasing it and incentivising *firms* to compete for *consumer* business on this basis; and

(2) protect *consumers* through ensuring that they are placed in a position where they can understand the long-term cost of their product.

6B.1.4 G The *rules* in this chapter are not intended to affect how risk is priced for *home insurance* and *motor insurance*.

6B.2 Setting renewal prices

6B.2.1 R A *firm* must not set a *renewal price* that is higher than the *equivalent new business price*.

6B.2.2 R In the case of a combined *home insurance* and *motor insurance* package, the *renewal price* for each of the following must be no higher than the *equivalent new business price*:

(1) the *home insurance* element,

(2) the *motor insurance* element; and

(3) the bundled price for the package.

6B.2.3 G *ICOBS* 6B.2.1R does not distinguish between *firms* which price on a *net rated price* basis or *firms* which price on a *gross price* basis. *Firms* which price on a *net rated price* basis should apply the *rules* in this section to arrive at a *net rated price* which is the *equivalent new business price* on a *net rated price* basis that they would quote for a *customer*.

6B.2.4 R (1) In determining the *equivalent new business price*, a *firm* must apply the following assumptions:

(a) that the *renewal customer* has approached the *firm* through the same *channel* as they used when they first purchased their *policy*; and

(b) the *customer* has selected the same payment method (annually or monthly) as they currently use to pay for their *policy*.

(2) Where the *firm* no longer accepts new business through the *channel* that the *customer* originally used to purchase the *policy*, the *firm* must assume that the *customer* approached the *firm* through the *channel* most commonly used by *customers* of the *firm*.

6B.2.5 G For the purposes of the assumptions in *ICOBS* 6B.2.4R, a *firm* should treat each intermediary chain, price comparison website or *affinity/partnership scheme* through which it sells *policies* as a separate *channel*.

6B.2.6 G In determining a *customer's equivalent new business price*, a *firm* may take account of any additional risk information it has acquired during the term of the *customer's* current *policy* where this information is:

(1) information that the *customer* would be asked to disclose if they were a *new business customer*; or

(2) information that would be available to the *firm* about *new business customers* from other external sources of information.

Closed books

6B.2.7 R Where a *customer's policy* is in a *closed book*, the *firm* must determine the *customer's equivalent new business price* according to the following *rules*.

6B.2.8 R The *firm* must identify from the *home insurance* and *motor insurance* products that it currently actively markets or distributes, whether it has a *home insurance* or *motor insurance* product that is a *close matched product*.

6B.2.9 R Where the *firm* no longer actively markets or distributes any *home insurance* or *motor insurance* product which is a *close matched product* but it is part of a *group* which does actively market or distribute *home insurance* or *motor* *insurance* products, it must identify a *close matched product* from those products actively marketed or distributed by the *firm's group*.

6B.2.10 R Where there is more than one product which is a *close matched product*, the *firm* must select:

(1) the *close matched product* which is the most similar to the *customer's* existing *policy*; or

(2) where it is not possible to identify the most similar *close matched product*, the *close matched product* which will lead to the most favourable pricing outcome for *customers* who hold a *policy* in the *closed book*.

6B.2.11 R Where a *close matched product* is identified or selected, the *equivalent new business price* for a *customer* in the relevant book is the price set out in (1), taking account of the permitted adjustments set out in (2).

(1) The *equivalent new business price* for the *close matched product*.

(2) The permitted adjustments are those which fairly and proportionately reflect the difference in costs for the *firm* arising from differences between the cover or benefits (including any compulsory excess) provided by the *policies* in the *closed book* and the *close matched product*.

6B.2.12 G Where a *firm* is unable to identify a *close matched product* for a product in a *closed book*, a *firm* should set the *renewal price* for *policies* in the *closed book* in compliance with *ICOBS* 6B.2.19R.

6B.2.13 R Where a *firm* is unable to generate an *equivalent new business price* or identify a product which is a *close matched product* because a *policy* is not part of the *firm's* or its *group's* standard *policy* offering or falls outside the *firm's* or its *group's* underwriting policies for new business, the *firm* must set the *renewal price* in accordance with *ICOBS* 6B.2.19R.

Intermediaries' remuneration and involvement in setting price

6B.2.14 R An *insurance intermediary* that is involved in the setting of any portion of the *renewal price* of the *policy* must ensure that the portion they set or their contribution to that portion is set at a level that is no higher than it would be set for a *new business customer*.

Responsibility of firms where more than one firm is involved in setting the renewal price

6B.2.15 R Where more than one *firm*, including *insurance intermediaries*, is jointly responsible for setting the *renewal price*, each *firm* must take reasonable steps to assure itself that the *renewal price* is set in compliance with the *rules* in this chapter.

6B.2.16 G The following points are relevant to determining whether a *firm* has taken the reasonable steps required by *ICOBS* 6B.2.15R:

(1) Obtaining verification that a *firm* has set the portion of the *renewal price* they are responsible for in compliance with the *rules* in this chapter will generally be considered reasonable steps.

(2) However a *firm* should not rely on any verification obtained if the *firm* has other information that indicates that the *renewal price* has not been set in compliance with the *rules* in this chapter.

(3) In considering how frequently verification should be requested, *firms* should consider the duration of the product (eg annual or longer) and any processes already in place under *PROD* 4.3 for providing information to *distributors*.

Additional products

6B.2.17 R Any *firm* that has responsibility for setting the price of an *additional product* that is available to a *customer* in connection with a *home insurance* or *motor insurance policy* must ensure that the price of the *additional product* at *renewal* is no higher than the price at which the *additional product* would be offered to the *customer* if they were a *new business customer*.

6B.2.18 R Where a *firm* no longer offers to new business customers an *additional product* which is available to a *customer* in connection with the *renewal* of a *home insurance* or *motor insurance policy*, the price for that *additional product* must be set as follows:

(1) where the *additional product* is a *policy*, the *firm* must:

(a) apply the rules for *closed books* in *ICOBS* 6B.2.7R to 6B.2.11R; or

(b) if the *additional product* has no *close matched product* apply *ICOBS* 6B.2.19R.

(2) where the *additional product* is not a *policy*, the *firm* must apply *ICOBS* 6B.2.19R.

Firms' assurance over customer outcomes

6B.2.19 R A *firm* must ensure that it does not systematically discriminate against *customers* based on their *tenure*, when determining:

(1) an *equivalent new business price*;

(2) the *renewal price* for *customers* in *closed books* where a *firm* is unable to identify a *close matched product*; and

(3) the price for any *additional products* offered to the *customer* at *renewal* of a *policy*.

6B.2.20 E (1) A *firm's equivalent new business price* for *customers* of longer *tenure* should not systematically exceed the new business price for *new business customers*.

(2) A *firm* should not systematically earn a higher margin the longer a *customer's tenure* is.

(3) A pricing model used by the *firm* to determine the *equivalent new business price*, or *renewal prices* for *customers* in *closed books* where a *firm* is unable to identify a *close matched product*, should not generate prices which are systematically higher the longer a *customer's tenure* is.

(4) A *firm's renewal price* for *customers* of longer *tenure*, or the price for any *additional products* offered to *customers* of longer *tenure* at *renewal* of a *policy*, should offer fair value to the *customer* taking account of the prices offered to *customers* of shorter *tenure*. The following outcomes tend to indicate that there is a failure to offer fair value:

(a) the price of any of the following materially exceed the new business price which a *customer* of longer tenure would pay to obtain the cover and/or benefits offered by the product if the customer were to shop around as a *new business* customer approaching another *firm* or firms:

(i) the *firm's renewal price* for *customers* in a *closed book* where no *close matched product* is identified;

(ii) the *firm's* price for any *additional product* offered at *renewal* where that *additional product* is a *policy* and no *close matched product* is identified;

(iii) the *firm's* price for any *additional products* offered at *renewal* where the *additional product* is not a *policy* and is no longer available to *new business customers*;

(b) the quality of service or cover enjoyed by *customers* of longer *tenure* is lower than that enjoyed by *customers* of shorter *tenure* for the same product; and

(c) relevant and appropriate value measures, or the *gross incurred claims ratio*, for *policies* held by *customers* of longer *tenure* indicate that the value provided by these *policies* is lower than that for *policies* held by *customers* of shorter *tenure*.

(5) Contravention of any of (1) to (4) may be relied on as tending to establish contravention of *ICOBS* 6B.2.19R.

6B.2.21 G Under *Principle* 11, *firms* should notify us of any change in their pricing model where there is a material risk of harm for *customers*.

Sales practices

6B.2.22 R When communicating a *renewal price* to *customers*, or when contacted by *customers* to discuss a *renewal price*, a *firm* must not systematically discriminate against *customers* based on *tenure*.

6B.2.23 R When communicating a price for any *additional product* at renewal of the *policy*, or when contacted by *customers* to discuss the prices of *additional products* at *renewal* of their *policy*, a *firm* must not systematically discriminate against *customers* based on *tenure*.

6B.2.24 E (1) A *firm* should not communicate with a *customer* of longer *tenure* in a manner which is objectively likely to discourage a *customer* of longer *tenure* from shopping around for an alternative *policy* offered by another *firm*.

(2) A *firm* should not communicate with *customers* of longer *tenure* with the intent, or in a way that might reasonably be expected to have the effect, that these *customers* are less likely than other *customers* to contact the *firm* to negotiate the *renewal price* of the *policy*.

(3) A *firm* should not interact with *customers* of longer *tenure* with the intent or the effect that these *customers* are more likely than other *customers* to accept the *renewal price* of the *policy*.

(4) Contravention of any of (1) to (3) may be relied on as tending to establish contravention of *ICOBS* 6B.2.22R or *ICOBS* 6B.2.23R.

6B.2.25 G Where a *firm* has communicated a *renewal price* to a *customer* in compliance with the *rules* in this chapter, a *firm* may subsequently agree a discount to a *renewal price* in individual negotiations with the *customer*.

Governance, records and attestation requirements

6B.2.26 R A *firm* must make and retain written records of how it continues to satisfy itself that it does not systematically discriminate against *customers* based on *tenure* in contravention of *ICOBS* 6B.2.19R, including details of:

(1) the assessment undertaken by the *firm* to evaluate whether the *equivalent new business price* for, or the margin earned from, *customers* of longer *tenure* systematically exceeds that for *new business customers*;

(2) the controls put in place by the *firm* to ensure that any pricing model it uses to generate its *equivalent new business prices*, or the *renewal prices* for *customers* in *closed books* where a *firm* is unable to identify a *close matched product*, does not generate prices which are systematically higher the longer a *customer's tenure* is;

(3) the evidence gathered and the assessment undertaken by the *firm* to evaluate whether its *renewal prices* or prices for *additional products* at *renewal* offer fair value to *customers* of longer *tenure*; and

(4) appropriate independent oversight of the assessments and controls in (1), (2) and (3).

