



ARAG Bulletin

General Insurance Pricing Practices and Value Measures

FCA publishes policy statement with final rules on general insurance pricing practices (GIPP)

The Financial Conduct Authority (FCA) has published the long-awaited policy statement General insurance pricing practices market study – Feedback to CP20/19 and final rules (PS21/5 and PS21/11 Amendments to PS21/5). The final rules address what has been described as the 'loyalty penalty' paid by existing general insurance product customers.

ARAG has engaged with the FCA to clarify how the new rules will apply to the sale of add-on products and where responsibility for reporting data to the FCA, for example, will now lie. The outcome of those discussions, including rules and responsibilities for add-on products is detailed below.

The publication of the policy statement and rules follows a final report published in September 2020 (MS18/1). The policy statement follows a two-year study into pricing practices in the general insurance sector in the UK. An interim report was published in October 2019 setting out initial findings. The rules now published by the FCA follow a consultation paper on proposed market remedies (CP20/19).

The final rules in PS21/5 aim to ensure that customers receive fair value in home and motor insurance products. The FCA believes that these remedies for the general insurance market will work alongside the new consumer duty (on which the FCA is currently consulting in CP21/13 and the final guidance on the fair treatment of vulnerable customers (FG21/1).

The rules introduce a package of market remedies.

These include:

- A requirement that when a firm offers a renewal price to a customer it can be no greater than the equivalent new business price (ENBP) for a new customer.
- Additional product governance rules that require firms to have appropriate processes in place to deliver products that offer fair value to customers. These new processes will apply to all general insurance and pure protection products.
- Rules to enable firms to offer accessible and easy options for customers wishing to cancel auto-renewal arrangements. These measures will apply to all general insurance contracts.
- Reporting requirements to support the ongoing supervision of the home and motor insurance markets.

When will the new rules come into effect?

- The rules relating to systems and controls and product governance (in addition to premium finance) will come into effect on 1 October 2021
- The rules on pricing, auto renewal and reporting will come into effect on 1 January 2022, with a transitional provision (of until 17 January) for the rules on pricing and auto renewal disclosure



Impact

The policy statement marks the end of a long period of discussion about 'price walking' where renewing customers pay more than new business customers for general insurance products. The new rules will require firms to make a number of significant changes to their internal policies and to existing product governance arrangements. In many cases, the new provisions will impact existing distribution arrangements.

How is ARAG responding to the new rules?

- ARAG has issued a revised **Product Oversight and Governance Policy**, which includes several updates to reflect the extended responsibilities contained in the GIPP Policy Statement. A link to this document can be found [here](#).
- All ARAG product **Target Market Statements** have also been updated to align with the GIPP Policy Statement and new PROD and ICOBS rules. A link to the new Target Market Statements can be found [here](#).

What will be required from your firm under the new rules?

- The FCA has decided that only one firm will be responsible for reporting add-on data.
- Under the new rules, **the firm setting the price for the add-on product** will be required to report add-on pricing data. ARAG does **not** set the price paid by the consumer.
- This data should include the **total gross premium** of all add-on policies inceptioned or renewed during the reporting period and the **total number** of add-on policies inceptioned or renewed during the same reporting period. **For the purposes of reporting, add-on policies include optional sales and those where the ARAG cover is part of an unbreakable bundle (i.e. it is a separate contract/policy to the core motor or home insurance policy).**
- Claims data is **not** required for any add-on products.
- Add-on policy data must be reported separately for each add-on product sold alongside motor and home insurance policies.
- Add-on pricing data must also be reported by policy tenure (To – T10+)
- The first reports will be required by 30th September 2022, for the reporting period 1st January to 30th June 2022. Subsequent reports will be due by 1st March for the 12 month period in the preceding year (e.g. 1st March 2023 for the reporting period 1st January 2022 to 31st December 2022).

Please refer to the full Policy Statements PS21/5 and PS21/11 for more information and the FCA's Reporting Template REPO29.

Product Manufacturer/Distributor Roles

Please note that unless it has been agreed between ARAG and the Distributor of the ARAG product(s), that alternative Manufacturer/Co-Manufacturer/Distributor arrangements apply, for the purposes of complying with the General Insurance Policy Statement (PS21/5) rules and responsibilities, the following roles will apply:

Product Manufacturer	ARAG
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Product Distributor	Agent
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FCA General Insurance Value Measures Reporting and Publication (PS20/9 September 2020)

The rules introduce a package of market remedies.

The FCA Value Measures Policy Statement confirmed that where different insurers underwrite different elements of the cover that form part of the same policy, then the insurer underwriting the main part of the cover (and in the event of any doubt, the first part of the cover recorded in the policy) must report the value measures data for all elements of the cover (**including optional extras and cover extensions**). The only exception to this requirement is where the optional/extension of cover is **Legal Expenses Insurance**, where ARAG will continue to be responsible for reporting all data to the FCA with the assistance of the capacity Underwriters.

Please note that for all ARAG Assistance business (e.g. Home Emergency and Motor Breakdown), under the terms of the FCA Policy Statement PS20/9, your firm will be responsible for submitting the required data (as per Reporting Form REPO19) to the Underwriter of the core product to which the ARAG policy is attached. ARAG will support this process and will provide each firm with the necessary claims data to supplement the policy and premium data held by your firm.

In an attempt to remove this administrative burden on all parties involved, ARAG has applied for a **modification of the FCA Handbook rules**. In summary, if successful, this modification will mean that ARAG will be wholly responsible for reporting value measures data for all Legal Expenses and Assistance products under scope directly to the FCA (via the relevant capacity Underwriters). We believe that not only will this simplify the process and reduce the need for the distributors of our products to become involved in the collation and transfer of data to the Underwriters of the core products, it will also remove the risk of data duplication and help preserve the integrity of the data being submitted to the FCA in respect of the ARAG Assistance products.

Please note that at the time of writing this Bulletin, ARAG is still awaiting a decision from the FCA on the outcome of its Waiver Application. It is anticipated that a final decision will be communicated by the FCA in the coming weeks and full details will be published on the ARAG Website. We will issue a brief communication as soon as these details are available with a link to the relevant Website page.

If you or your firm have any questions in connection with the information contained in this Bulletin, please do not hesitate to contact your ARAG Account Manager who will be pleased to assist.