6B.2.27 R A *firm* must also make and retain written records of its consideration of the extent to which material decisions which it takes in relation to its compliance with the *rules* in this chapter are consistent with:

(1) the objectives of these *rules* as set out in *ICOBS* 6B.1.3G; and

(2) the requirement not to discrimination against *customers* based on *tenure* in *ICOBS* 6B.2.19R, *ICOBS* 6B.2.22R and *ICOBS* 6B.2.23R.

6B.2.28 R The records in *ICOBS* 6B.2.27R must set out clearly:

(1) the basis on which the *firm* is complying with the *rules* in this chapter;

(2) how the *firm* has resolved any areas of discretion, ambiguity or potential uncertainty in its determination that the pricing of its *home insurance* and *motor insurance renewal* business, including *additional products* available to *customers* in connection with this business, is in compliance with the *rules* in this chapter; and

(3) appropriate expert input and advice on which the *firm* relies in satisfying itself as to its compliance with the *rules* in this chapter.

6B.2.29 G The material decisions referred to in *ICOBS* 6B.2.27R, include but are not limited to:

(1) launching, discontinuing or materially varying any aspect of a product which is, or could be, relevant to setting an *equivalent new business price*;

(2) taking action which would result in a book becoming *closed* for the purposes of the *rules* in this chapter;

(3) identifying or selecting a *close matched product* or determining that it is not possible to identify a *close matched product*;

(4) making changes to the *firm's* business structure or to the business structure of a *firm's group* to the extent that this may affect the basis on which an *equivalent new business price* is set; and

(5) determining the *firm's* approach to ensuring that it does not systematically discriminate against *customers* based on their *tenure* in accordance with *ICOBS* 6B.2.19R, *ICOBS* 6B.2.22R and *ICOBS* 6B.2.23R.

6B.2.30 R The records compiled by the *firm* in accordance with *ICOBS* 6B.2.26R and *ICOBS* 6B.2.27R must be provided as soon as reasonably practicable after the record is prepared or updated to the *senior manager* responsible for the attestation in *ICOBS* 6B.2.31R, and to the *FCA* on request.

6B.2.31 R An appropriate *senior manager* of a *firm* must provide the attestation set out at (1) for the reporting period set out in (2) at the time set out in (3).

(1) The attestation is that the *firm*:

(a) is and has been complying with the *rules* in this chapter throughout the reporting period; and

(b) is satisfied that the pricing of its *home insurance* and *motor insurance renewal* business and related sales practices are consistent with the objectives of the rules as set out in *ICOBS* 6B.1.3G and does not discriminate against *customers* of longer *tenure* as set out in *ICOBS* 6B.2.19R, *ICOBS* 6B.2.22R and *ICOBS* 6B.2.23R.

(2) The reporting period is the 12-*month* period beginning 1 January and ending 31 December.

(3) The attestation must be provided annually, on or before 31 March following the end of the reporting period.

6B.2.32 G A *firm* should have in place policies and procedures to ensure its ongoing compliance with the *rules* in this chapter following any material changes to the *firm's* pricing practices, pricing models or products which could affect a *firm's* compliance with *rules* in this chapter or fair outcomes for *customers* of longer *tenure*.

Format and method of submission

6B.2.33 R The attestation must be submitted online through the appropriate systems accessible from the *FCA's* website.

6B.2.34 R The attestation will not be considered as submitted to the *FCA* unless it has been accepted by the relevant *FCA* system.

6B.2.35 G If the *FCA's* information technology systems fail and online submission is unavailable for 24 hours or more, the *FCA* will endeavour to publish a notice on its website confirming that online submission is unavailable and will confirm what methods of submission should be used instead.

Amend the following as shown. New text is underlined.

…

TP 2 Other Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
…					
5	*ICOBS* 6A.5		A *firm* need not comply with *ICOBS* 6A.5 for contracts entered into before [coming into force date of instrument].	From [in force date of instrument]	[in force date of instrument]
6	*ICOBS* 6B.2.30R		(1) This transitional applies to a *firm* which is required to provide an attestation under *ICOBS* 6B.2.30R. (2) The first attestation must be submitted within 3 months following *ICOBS* 6B coming into force. For example, if *ICOBS* 6B comes into force on 1 June 2021, the first attestation will be due on or before 1 September 2021. (3) The first attestation relates only to a *firm's* compliance on the date when *ICOBS* 6B comes into force (and not to a reporting period). For example, if *ICOBS* 6B comes into force on 1 June 2021, the first attestation will relate to a firm's compliance as at 1 June 2021.	From [date] to [date]	[in force date of instrument]

			(4) The second attestation must be submitted on or before 31 March in the year following that in which *ICOBS* 6B comes into force. For example, if *ICOBS* 6B comes into force on 1 June 2021, the second attestation will be due on or before 31 March 2022. (5) The reporting period for the second attestation is from the date on which *ICOBS* 6B comes unto force until 31 December of that year. For example, if *ICOBS* 6B comes into force on 1 June 2021, the reporting period for the second attestation will 1 June 2021 to 31 December 2021.		

Annex D

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Product Intervention and Product Governance Sourcebook (PROD)

…

1.4 Application of PROD 4

1.4.1 R *PROD* 4 applies to:

(1) an *insurance intermediary*; and

(2) an *insurer*,

with respect to*:*

(3) *manufacturing* insurance products; ~~and~~

(3A) (see *PROD* 4.6) product governance and distribution arrangements for *RPPD non-investment insurance products*; and

(4) *distributing* insurance products.

[**Note:** articles 1(2) and 25 of the *IDD*]

1.4.-1A R A *TP firm* and a *Gibraltar-based firm* must comply with *PROD* 1.4, *PROD* 4 and (where applicable) *PROD* TP 1 in relation to *non-investment insurance products* (including *RPPD non-investment insurance products*) that are, or will be, marketed or *distributed*, or there are *policies* under the product that remain in force, in the *United Kingdom.*

…

1.4.3 R *PROD* 4 does not apply in relation to ~~the *manufacturing* or distributing of~~ an insurance product that is:

(1) a *contract of large risks*, or

(2) a *reinsurance contract*.

[**Note:** article 25(4) of the *IDD*]

When an intermediary may be considered to be manufacturing

…

1.4.5 G The effect of *PROD* 1.4.4UK and *PROD* 1.4.6R is that an *insurance intermediary* needs to consider if it is *manufacturing* an insurance product or if it would be a *manufacturer* for an *RPPD non-investment insurance product* for *PROD* 4.6, and, if so, should comply with *PROD* 4.2 (Manufacture of insurance products).

Scope of 'manufacturing'

1.4.5A G (1) *PROD* 4.2 applies to *firms* that *manufacture* insurance products. The terms 'firm' and 'manufacturer' are used in that section interchangeably to refer to such persons.

(2) The *Glossary* term 'manufacture' includes 'designing, developing, creating and/or underwriting' which cover activities prior to the insurance product being approved for marketing and *distributed*, and on a continuing basis after such approval.

Effect of provisions marked "UK"

1.4.6 R (1) Subject to (2) and *PROD* 1.4.3R, provisions in this section and in *PROD* 4 marked "UK" apply to *firms*:

(a) *manufacturing* or *distributing* insurance products, but to whom the *IDD POG Regulation* does not apply;

(b) in relation to product governance and distribution arrangements for *RPPD non-investment insurance products*,

as if they were *rules*.

…

(4) In relation to an *RPPD non-investment insurance product*, the reproduced provisions of an article of the *IDD POG Regulation* must be read to be consistent with the application of product governance and distribution requirements in *PROD* 4.2 and 4.3 to an *RPPD non-investment insurance product*.

Where?

1.4.7 R *PROD* 4 applies to a *firm* with respect to activities carried on from an establishment maintained by it, or its *appointed representative*~~,~~:

(1) (for all insurance products) in the *United Kingdom*; and

(2) (in addition, for *non-investment insurance products*) elsewhere, in relation to an insurance product that is, or will be, marketed or *distributed*, or there are policies under the product that remain in force, in the *United Kingdom*.

[**Note:** in respect of (1) article 7(2) of the *IDD*]

…

4 Product governance: IDD and pathway investments

…

4.2 Manufacture of insurance products

Product governance arrangements

4.2.1 R A *firm* which *manufactures* any insurance product must maintain, operate and review a process for the approval of:

(1) each insurance product; and

(2) significant adaptations of an existing insurance product,

in each case before it is marketed or *distributed* to *customers*.

[**Note:** first subparagraph of article 25(1) of the *IDD*]

4.2.1A G (1) For the purposes of *PROD* 4.2 whether a proposed change to the product would be a 'significant adaptation' should include consideration of the potential impact the adaptation may have on an existing or potential *customer* (when compared to the unadapted version of the product).

(2) For the purposes of *PROD* 4.2, a 'significant adaptation' in relation to a *non-investment insurance product* may include, but is not restricted to, a proposed change to the insurance coverage, costs, exclusions, excesses, limits or conditions and any other significant change to the terms and conditions.

…

4.2.3A G In addition to, and/or by way of elaboration of, the factors set out in *PROD* 4.2.3G, for a *non-investment insurance product* a *firm* should take into account:

(1) the potential risk, and possible levels, of harm to *customers* if the product design is flawed, in particular, due to the potential scale of harm if the product is intended for a wide target market;

(2) the nature of the cover that the product is intended to provide;

(3) whether the distribution arrangements could mean *customers* are at a greater risk of not receiving fair value from the insurance product, for example where:

(a) the insurance product will be distributed with *additional products*;

(b) where the insurance product will be *distributed* on an ancillary basis to another product; or

(c) there is complexity in the distribution arrangements including the use of multiple parties in the distribution chain or reliance on persons not regulated under *FSMA* when selling the insurance product;

(4) the nature and complexity of the *firm's* existing or intended *customer* base, for example whether it includes or is likely to include;

(a) different types of *customers* with varying characteristics including in relation to their understanding of financial matters;

(b) a significant number of vulnerable *customers*;

(c) a significant number of *customers* of long *tenure*;

(5) any particularly notable features of, or relating to, existing products (including how it has been *distributed*).

4.2.4 G …

4.2.4A G (1) In relation to a *non-investment insurance product*, *PROD* 4.2.2R does not mean that *firms* can assume a simple product approval process will be appropriate for a product intended for a mass retail market even if the product and/or distribution arrangements are straightforward and not complex. For example, the potential risks and levels of harm which could result even from a straightforward and non-complex product, with simple distribution arrangements, intended for the mass market could mean that more exacting measures are required.

(2) An example of a straightforward and non-complex product could be cover for a single item (such as mobile phone insurance), or in relation to a single risk (such as ticket cancellation insurance), with straightforward distribution arrangements. However, there could be potential risks of such a product not providing fair value and therefore potentially leading to significant levels of harm. *Firms* should ensure the product approval process has the necessary measures to identify and mitigate any potential risks and harms.

B Product approval process

…

4.2.5A R For a *non-investment insurance product*, a *firm* must ensure a product approval process has all necessary measures and procedures for identifying whether the product is, or remains, appropriate to be marketed or distributed to *customers* in light of the requirements in *PROD* 4.2.14A to *PROD* 4.2.14OR (Identifying fair value for non-investment insurance products: additional provisions).

…

Identifying fair value for non-investment insurance products: individual insurance product

4.2.14A R For a *non-investment insurance product*, a *firm* must ensure that the product approval process identifies whether the product provides fair value to *customers* in the target market including whether it will continue to do so for a reasonably foreseeable period (including following *renewal*).

Identifying fair value for non-investment insurance products: where the insurance product is intended to be part of a package

4.2.14B R (1) Where a *non-investment insurance product* is intended to be *distributed* with one or more *additional products*, a *firm* must identify whether:

(a) each component product; and

(b) the package as a whole,

will provide fair value to the *customer* including that it will continue to do so for a reasonably foreseeable period (including following *renewal*).

(2) The assessment referred to in (1) must include (but is not limited to) consideration of:

(a) the value of the core insurance product;

(b) the value of any *additional products*; and

(c) the overall price of the package to the *customer*, taking into account the proposed distribution arrangements.

Identifying fair value for non-investment insurance products: record keeping and steps following value assessment

4.2.14C R (1) A *firm* must:

(a) be able to clearly demonstrate how any *non-investment insurance product*, *additional product* or package provides (and will provide for a reasonably foreseeable period) fair value; and

(b) make and retain a record of the value assessment required by *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR.

(2) Where a *firm* is unable to both:

(a) identify; and

(b) clearly demonstrate,

that the insurance product or the package will provide fair value, the *firm* must not market the product or permit the product to be *distributed* (whether directly or through another person), or must have ensured appropriate changes have been made so that fair value will be provided.

Identifying fair value for non-investment insurance products: relevance through the product approval process

4.2.14D R A *firm* must consider the value considerations in *PROD* 4.2.14A and *PROD* 4.2.14BR throughout every stage of the product approval process in *PROD* 4 including, in particular, when:

(1) identifying the target market and the interests, needs, objectives and characteristics of such *customers* (*PROD* 4.2.15R to *PROD* 4.2.21AG);

(2) undertaking product testing (*PROD* 4.2.22UK to *PROD* 4.2.26G); and

(3) selecting any distribution channel (*PROD* 4.2.27UK to *PROD* 4.2.32DR).

Identifying fair value for non-investment insurance products: meaning of value

4.2.14E R In *PROD* 4 'value' means the relationship between the overall price to the *customer* and the quality of the product(s) and/or services provided. The assessment of value must include consideration of at least the following:

(1) the nature of the product including the benefits that will be provided, their quality, and any limitations (for example in the scope of cover, exclusions, excesses or other features);

(2) the type and quality of services provided to *customers*;

(3) the expected total price to be paid by the *customer* when buying or renewing the insurance product, and the elements that make up the total price. This will need to include consideration of at least the following:

(a) the pricing model used to calculate the risk premium:

(i) for the initial policy term; and

(ii) any future renewal;

(b) the overall cost to the *firm* of the insurance product (including the underwriting and operating of the product) and, where relevant, any other components of a package;

(c) the individual elements of the expected total price to be paid by the *customer* including, but not limited to the price paid for:

(i) the insurance product including any additional features which are part of the same *non-investment insurance contract* for example add-ons or optional cover;

(ii) any *additional products*, including *retail premium finance*, offered alongside the insurance product;

(iii) the distribution arrangements, including the remuneration of any relevant person in the distribution arrangements, and including where the final decision on setting the price is taken by another person);

(4) how the intended distribution arrangements support, and will not adversely affect, the intended value of the product.

4.2.14F G (1) *Firms* will need to consider the matters in *PROD* 4.2.14ER and *PROD* 4.2.14JE to identify if there is fair value both for the initial term of a *non-investment insurance product* and renewals for a reasonably foreseeable period.

(2) Where the *manufacturer* will provide, or arrange for another *firm* to provide, the option for retail *customers* to buy a *non-investment insurance product* using *retail premium finance*, it will need to consider if the additional costs of or relating to the *retail premium finance* have a material detrimental effect on the value of the insurance product when the two products are taken together.

(3) When considering the costs of, or associated with, any distribution arrangements, *firms* should consider the justification in value terms of any difference between the risk price and the total price paid by the *customer* including where the difference is mainly due to the costs (including remuneration) of any person in the distribution arrangements or where this is due to the combined costs (including remuneration) of multiple parties involved in the distribution arrangements.

(4) Where a *firm* identifies that an insurance product, package or individual component has poor value or there is an unreasonable relationship between either the cost to the *firm* and the price paid by the *customer*, or the price paid by the *customer* and product quality or service provided, the product or package will not be providing fair value. However, a *firm* should not assume there is fair value simply due to the absence of an unreasonable relationship in the costs or where they identify an absence of poor value. *Firms* will need to consider all relevant aspects of value in the particular context and consider whether overall there is fair value provided.

(5) Where a *non-investment insurance product* has negligible, or no obvious, benefit for the *customer* this will not be providing fair value regardless of the price of the product. For example, the product will not provide fair value where the cover under the *non-investment insurance contract* is significantly limited, whether by exclusions or limits on the

amount that would be paid in settlement, meaning that the *customer* is unlikely to be able to make a successful claim or where the *customer* could conclude it is not in their interests to make a claim due to the disproportionate time or effort which would be required, compared to the claim settlement which could be expected.

4.2.14G R When considering the value of a *non-investment insurance product* under *PROD* 4.2.14A and, where relevant, *PROD* 4.2.14BR, a *firm* must not rely on individual *customer*s to consider whether they are making fair value purchases in place of any part of the *firm's* own assessment, in particular where an insurance product is *manufactured* to be distributed either with other *additional products* or on an ancillary basis to another good or service.

Identifying fair value for non-investment insurance products: information to be used for the assessment

4.2.14H R When assessing value, a *firm* must use the full range of data and information available to it including but not limited to:

(1) information available to the *firm* internally including:

(a) customer research;

(b) claims information such as handling times, frequency, severity of claims costs (including total costs and average per claim), claims ratios, rates of and reasons for claim acceptance/declinature, both expected for the product and/or any actual information from a comparable product; and

(c) complaints data (including root cause analysis and handling times), both expected for the product itself and/or any actual information from a comparable product;

(2) public information or information obtainable by the *firm* from external sources including analysis of similar insurance products available from other *firms* and, where relevant, data published as part of the *FCA's* work on value measures in the general insurance market;

(3) information available to the *firm* specifically from persons in the distribution arrangements, including:

(a) remuneration and its impact on the value of the product, package or component part;

(b) levels or quality of service provided by any person in the distribution arrangements;

(c) any results of monitoring and oversight of the processes of any persons in the distribution arrangement (for example, call monitoring or file checks) including in relation to other products that person *distributes*.

Identifying fair value for non-investment insurance products: arrangements not providing fair value

4.2.14I G The following *evidential provision* provides examples of arrangements the *FCA* considers will breach *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR.

4.2.14J E (1) A *non-investment insurance product* will not be providing fair value where:

(a) the difference between the risk price to the *firm* and the total price paid by the *customer* bears no reasonable relationship to:

(i) the actual costs incurred by the *firm* or any another person involved in the distribution arrangements;

(ii) the quality of any benefits (including of the insurance product or any *additional products*); or

(iii) the costs or quality of any services provided in connection with the insurance product or additional products, by the *manufacturer* or any another person involved in the distribution arrangements;

(b) the *firm* increases the price of the insurance product based on:

(i) *policies* being subject to auto-renewal compared to *policies* that are not subject to auto-renewal;

(ii) the *customer's* vulnerability or any protected characteristic(s) (unless the *firm* is clearly permitted to rely on them under the Equalities Act 2010);

(iii) where *customers* purchase the *policy* using *retail premium finance*,

unless the *firm* has an objective and reasonable basis for making the change;

(c) the *firm* assesses value using an estimated final price to the *customer* which does not represent the expected total price to the *customer* including where the *firm* expects *additional products* to be purchased by the *customer*. For example, where the *firm* is responsible for providing or making available *retail premium finance* (the costs of which will be part of the total price paid by the *customer*).

(2) Contravention of any of (1)(a) to (c) may be relied on as tending to establish contravention of *PROD* 4.2.14A and, where relevant, *PROD* 4.2.14BR.

Identifying fair value for non-investment insurance products: distribution channels and information disclosure to distributors

4.2.14K R A *firm* must, as far as reasonably possible, ensure the distribution arrangements for a *non-investment insurance product* avoid or minimise the risk of negatively impacting the fair value of the insurance product or package. This includes, but is not limited to:

(1) avoiding or reducing the risks arising from:

(a) any remuneration of a party or parties involved in the distribution arrangements increasing, directly or indirectly, the total price paid by the *customer* without adequate monitoring or oversight of the nature, level and fairness justification for their inclusion; or

(b) providing discretion to another person to set the final price, for example through a net pricing arrangement, without adequate monitoring or oversight of the final price paid by the *customer*;

(2) ensuring that appropriate arrangements will be in place to identify if the actions of another person involved in the distribution arrangements would adversely affect the value of the insurance product or package; and

(3) reducing the scope for the overall effect of any distribution arrangements to detrimentally affect the value of the products or package including where the cumulative effects of the remuneration of multiple parties unreasonably add to the overall price paid by the *customer*.

4.2.14L G (1) Where the *firm* is considering the effects of the distribution arrangements on value it should consider whether the additional costs of any individual party in the arrangements that add to the total price paid by the *customer* deliver any, or a proportional, additional benefit. If not, *firms* should consider how they can be satisfied that the arrangements are consistent with their obligations to be able to clearly demonstrate fair value to the *customer*.

(2) A benefit that could be consistent with fair value might include where the party's inclusion in the distribution arrangements increases access to the product for *customers* in the target market in a way that is proportionate to the additional cost involved.

4.2.14M R A *firm* must obtain from any person in the distribution arrangements all necessary and relevant information to enable it to assess the remuneration associated with the distribution arrangements to allow it to assess the ongoing value of the product, including at least:

(1) the total costs of the distribution arrangement whether as part of the *premium* or not, including in relation to *additional products*;

(2) a sufficiently detailed breakdown of the costs in (1) identifying the type and level of remuneration of each person in the distribution arrangements together with an explanation of the services provided by that person; and

(3) confirmation from any *firm* in the distribution arrangements that any remuneration is consistent with their regulatory obligations including *SYSC* 19F.2.

Identifying fair value for non-investment insurance products: additional provisions

4.2.14N	R	A *firm manufacturing* a *non-investment insurance product* must ensure the *manufacture* of an insurance product is driven by features that benefit the *customer* and not by a business model which relies on poor *customer* outcomes to be profitable.
4.2.14O	R	In relation to a *non-investment insurance product* to be sold in a package with *additional products*, a *firm* must not set or increase the price of those *additional products* to the *customer* in a way that detrimentally impacts the package delivering fair value, including where this is done to minimise the financial effects on the *firm* of reducing the price of, or making other changes to, an insurance product as a result of the fair value assessment.

Target market

4.2.15	R	…
4.2.15A	G	The effect of *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR, when taken together with *PROD* 4.2.15R, is that a *firm* will need to be able to show that a *non-investment insurance product* offers fair value to the specified target market, taking into account in particular their needs, objectives, interests, characteristics.

…

4.2.17A R

(1) For a *non-investment insurance product*, when identifying the target market a *firm* must identify if there are groups of *customers* for whom the product or package would not provide the intended level of value identified for *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR.

(2) A *firm* must take reasonable steps in its use of the distribution arrangements to ensure the product is not distributed to any such groups of *customers* identified in (1). The information required in *PROD* 4.2.29R to be provided to *distributors* must include a clear description of these *customers*.

…

4.2.21A G In relation to a *non-investment insurance product*, a *firm* should consider whether the target market needs to be identified in more detail, even for a simpler, more common product, where there is a material risk of *customer* harm associated with it.

…

4.2.26 G (1) *PROD* 4.2.25R does not affect the *manufacturer's* freedom to set *premiums*.

(2) In relation to a *non-investment insurance contract* a *firm* should consider whether, as a result of the charging structure it has put in place, the overall cost for the *customer* is consistent with its obligations under *PROD* 4.2.14AR (and, where relevant, *PROD* 4.2.14BR), the *Principles* and *ICOBS*.

(3) …

Distribution channels and information disclosure to distributors

…

4.2.29A G For a *non-investment insurance product*, the information required by *PROD* 4.2.29R should include:

(1) all appropriate information to enable the *distributor* to understand the intended value of the insurance product established by the *firm*;

(2) any effect the *distributor* may have on the intended value that has not been fully taken into account by the *firm* when assessing value, and therefore which the *distributor* should take into account; and

(3) any type of *customer* for whom the insurance product is unlikely to provide fair value.

4.2.32 R …

Distribution channels: selecting channels for non-investment insurance products

4.2.32A R In relation to a *non-investment insurance product*, where a *firm* is unable to demonstrate clearly that a distribution channel results in fair value to the *customer* it must not use that channel.

4.2.32B R In relation to a *non-investment insurance product*, whenever making a change to the distribution arrangements a *firm* must:

(1) obtain all necessary information from the *distributor* or any other person who will be involved with the distribution arrangement, including that set out in *PROD* 4.2.14MR; and

(2) identify whether the proposed change to the distribution arrangements is consistent with the fair value requirement in *PROD* 4.2.14AR and *PROD* 4.2.14BR.

4.2.32C G For *PROD* 4.2.32BR a change to the distribution arrangements includes adding a further distribution channel.

4.3.32D G For a *non-investment insurance product* sold on an ancillary basis to another product or service, for example a motor vehicle, electrical good or a holiday, a *firm* should consider whether the proposed distribution channel would be appropriate in light of the risk that the *customer's* focus is on the core product rather than the insurance product.

Monitoring and review of insurance products

…

4.2.34 R A *firm* must regularly review the insurance products it offers or markets taking into account any event that could materially affect the potential risk to the identified target market. In doing so, the *firm* must assess at least the following:

(1) whether the insurance product remains consistent with the needs of the identified target market; ~~and~~

(2) (in relation to a *non-investment insurance product*) whether the insurance product remains consistent with the fair value assessment required under *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR; and

(3) whether the intended distribution strategy remains appropriate.

[**Note:** fourth subparagraph of article 25(1) of the *IDD*]

4.2.34A G 'Offers' and 'markets' in the requirements in *PROD* 4.2.33R and *PROD* 4.2.34R should be read to include 'renews' in relation to the *renewal* of existing *non-investment insurance products*.

4.2.34B R For a *non-investment insurance product*, a *firm* must undertake the regular review required by *PROD* 4.2.34R:

(1) every twelve months; or

(2) more frequently where the potential risk associated with the product makes it appropriate to do so.

4.2.34C G For the purposes of *PROD* 4.2.34B the factors that should be taken into account when considering if more frequent reviews would be appropriate include, but are not limited to:

(1) the nature and complexity of the product;

(2) the nature of the *customer* base, including whether there are significant numbers of *customers* of long *tenure* and/or vulnerable *customers*;

(3) any specific indicators seen in the *firm's* assessment of the product's value to the *customer*;

(4) any indicators of customer harm potentially emerging from the performance of the product (for example through claims and complaints data); and

(5) the nature and type of distribution arrangements being used.

…

4.2.35A R (1) When reviewing a *non-investment insurance product*, a *firm* must consider:

(a) whether the insurance product is providing the intended fair value to *customers*;

(b) any impact which the distribution arrangements are having on the value including whether the distribution channels remain appropriate;

(c) whether the use of any *retail premium finance* arrangement remains appropriate.

(2) A *firm* in (1) must:

(a) ensure that it has sufficient, good quality management information; and

(b) use the full range of data and information available to it (whether it holds this information already, the information is publicly available or it is able to obtain it from another person),

to enable it to consider and asses value including that actually being provided by the insurance product.

(3) The information in (2) includes but is not limited to:

(a) information available to the *firm* internally including:

(i) customer research;

(ii) claims information (such as handling times, frequency, rates of and reasons for claim acceptance and declinature, severity of claims costs (including total costs and average per claim) and claims ratios); and

(iii) complaints data (including root cause analysis and handling times);

(b) public information or information obtainable by the *firm* from external sources including analysis of similar insurance products available from other *firms* and, where relevant, data published as part of the *FCA's* work on value measures in the general insurance market;

(c) information available to the *firm* (including what it would be reasonably able to obtain) in relation to any distribution arrangements through which the product is distributed, including:

(i) remuneration information;

(ii) levels and quality of service provided by the *distributor*;

(iii) ongoing monitoring and oversight reports relating to the *distributor's* processes, for example call monitoring or file reviews.

4.2.35B R In addition to the information specified in *PROD* 4.2.35AR, a *firm* must obtain all necessary and relevant information in order to enable them to properly understand and monitor a *non-investment insurance product* including verification of the information in *PROD* 4.2.14MR.

4.2.35C G For *PROD* 4.2.35AR(1), a *firm* should identify whether there is a risk to its continuing to provide fair value where there is a material change in the relationship between the price to the *customer* and the actual costs to the *firm* or another party involved in the ongoing service/distribution of the product.

…

4.2.36A G In relation to a *non-investment insurance product*, when identifying the appropriate intervals for regular review *firms* will need to consider the requirement in *PROD* 4.2.34BR and also whether any event has happened or issue arisen requiring the insurance product to be reviewed outside of the minimum review period.

4.2.36B R For the purposes of showing the requirements in *PROD* 4.2.1R and *PROD* 4.2.5UK are met, where a *firm* makes a change to a *non-investment insurance product* it must make and retain a record of:

(1) the assessment of whether that change would amount to a significant adaptation of the insurance product; and

(2) where the assessment in (1) is that the change would not be a significant adaptation, the reasons for that decision.

…

4.2.37A R For a *non-investment insurance product*, the review process must:

(1) have the necessary measures to be able to identify if the insurance product is not providing fair value; and

(2) in that case, provide that appropriate actions be taken:

(a) for the mitigation and any potential remediation of the harm to existing *customers*; and

(b) to prevent harm to new *customers*.

4.2.37B G In relation to a *non-investment insurance product*, the actions *firms* may need to take for the purposes of *PROD* 4.2.37A include (and may involve a combination of), but are not limited to:

(1) making changes to the product (such as amending policy terms or applying them more favourably to *customers* in the event of a claim);

(2) offering existing *customers* the option to cancel the *non-investment insurance contract* without additional cost (for example by waiving cancellation fees or charges);

(3) providing *customers* with a refund of the difference between the *premium* paid for the *non-investment insurance contract* and the *premium* for a fair value version of that product;

(4) proposing alternative insurance products, whether offered by the *firm* or another provider, to existing *customers* or *distributors* which provide fair value and which would be compliant with other *FCA* requirements, for example, *ICOBS* 5.2 (Demands and needs);

(5) withdrawing the insurance product from continued marketing or *distribution*.

4.2.37C G Where in the review required by *PROD* 4.2.34R and *PROD* 4.2.35UK a *firm* identifies a breach of any *rules* in place at the time, it should consider what may be necessary to provide appropriate mitigation and/or remediation of the harm including whether redress should be made. The *firm* should contact any affected *customers* where this is necessary to inform them of the issues and of the measures being taken.

…

4.2.39A R In relation to a *non-investment insurance contract*, where a *firm* identifies that the *distribution* is detrimentally affecting the intended value of the insurance product it must take appropriate remedial measures including but not limited to:

(1) amending the distribution arrangements, including ceasing to use certain *distributors* or distribution channels;

(2) amending remuneration structures;

(3) withdrawing the insurance product from continued marketing or *distribution*.

4.3 Distribution of insurance products

…

4.3.2A R In relation to a *non-investment insurance product*, the arrangements in *PROD* 4.3.2R must enable the *distributor* to understand:

(1) the outcome of the value assessment required by *PROD* 4.2.14AR and, where relevant, *PROD* 4.2.14BR; and

(2) any identified group of *customers* for whom the insurance product is not expected to provide fair value.

…

4.3.6A R (1) In relation to a *non-investment insurance product*, the product distribution arrangements in *PROD* 4.3.2R must enable the *distributor* to identify:

(a) the value that the insurance product is intended to provide to the *customer*; and

(b) the impact that the distribution arrangements (including any remuneration it, or another person in the distribution chain to which it belongs, receives) has on the overall value of the insurance product to the *customer*.

(2) Any distribution strategy set up or applied by the *distributor* must be consistent with the aim of providing fair value to the *customer*.

(3) For the purposes of (1) and (2) a *firm* must consider at least the following:

(a) the benefits the product is intended to provide to the *customer*;

(b) the characteristics, objectives, interests and needs of the target market;

(c) the interaction between the price paid by the *customer* and the extent and quality of any services the *distributor* (or any person connected to it) provides;

(d) whether any *remuneration* it receives in relation to the insurance product would result in the product ceasing to provide fair value to the *customer*;

(e) any potential detrimental effect on the intended value where the insurance product is to be *distributed* as part of a package with, or as part of the same agreement which provides, another product or service; and

(f) where the distribution strategy involves offering, or arranging for the *customer* to be offered, *retail premium finance*, the *firm* must ensure that, taking into account the costs (including any charges/interest) of the *retail premium finance*, the *customer* does not pay a price that means, if seen as a package, the *customer* will not receive fair value.

4.3.6B G The following evidential provision provides examples of what the *FCA* considers indicate that the *customer* is not being provided fair value which, if relied on by a *firm*, the *FCA* considers will breach *PROD* 4.3.6AR.

4.3.6C E (1) Any person at any stage of the distribution chain receiving a level of remuneration which does not bear a reasonable relationship to the person's actual costs, or their contribution, level of involvement or the benefit added by them, to the arrangements for the distribution of the product, including where the person provides little or no benefit beyond that which the *customer* would receive if they obtained the insurance product through another distribution channel.

(2) A *firm*, or other person in the distribution arrangement, having remuneration arrangements which give an incentive to propose or recommend an insurance product which either does not meet the *customer's* needs (or not as well as another product would) or is not in accordance with the *customer's best interests rule*.

(3) Where the insurance product is distributed as part of a package, the overall price of the package does not bear a reasonable relationship to the overall benefits provided by the package.

(4) Where the level of any remuneration (for which any person in the distribution arrangement is responsible for setting) is not reasonably reflective of the costs actually incurred.

(5) Contravention of any of *PROD* 4.3.6CE (1) to (4) may be relied upon as tending to establish contravention of *PROD* 4.3.6AR.

…

4.3.10A R A *firm* must review its product distribution arrangements in relation to a *non-investment insurance product* at least every twelve *months*.

4.3.10B R For the purposes of *PROD* 4.3.10UK, a *distributor* must provide on request to a *manufacturer* of a *non-investment insurance product*:

(1) information on the *distributor's* remuneration in connection with the distribution of the insurance product;

(2) information on any ancillary product or service that the *distributor* provides to the *customer* (including insurance add-ons, non-insurance *optional additional product* and *retail premium finance*), which may affect the *manufacturer's* intended value of the insurance product; and

(3) confirmation that the distribution arrangements are consistent with the obligations of the *firm* under the *FCA Handbook* including in particular in *SYSC* 10 and *SYSC* 19F.2.

…

4.3.11A R (1) For a *non-investment insurance product*, a *distributor* must take appropriate remedial and mitigating action, including to amend its product distribution arrangements, where it identifies:

(a) the insurance product (or, where relevant, the package) is not providing fair value for *customers*; or

(b) any aspects of a product or package that may mean it does not offer fair value; or

(c) the distribution arrangements including remuneration structures may mean the *customer* is not being provided with fair value.

(2) The actions which the *distributor* takes for (1) must:

(a) aim to mitigate the situation and prevent further occurrences of any possible harm to *customers*, including, where appropriate, amending the distribution strategy for that product (and, where relevant, the package); and

(b) include informing any relevant *manufacturers* promptly about any concerns they have and any action the *distributor* is taking.

4.3.11B G For the purposes of *PROD* 4.3.11AR the steps a *distributor* may need to take include (but are not limited to):

(1) amending its remuneration structures;

(2) amending the distribution arrangements;

(3) improving the quality of, or ceasing, any service or benefits it provides;

(4) where the failure to provide fair value is due to the costs or quality of *additional products*, renegotiating the terms of the current arrangements relating to the *additional products*, or selecting alternative providers or *distributors* of them, in order to provide for a fair outcome;

(5) ceasing to distribute certain insurance products (or where relevant, packages), or ceasing to use certain distribution channels;

(6) contacting existing *customers* to inform them of the issues and of the measures being taken to rectify them; and

(7) providing redress to *customers*.

…

Insert the following new section PROD 4.6 (Application of PROD 4.2 and 4.3 for RPPD non-investment insurance products) after PROD 4.5 (Additional expectations for manufacturers and distributors in relation to value measures data). The text is not underlined.

4.6 Application of PROD 4.2 and 4.3 for RPPD non-investment insurance products

Application

4.6.1 R (1) *PROD* 4.6 applies to the following *firms* in relation to an *RPPD non-investment insurance product*:

(a) the *manufacturer* of the *RPPD non-investment insurance product*, which includes:

(i) an *intermediary* which has a decision-making role (in whole or in part) in relation to the *manufacture* of the *RPPD non-investment insurance product*;

(ii) an *insurer* that is responsible for the *manufacture* of the product including whoever currently underwrites the *RPPD non-investment insurance product*; and

(b) a *firm* that *distributes* (including the renewal of an existing *policy*) the *RPPD non-investment insurance product*.

4.6.2 R For a product falling within limb (2)(b) of an *RPPD non-investment insurance product* any reference to distribution or renewal is to be treated as including the ongoing collection of premiums in relation to a *policy* that remains in force.

Purpose

4.6.3 G The purpose of this section is to set out the product governance distribution arrangements for, and how *PROD* 4 applies to, *RPPD non-investment insurance products*.

Manufacturers of RPPD non-investment insurance products

4.6.4 R A *manufacturer* of an *RPPD non-investment insurance product* must apply the product approval process in *PROD* 4.2 to that insurance product including:

(1) general (*PROD* 4.2.5UK to *PROD* 4.2.14R);

(2) fair value assessment (*PROD* 4.2.14AR to *PROD* 4.2.14OR);

(3) target market requirements (*PROD* 4.2.15R to *PROD* 4.2.21G);

(4) product testing (*PROD* 4.2.22UK to *PROD* 4.2.26G);

(5) distribution channels and information disclosure to distributors requirements (*PROD* 4.2.27UK to *PROD* 4.2.32.R); and

(6) monitoring and review of insurance products (*PROD* 4.2.33R to *PROD* 4.2.39UK).

4.6.5 G (1) *Firms* should take into account all relevant factors, including those in *PROD* 4.2.3G and *PROD* 4.2.3AG, when identifying the necessary product approval process and arrangements including, in particular:

(a) previous product governance arrangements including reviews which the *firm* (or another person) has undertaken and the extent to which these would or would not have complied with *PROD* requirements; and

(b) the potential level of harm which could result from the product in question.

(2) *Firms* should ensure the product approval process has the necessary measures to identify whether the insurance product is, or remains, appropriate to be marketed or distributed to *customer*s.

4.6.6 R (1) A *firm* must determine whether the *RPPD non-investment insurance product* should continue to be marketed and distributed (including renewals for existing *customers*).

(2) Where a *firm* does not approve the continued marketing and distribution of the product, including where the *firm* has been unable to identify that the product or package provides fair value for the purposes of *PROD* 4.2.14AR or 4.2.14BR, it must immediately:

(a) cease marketing or distributing the product or package (whether directly or indirectly), including any renewal for an existing *customer*; and/or

(b) make such changes as are necessary for the product or package to provide fair value.

Distributors of RPPD non-investment insurance products

4.6.7 R A *firm* which *distributes*, or will *distribute*, an *RPPD non-investment insurance product* must meet the requirements in *PROD* 4.3 in relation to that insurance product.

4.6.8 R A *firm* that *distributes* an *RPPD non-investment insurance product* must put in place the necessary product distribution arrangements, including for:

(1) obtaining any necessary information from the *manufacturer*;

(2) providing any necessary or relevant information to the *manufacturer*;

(3) understanding the product, identified target market and value assessment;

(4) ensuring adequate oversight, including the ability to obtain necessary or relevant information, of any other persons involved in the distribution with whom the distributor has a direct relationship; and

(5) the regular review of the product distribution arrangements including to take appropriate action in order to avert the risk of consumer detriment.

Amend the following as shown. New text is underlined.

TP 1 Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.1	…				
1.2	*Rules* in *PROD* 4.2 that will be made or amended by the Non-Investment Insurance: Product Governance, Premium Finance, General Insurance Auto-renewal and Home and Motor Insurance Pricing Instrument 2021]	R	Where an existing *non-investment insurance product*: (1) has, before [in force date of the instrument in column (2)], been approved for marketing and distribution in compliance with *PROD* 4.2; and (2) remains available for distribution (including renewals) or, if not still being marketed or distributed, there are *policies* under the product that remain in force,	From [in force date of the instrument in column (2)] up to and including [12 months after this date]	[in force date of instrument]

			the *manufacturer* must, within 12 *months* of [the in force date of the instrument in column (2)], review the product and ensure it meets the fair value requirements in *PROD* 4.2.		
1.3		G	The effect of *PROD* TP 1.2 and the requirements in *PROD* 4.2.14AR to *PROD* 4.2.14OR is that where the *firm* is unable to identify that the product or package provides fair value it will need to immediately: (1) cease any distribution of the product, whether directly or through another person, immediately; and/or (2) take any necessary steps to ensure the product will provide fair value in future.		
1.4	*Rules* in *PROD* 4.3 that will be made or amended by the Non-Investment Insurance: Product Governance, Premium Finance, General Insurance Auto-renewal and Home and Motor Insurance Pricing Instrument 2021	R	Where a *firm*, to which *PROD* 4.3, *distributes* an existing *non-investment insurance product* which was approved for marketing or distribution [before in force date of the instrument in column (2)] under *PROD* 4.2, it must, within 12 *months* of [the in force date of the instrument in column (2)], update its distribution arrangements to comply with the requirements in column (2).	From [in force date of the instrument in column (2)] up to and including [12 months after that date]	[in force date of instrument]
1.5	*PROD* 4.6.6R	R	A *firm* has 12 *months* from [the in force date of the instrument in column (2)] to make the determination	From [in force date of the instrument in column (2)]	[in force date of instrument]

			required by the rule in column (2).	up to and including [12 months after that date end date]	
1.6	*PROD* 4.6.7R and *PROD* 4.6.8R	R	A *firm* must put in the place the necessary product distribution arrangements required by the *rules* in column (2) within 12 *months* of [the in force date of the instrument in column (2)].	From [in force date of the instrument in column (2)] up to and including [12 months after that date end date]	[in force date of the instrument]

Annex E

Amendments to the Supervision Manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

16 Reporting requirements

16.1 Application

…

16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16, SUP 16.17, SUP 16.22 and SUP 16.26)

(1) Sections (s)	**(2) Categories of firm to which section applies**		**(3) Applicable rules and guidance**
…			
SUP 16.27	…		
SUP 16.28	A *firm* which, in respect of *general insurance contracts*, is:		Entire section
…	(1)	an *insurer*;	
	(2)	a *managing agent*;	
	(3)	an *insurance intermediary*;	
	(4)	a *TP firm*; *or*	
	(5)	a *Gibraltar-based firm* that is not a *TP firm.*	
	to the extent that the *firm* and its business falls within the scope of *SUP* 16.28.8R.		
…			

16.2 Purpose

16.2.1 G …

(4) The purpose of *SUP* 16.28 is to provide the *FCA* with relevant data that it can use to assess *firms*' compliance with the *home insurance* and *motor insurance* pricing rules in *ICOBS* 6B.

…

16.3 General provisions on reporting

…

Structure of the chapter

16.3.2 G This chapter has been split into the following sections, covering:

(1) …

…

(21) *Directory persons* information reporting (*SUP* 16.26); ~~and~~

(22) value measures data reporting (*SUP* 16.27)~~.~~; and

(23) *Home insurance* and *motor insurance* pricing reporting (*SUP* 16.28).

…

Insert the following new section SUP 16.28 (Home insurance and motor insurance pricing reporting) after SUP 16.27 (General insurance value measures reporting). The text is not underlined.

16.28 Home insurance and motor insurance pricing reporting

Application

Who?

16.28.1 R The effect of *SUP* 16.1.1R is that this section applies to every *firm* of a type listed in column 1 of the table in *SUP* 16.28.8R.

What?

16.28.2 R This section applies to a *firm* which has carried on the business described in column 2 of the table in *SUP* 16.28.8R in relation to any of the following types of *general insurance contracts*:

(1) *home insurance*, or

(2) *motor insurance*.

16.28.3 R This section does not apply in relation to the following types of products:

(1) *policies* entered into by a *commercial customer*, or

(2) *group policies*.

Purpose

16.28.4 G The purpose of this section is to require *firms* to submit information on their *home insurance* and *motor insurance* contracts and any *additional products* in a standard format to the *FCA*. This information will assist the *FCA* in monitoring *firms*' compliance with *ICOBS* 6B.

Definitions

16.28.5 R In this section and *SUP* 16 Annex 49AR and *SUP* 16 Annex 49BG:

"buildings only" means	*Home insurance* cover for the structure of (but not the contents of) domestic properties, including any core related liability cover.
"contents only" means	*Home insurance* cover for the contents of (but not the structure of) domestic properties, including any core related liability cover.
"buildings and contents" means	*Home insurance* cover for both the structure and contents of domestic properties, including any core related liability cover.
"expected claims cost" means	The expected risk cost when calculating the policy's premium.
"expected claims ratio" means	The expected claims cost as a percentage of the gross written price.
"core product" means	The *home insurance* or *motor insurance policy*, excluding any *additional products*.
"high premium" means	A premium that is a factor of 1.5x to 2x higher than the average premium paid by a *customer* for the product in the reporting category.
"price-setting *intermediary*" means	An *insurance intermediary* whose role includes setting the gross price

	paid by the *customer* for the core product or setting the gross price of any element of that premium, or setting the price of any *additional products*.
"reporting period" means	the 12-*month* period beginning on 1 January and ending on 31 December.
"very high premium" means	A premium that is more than 2x higher than the average premium paid by a *customer* for the product in the reporting category.

Requirement to submit a pricing information report

16.28.6 R Where a *firm* of a type set out in column 1 of the table in *SUP* 16.28.8R has carried on the business in column 2 of the same row in relation to *home insurance* or *motor insurance* products, it must:

(1) submit to the *FCA* a report containing the specified information in relation to their *home insurance* and *motor insurance* products and related *additional products*; and

(2) submit the report in accordance with *SUP* 16.28.9R to *SUP* 16.28.16R.

16.28.7 R A *TP firm* or a *Gibraltar-based firm* which is of a type set out in column 1 of the table in *SUP* 16.28.8R (or which is treated as if it is) and has carried on the business in column 2 of the same row in relation to *home insurance* or *motor insurance* products in the *UK* must:

(1) submit to the *FCA* a report containing the specified information in relation to their *UK home insurance* and *motor insurance* products and related *additional products*; and

(2) submit the report in accordance with *SUP* 16.28.9R to *SUP* 16.28.16R.

16.28.8 R This is the table referred to in *SUP* 16.28.6R and 16.28.7R

(1) Type of firm	(2) Nature of business
An *insurer*	*Contracts of insurance effected* by the *insurer*.
A non-price setting *insurance intermediary*	*Contracts of insurance* in relation to which:

	(a) the *insurance intermediary* carried on or was responsible for *insurance distribution activities*; but (b) the *firm* was not acting as a price-setting intermediary.
A price-setting *insurance intermediary*	*Contracts of insurance* in relation to which:
	(a) the price-setting *intermediary* carried on or was responsible for *insurance distribution activities*; and (b) the *firm* was acting as a price-setting intermediary.
A *managing agent*	*Contracts of insurance* written at Lloyd's which were *effected* by the *managing agent*.

16.28.9 R *Firms* must comply with the following in relation to the table in *SUP* 16.28.8R.

(1) Where different *insurers* underwrite different elements of the cover that forms part of the same *policy*, then the *insurer* underwriting the largest proportion of the cover (and in the event of any doubt, the first part of the cover recorded in the *policy*) must report the pricing information for all elements of the cover (including any *additional products* associated with the *policy*).

(2) References to *manufacturing* are to *manufacturing* in whole or in part. Where there is more than one *firm* referred to in column 1 that *manufactures* a *contract of insurance*, then only one must report the pricing information and each *firm* must agree in writing with the others which *firm* is responsible.

Content of the report and pricing information

16.28.10 R A pricing information report must contain pricing information set out in *SUP* 16.28.11R and *SUP* 16.28.12R as follows:

(1) the information must be completed in respect of each *firm's home insurance* and *motor insurance* business;

(2) the information must be provided on an aggregated basis for each of the following product types in a *firm's motor insurance* business, excluding the books to be separately disclosed in (6) below;

(a) car, including motorhomes; and

(b) motorcyles, including tricycles;

(3) the information must be provided on an aggregated basis for each of the following product types in a *firm's home insurance* business, excluding the books to be separately disclosed in (6) below:

(a) buildings only;

(b) contents only; and

(c) buildings and contents;

(4) the aggregated information for each of the categories set out in (2) and (3) must be split out into products sold via the following types of *channel*:

(a) direct (aggregated across all methods of direct sales);

(b) price comparison websites;

(c) intermediated; and

(d) *affinity/partnership schemes*;

(5) the pricing information for each type of *channel* must be split into categories representing the *tenure* of the *customers* (broken down by the year of *tenure*) in that type of *channel*;

(6) price-setting intermediaries must further split the required information for each *channel* and *tenure* combination into *gross price* and *net rated price*.

(7) pricing information must be provided separately, split into the type of *home insurance* product or *motor insurance* product (where relevant) and into categories representing the *tenure* of customers (broken down by year of *tenure*) but not by type of *channel*, for each book of business that is:

(a) a large book of business; or

(b) a *closed book* (where not already included in (7)(a) above);

(8) pricing information for *additional products* must be provided on an aggregated basis for each of the following:

(a) *retail premium finance*; and

(b) *additional products* which are *general insurance* products;

(9) pricing information for fees and charges that are not part of the *premium* for the core product must be provided on an aggregated basis for each of the following:

(a) pre-contractual fees and changes; and

(b) post-contractual fees and charges;

(10) the pricing information in (8) and (9) must be split into categories representing the *tenure* of the *customers* (broken down by the year of *tenure*).

16.28.11 R The pricing information for the core product (for each aggregated category or separately reported book) is:

(1) total gross written *premium*;

(2) total net written *premium*;

(3) total earned *premium*;

(4) average gross written *premium*;

(5) average net written *premium*;

(6) average earned *premium*;

(7) average *net rated price* (intermediated sales only);

(8) average *gross price* (intermediated sales only);

(9) number of *policies* in force at the reporting date;

(10) total number of *policies* sold or *renewed*;

(11) expected claims ratio;

(12) expected claims cost;

(13) *gross incurred claims ratio*;

(14) developed *gross incurred claims ratio* for the current reporting period;

(15) developed *gross incurred claims ratio* for the reporting period 1 year prior to the current reporting period;

(16) developed *gross incurred claims ratio* for the reporting period 2 years prior to the current reporting period;

(17) total prior year's reserve release;

(18) total prior year's reserve strengthening;

(19) proportion of *customers* where the expected claims ratio is 10 percentage points lower than the average expected claims ratio;

(20) proportion of *customers* where the expected claims ratio is 30 percentage points lower than average expected claims ratio;

(21) proportion of *customers* paying high *premiums*; and

(22) proportion of *customers* paying very high *premiums*.

16.28.12 R The pricing information for *additional products* (including *retail premium finance*) and pre- and post-contractual fees and charges that are not part of the *premium* for the core product is:

(1) total charged for *retail premium finance*;

(2) number of customers with *retail premium finance*;

(3) *APR* range;

(4) total gross written *premiums* for *additional products* which are *general insurance* products sold in connection with, or alongside, the core product;

(5) number of *additional products* sold which are *general insurance* products;

(6) total pre-contractual fees/charges paid by all *customers*;

(7) average pre-contractual fees/charges per *customer*;

(8) total post-contractual fees/charges paid by all *customers*; and

(9) average post-contractual fees/charges per *customer*.

Annual submission date and reporting period

16.28.13 R The pricing information report must be submitted annually on or before 31 March and contain information in relation to the reporting period which begins on 1 January and ends on 31 December of the immediately preceding calendar year.

Format and method of submission and format

16.28.14 R A pricing information report must be completed using the form and format set out in *SUP* 16 Annex 49AR, using the notes for completion in *SUP* 16 Annex 49BG.

16.28.15	R	The report must be submitted online through the appropriate systems accessible from the *FCA's* website.
16.28.16	R	A pricing information report will not be considered as submitted to the *FCA* unless all the mandatory reporting fields set out in *SUP* 16 Annex 49AR have been completed correctly and the report has been accepted by the relevant *FCA* reporting system.
16.28.17	G	If the *FCA's* information technology systems fail and online submission is unavailable for 24 hours or more, the *FCA* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in *SUP* 16.3.9R (Method of submission of reports (see *SUP* 16.3.8R)) should be used.

Insert the following new annexes SUP 16 Annex 49AR (Pricing information report form) and 16 Annex 49BG (Notes on completing the pricing information report form) after SUP 16 Annex 48BG (Notes on completing the value measures report form). The text is not underlined.

16 Annex 49AR	**Pricing information report form [(REP XXXX)]**

…

Pricing information report form REPXXX

***FCA Handbook* reference: *SUP* 16 Annex 49AR**

Notes for completing the form are available in: *SUP* 16 Annex 49BG

Financial Conduct Authority
12 Endeavour Square
Stratford London E20 1JN
United Kingdom
Telephone +44 (0) 845 606 9966
E-mail firm.queries@fca.org.uk
Website http://www.fca.org.uk

Name of *firm* (As entered in 1.05)	

All firms should complete Sections 1 and 6. In addition:

- **insurers should complete Sections 2, 3 and 4**
- **price-setting intermediaries should complete Section 5**

Contact details | Section 1

All firms should complete this section

1.01	Title	
1.02	First name	
1.03	Last name	
1.04	Job title	
1.05	Firm name	
1.06	*Firm* Reference Number (FRN)	
1.07	Business address	
1.08	Postcode	
1.09	Office phone number	

1.10	Email address	

Pricing information – core product by channel Section 2

Only complete this Section if your firm is an insurer

2.01	**Product**	Dropdown list: • Motor - cars including motor homes • Motor - motorcycles including tricycles • Home - buildings and contents • Home - buildings only • Home - contents only

		Tenure										
Direct channel		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
2.02	Total gross written premium (£)											
2.03	Average gross written premium (£)											
2.04	Total number of policies sold/renewed											
2.05	Total number of policies in force at reporting date											
2.06	Expected claims cost (£)											
2.07	Expected claims ratio (%)											
2.08	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
2.09	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.10	Proportion of customers paying a high premium (%)											
2.11	Proportion of customers paying a very high premium (%)											

		Tenure										
Intermediated channel (net rated)		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
2.12	Total gross written premium (£)											
2.13	Total net rated written premium (£)											
2.14	Average gross price (£)											
2.15	Average net rated price (£)											
2.16	Total number of policies sold/renewed											
2.17	Total number of policies in force at reporting date											
2.18	Expected claims cost (£)											
2.19	Expected claims ratio (%)											
2.20	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
2.21	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.22	Proportion of customers paying a high premium (%)											
2.23	Proportion of customers paying a very high premium (%)											
Intermediated channel (gross rated)												
2.24	Total gross written premium (£)											
2.25	Average gross price (£)											
2.26	Total number of policies sold/renewed											
2.27	Total number of policies in force at reporting date											
2.28	Expected claims cost (£)											
2.29	Expected claims ratio (%)											
2.30	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
2.31	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.32	Proportion of customers paying a high premium (%)											
2.33	Proportion of customers paying a very high premium (%)											

		Tenure										
Price comparison website channel		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
2.34	Total gross written premium (£)											
2.35	Average gross written premium (£)											
2.36	Total number of policies sold/renewed											
2.37	Total number of policies in force at reporting date											
2.38	Expected claims cost (£)											
2.39	Expected claims ratio (%)											
2.40	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
2.41	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.42	Proportion of customers paying a high premium (%)											
2.43	Proportion of customers paying a very high premium (%)											
Affinity/ Partnerships channel (net rated)												
2.44	Total gross written premium (£)											
2.45	Total net rated written premium (£)											
2.46	Average gross price (£)											
2.47	Average net rated price (£)											
2.48	Total number of policies sold/renewed											
2.49	Total number of policies in force at reporting date											
2.50	Expected claims cost (£)											
2.51	Expected claims ratio (%)											
2.52	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
2.53	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.54	Proportion of customers paying a high premium (%)											
2.55	Proportion of customers paying a very high premium (%)											

		Tenure										
Affinity/ Partnerships channel (gross rated)		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
2.56	Total gross written premium (£)											
2.57	Average gross written premium (£)											
2.58	Total number of policies sold/renewed											
2.59	Total number of policies in force at reporting date											
2.60	Expected claims cost (£)											
2.61	Expected claims ratio (%)											
2.62	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
2.63	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.64	Proportion of customers paying a high premium (%)											
2.65	Proportion of customers paying a very high premium (%)											
Total (aggregated for all channels)												
2.66	Total gross written premium (£)											
2.67	Average gross written premium (£)											
2.68	Total earned premium (£)											
2.69	Average earned premium (£)											
2.70	Total number of policies sold/renewed											
2.71	Total number of policies in force at reporting date											
2.72	Expected claims cost (£)											
2.73	Expected claims ratio (%)											
2.74	Gross incurred claims ratio for the current reporting period (with IBNR/IBNER) (%)											
2.75	Developed gross incurred claims ratio for the previous reporting period (%)											
2.76	Developed gross incurred claims ratio for the reporting period 2 years ago (%)											
2.77	Developed gross incurred claims ratio for the reporting period 3 years ago (%)											
2.78	Total prior year's reserve releases (£)											
2.79	Total prior year's reserve strengthening (£)											
2.80	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											

2.81	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
2.82	Proportion of customers paying a high premium (%)											
2.83	Proportion of customers paying a very high premium (%)											

Pricing information for large books of business with 100,000 or more policies Section 3 Sub-set of total in Section 2

Only complete this Section if your firm is an insurer

3.01 **Description of book**

		Tenure										
Book A – complete this Section for each large book		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10+
3.02	Total gross written premium (£)											
3.03	Total number of policies sold/renewed											
3.04	Total number of policies in force at reporting date											
3.05	Expected claims cost (£)											
3.06	Expected claims ratio (%)											
3.07	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
3.08	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
3.09	Proportion of customers paying a high premium (%)											
3.10	Proportion of customers paying a very high premium (%)											

Pricing information for closed books of business Section 4
Sub-set of total in Section 2

Only complete this Section if your firm is an insurer

4.01 **Description of book**

		Tenure										
Book A – complete this Section for each closed book		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10+
4.02	Total gross written premium (£)											
4.03	Total number of policies sold/renewed											
4.04	Total number of policies in force at reporting date											
4.05	Expected claims cost (£)											
4.06	Expected claims ratio (%)											
4.07	Proportion of customers where the expected claims ratio is 10 percentage points lower than the average expected claims ratio (%)											
4.08	Proportion of customers where the expected claims ratio is 30 percentage points lower than the average expected claims ratio (%)											
4.09	Proportion of customers paying a high premium (%)											
4.10	Proportion of customers paying a very high premium (%)											

Pricing information – core product by channel — Section 5

Only complete this Section if your firm is a price-setting intermediary

5.01 **Product** Dropdown list:
- Motor - cars including motor homes
- Motor - motorcycles including tricycles
- Home - buildings and contents
- Home - buildings only
- Home - contents only

		Tenure										
Direct channel (net rated)		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
5.02	Total gross written premium (£)											
5.03	Total net rated written premium (£)											
5.04	Average gross price (£)											
5.05	Average net rated price (£)											
5.06	Total number of policies sold/renewed											
5.07	Total number of policies in force at reporting date											
5.08	Proportion of customers paying a high premium (%)											
5.09	Proportion of customers paying a very high premium (%)											
Direct channel (gross rated)												
5.10	Total gross written premium (£)											
5.11	Average gross price (£)											
5.12	Total number of policies sold/renewed											
5.13	Total number of policies in force at reporting date											
5.14	Proportion of customers paying a high premium (%)											
5.15	Proportion of customers paying a very high premium (%)											

		Tenure										
Intermediated channel (net rated)		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
5.16	Total gross written premium (£)											
5.17	Total net rated written premium (£)											
5.18	Average gross price (£)											
5.19	Average net rated price (£)											
5.20	Total number of policies sold/renewed											
5.21	Total number of policies in force at reporting date											
5.22	Proportion of customers paying a high premium (%)											
5.23	Proportion of customers paying a very high premium (%)											
Intermediated channel (gross rated)												
5.24	Total gross written premium (£)											
5.25	Average gross price (£)											
5.26	Total number of policies sold/renewed											
5.27	Total number of policies in force at reporting date											
5.28	Proportion of customers paying a high premium (%)											
5.29	Proportion of customers paying a very high premium (%)											
Price comparison website channel (net rated)												
5.30	Total gross written premium (£)											
5.31	Total net rated written premium (£)											
5.32	Average gross price (£)											
5.33	Average net rated price (£)											
5.34	Total number of policies sold/renewed											
5.35	Total number of policies in force at reporting date											
5.36	Proportion of customers paying a high premium (%)											
5.37	Proportion of customers paying a very high premium (%)											
Price comparison website channel (gross rated)												
5.38	Total gross written premium (£)											
5.39	Average gross price (£)											
5.40	Total number of policies sold/renewed											
5.41	Total number of policies in force at reporting date											
5.42	Proportion of customers paying a high premium (%)											
5.43	Proportion of customers paying a very high premium (%)											

		Tenure										
Affinity/ Partnerships channel (net rated)		**T0**	**T1**	**T2**	**T3**	**T4**	**T5**	**T6**	**T7**	**T8**	**T9**	**T10+**
5.44	Total gross written premium (£)											
5.45	Total net rated price written premium (£)											
5.46	Average gross price (£)											
5.47	Average net rated price (£)											
5.48	Total number of policies sold/renewed											
5.49	Total number of policies in force at reporting date											
5.50	Proportion of customers paying a high premium (%)											
5.51	Proportion of customers paying a very high premium (%)											
Affinity/ Partnerships channel (gross rated)												
5.52	Total gross written premium (£)											
5.53	Average gross price (£)											
5.54	Total number of policies sold/renewed											
5.55	Total number of policies in force at reporting date											
5.56	Proportion of customers paying a high premium (%)											
5.57	Proportion of customers paying a very high premium (%)											
Total (net rated) (aggregated for all channels)												
5.58	Total gross written premium (£)											
5.59	Total net rated written premium (£)											
5.60	Average gross price (£)											
5.61	Average net rated price (£)											
5.62	Total number of policies sold/renewed											
5.63	Total number of policies in force at reporting date											
5.64	Proportion of customers paying a high premium (%)											
5.65	Proportion of customers paying a very high premium (%)											
Total (gross rated) (aggregated for all channels)												
5.66	Total gross written premium (£)											
5.67	Average gross price (£)											
5.68	Total number of policies sold/renewed											
5.69	Total number of policies in force at reporting date											
5.70	Proportion of customers paying a high premium (%)											

5.71	Proportion of customers paying a very high premium (%)											

Premium finance, add-ons and fees and charges Section 6

All firms should complete this section

		Tenure										
Premium finance		T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10+
6.01	Total charged (£) for retail premium finance in the current reporting period											
6.02	Number of policies with retail premium finance in the current reporting period											
6.03	Number of policies in the current reporting period with an APR between:											
	0% to 9.9%											
	10% to 19.9%											
	20% to 29.9%											
	30% to 39.9%											
	40% to 49.9%											
	50% or more											
Add-ons												
6.04	Total gross written premiums (£) for optional and mandatory additional products in the current reporting period											
6.05	Number of optional and mandatory additional products sold in the current reporting period											
Fees and charges in addition to the premium												
6.06	Total pre-contractual fees/charges (£) paid by all customers in the current reporting period											
6.07	Average pre-contractual fees/charges (£) per customer in the current reporting period											
6.08	Total post-contractual fees/charges (£) paid by all customers in the current reporting period											

6.09	Average post-contractual fees/charges (£) per customer in the current reporting period	

16 Annex 49BG **Notes on completing the pricing information report form [(REP XXXX)]**

This annex contains guidance on completing the pricing information report form [(REP XXXX)]

General notes

(1) All *firms* should complete Sections 1 and 6. In addition, *insurers* and *managing agents* should complete Sections 2, 3 and 4, and price setting intermediaries should complete Section 5.

(2) All monetary figures should be rounded to the nearest pound.

(3) Unless otherwise stated, monetary figures should be calculated and reported excluding insurance premium tax.

(4) *Firms* should report information separately for large books of business and for *closed books*. All remaining information should be aggregated as set out in notes (6) and (7) below.

(5) *Firms* should name large books of business and closed books and provide information for them split by:

(a) product group e.g. *motor insurance*, *home insurance*: buildings only, contents only, buildings and contents; and

(b) *customer tenure*. For example, for each of *new business customers*, *customers* with a 1-year relationship with the firm, *customers* with a 2-year relationship etc.

(6) *Firms* should provide their remaining aggregated information on the core product split by:

(a) product group e.g. *motor insurance*, *home insurance*: buildings only, contents only, buildings and contents;

(b) type of *channel* e.g. all products sold direct, via price comparison websites, via intermediaries or via *affinity/partnership schemes*; and

(c) *customer tenure*. For example, for each of *new business customers*, *customers* with a 1-year relationship with the *firm*, *customers* with a 2-year relationship etc.

(7) *Firms* should provide their remaining aggregated information on *additional products* and fees and charges split by *customer tenure*. For example, for

each of *new business customers*, *customers* with a 1-year relationship with the *firm*, *customers* with a 2-year relationship etc.

Data	Notes
Tenure	The number of years a *customer* has held the *policy*. For example: T0 = *new business customer*; T1 = *customers* who held their *policy* for 1 year; T10+ = *customers* who have held their *policy* for 10 years or more. *Firms* should round down to the last full year the *customer* has held a *policy* with them in cases where *customers* have contracts that renew on shorter than annual basis. For example, a *firm* should classify a *customer* on a six-monthly contract who has *renewed* the policy once as T0 (*new business customer*) and a *customer* who has *renewed* this policy 3 times as T1 (*customers* who have held their *policy* for 1 year). *Firms* should report data for each *tenure* individually from T0 to T9 inclusive. Data for any *tenure* that is T10 or greater should be aggregated and reported as T10+.
Large books of business	*Firms* should report information separately for their large books of business. A large book of business is a book with 100,000 or more live policies in a reporting period. A book of business can be interpreted in several ways by *firms* depending on their business model but is usually composed of a group of *policies* with a common defining characteristic. For example, a book of business may be defined by affinity partner, brand, target market (e.g. high net worth, high performance vehicle, core market), niche MGA derived, etc.
Closed books	*Firms* should name each *closed book* and report information separately for each *closed book*.
Total earned *premium*	The total *premium* earned in the reporting period.
Average earned *premium*	The total *premium* earned in the reporting period divided by the number of *policies* in force in the reporting period.
Total gross written *premium*	The total amount of gross written *premium*, (excluding insurance premium tax) in relation to *policies* sold during the reporting period.

Data	**Notes**
Average gross written premium	The total amount of gross written premium, (excluding insurance premium tax) in relation to *policies* sold during the reporting period divided by the number of *policies* per relevant reporting period.
Total net rated written *premium*	For intermediated sales only, *firms* should report the total *net rated price* set by the *insurer* in relation to *policies* sold during the reporting period.
Average *net rated price*	For intermediated sales only, *firms* should report the total *net rated price* set by the *insurer* in relation to *policies* sold during the reporting period divided by the number of *policies* per relevant reporting period.
Average *gross price*	For intermediated sales only, *firms* should report the *gross price* in relation to *policies* sold during the reporting period divided by the number of *policies* per relevant reporting period.
Total number of *policies* sold/renewed	The total number of *policies* sold for new business (tenure 0) and the total number of *policies* renewed (all other tenures).
Total number of *policies* in force	The total number of *policies* in force during the relevant reporting period.
Proportion of *customers* where the expected claims ratio is 10 percentage points lower than the average expected claims ratio	Expressed as a percentage, the proportion of *customers* with expected claims ratio 10 percentage points below average. For example, if expected claims ratio in tenure T1 is 50%: A. calculate the number of customers with expected claims ratio below 40% and; B. divide (A) by the total number of customers in tenure T1.
Proportion of *customers* where the expected claims ratio is 30 percentage points lower than the average expected claims ratio	Expressed as a percentage, the proportion of *customers* with expected claims ratio 30 percentage points below average. For example, if expected claims ratio in tenure T1 is 50%: A. calculate the number of *customers* with expected claims ratio below 20% and; B. divide (A) by the total number of *customers* in tenure T1.
Gross incurred claims ratio (with IBNR/IBNER)	Actual claims incurred ratio. This data is only to be reported for total aggregated figures. IBNR is claims incurred but not reported. IBNER is claims incurred but not enough reported.

Data	Notes
Developed incurred claims ratio (with IBNR/IBNER)	Actual adjusted (ultimate) claims ratio for: • the previous reporting period • the reporting period 2 years ago • the reporting period 3 years ago
Total prior years' reserve release	Firms should report any reserve releases in the reporting period that relate to surplus reserves for prior years.
Total prior years' reserve strengthening	Firms should report any reserve strengthening in the reporting period that relate to shortfalls in reserves for prior years.
Proportion of *customers* paying high *premium*	Expressed as a percentage, the proportion of *customers* with *premiums* more than 1.5 times – 2 times the average *premium*. For example, if the average *premium* in tenure T1 is £50: A. calculate all *customers* in tenure T1 who have *premiums* between above £75 and £100 respectively (A) and; B. divide (A) by the total number of *customers* in tenure T1.
Proportion of *customers* paying very high *premium*	Expressed as a percentage, the proportion of *customers* with *premiums* more than 2 times the average *premium*. For example, if the average *premium* in tenure T1 is £50: A. calculate all *customers* in tenure T1 who have *premiums* more than £100 (rounded) and; B. divide (A) by the total number of *customers* in tenure T1.
Retail premium finance – total charged	Total charged to *customers* for *retail premium finance*.
Retail premium finance – number of *policies* with *retail premium finance*	Total number of *policies* with *retail premium finance*.
APR range	The number of *policies* where the related *retail premium finance* sold falls within each the following specific *APR* ranges: • 0% - 9.9% • 10% - 19.9% • 20% - 29.9% • 30% - 39.9% • 40% - 49.9% • 50% or more

Data	**Notes**
	Where *APR* falls within a range boundary, e.g. 9.95%, *firms* should round down. For example, an *APR* of 9.95% should be reported in the 0% - 9.9% *APR* range.
Premiums from *additional products* which are *general insurance* products - gross written premiums (sold in connection or alongside the core product)	Total *gross price* from *additional products* which are *general insurance* products.
Number of *additional products* which are *general insurance* products sold	Total number of *additional products* sold which are *general insurance* products.
Pre-contractual fees and charges	Total and average (mean) pre-contractual fees/charges charged on the core *policy* (net of value added tax).
Post-contractual fees and charges	Total and average (mean) of any post-contractual fees/charges on the core *policy* (net of value added tax).

Amend the following as shown. New text is underlined.

…

TP1 Transitional provisions

TP1.1 Transitional provisions applying to the Supervision manual only

…

TP 1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
…					

19	…				
20	*SUP* 16.28.6R and *SUP* 16.28.7R	R	(1) This transitional provision applies to a *firm* that is required under *SUP* 16.28.6R or *SUP* 16.28.7R to submit a pricing information report to the *FCA*. (2) For the first 12 months that *ICOBS* 6B is in force, a *firm* must submit a pricing information report every 3 months, with the first report submitted 3 months after the *commencement* of *ICOBS* 6B. (3) The first report submitted under paragraph (2) must include developed incurred claims ratio data for the previous three calendar years. For example, if a *firm's* report is due on September 2021, the firm would report the developed incurred claim ratio data for the calendar years ending 31 December 2020, 2019 and 2018. (4) A pricing information report submitted under paragraph (2) must be submitted through the secure *FCA* mailbox specified by the *FCA* for this purpose.	From [date] to [date]	[in force date of instrument]

			(5) The first annual pricing information report must be submitted on or before the 31 March following *ICOBS* 6B having been in force for 12 *months*. For example, if *ICOBS* 6B comes into force on 1 June 2021, the first annual pricing information report will be due by 31 March 2023.		

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