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Emerging Challenges for Complaints in the General Insurance Sector:

Pricing Practices Within Retail General Insurance

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Introduction

There are multiple existing and emerging challenges facing the financial services industry including, but not limited to, the following;

- Consumer Credit: Short term lending & evidencing effective affordability checks.
- Packaged Bank Accounts: Suitability and customer value.
- Emerging Technologies: Potential data breaches, fraud & suitable controls around the provision of customer information / advice.
- Fair treatment of customers in a potentially vulnerable position

However, one of the issues that the FCA has been heavily focusing on is pricing practices by insurers and the potential for unfair pricing, particularly for loyal and potentially vulnerable customers. This could significantly increase GI complaint volumes and the following considers what the possible outcomes are of the ongoing FCA investigation, how this could impact the market and complaints functions and how ICSR could support firms in tackling these issues.

Pricing Practices Within the General Insurance Market

The FCA continually reminds us that it is not a pricing regulator but, in October 2018, it published a thematic review regarding the pricing practices of UK general insurers. It focused on Household cover, although the focus has since widened.

The FCA review came shortly after the CMA announced that it was investigating a super-complaint over loyalty penalties that Citizens Advice says certain consumers pay when they stay with their existing providers. This investigation includes 5 markets: mobile; broadband; cash savings; home insurance and mortgages, and the FCA has been working with the CMA in relation to general insurance, cash savings and mortgages.

Potential Areas of Focus

Pricing Strategy: Governance, Controls & Monitoring

The FCA has been focusing on a number of potential areas of concern, including the following:

- Do firms have an effective pricing strategy?
- If so, is this strategy focused on commercial success, rather than ensuring fair outcomes for its customers?
- Do prices accurately reflect product benefits, distribution channels, risk levels and servicing costs?
- Do firms have adequate systems & controls within their pricing strategies to ensure the fair treatment of customers in a potentially vulnerable position?
- Are certain consumers being unfairly treated through deliberate pricing strategies, poor governance or insufficient controls?
- Are existing customer premiums subsidising new customer pricing?
- Does the underwriter of the product know the final cost to the customer? If not, why?

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How does this affect the complaints world?

Are complaints about premiums ‘eligible’ under FCA DISP rules?

The FCA definition of a complaint is well known but, for ease of reference, includes the following text:

‘Any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service, claims management service or a redress determination, which:

(a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience; and

(b) relates to an activity of that respondent, or of any other respondent with whom that respondent has some connection in marketing or providing financial services or products or claims management services, which comes under the jurisdiction of the Financial Ombudsman Service.’

The FCA isn’t a pricing regulator but has regularly voiced concerns about customer outcomes and value. The FOS is unable to tell firms how to set pricing strategy, but in instances where customers are complaining that their premiums have been, or will be increased unfairly, the FOS has confirmed that it is and will be investigating complaints relating to alleged unfair premium increases.

In issue 144 of Ombudsman News the FOS outlined circumstances where customers may be disadvantaged by believing that their renewal price is ‘reasonable’ or ‘competitive’, particularly those in a potentially vulnerable position, who may find it more difficult to use comparison websites or compare premiums in other ways.

CMA & FCA Timelines

- On 28 Sept 2018, Citizens Advice submitted a super-complaint to the CMA regarding alleged loyalty penalties.
- The FCA's 2018/19 Business Plan confirmed that it would conclude its supervisory work on insurance pricing practices.
- On 31 October 2018, the FCA issued its preliminary findings, confirming a package of measures is necessary following this initial work. These include:

  1. addressing conduct by firms;
  2. a market study on general insurance pricing practices;
  3. a wider Discussion Paper (DP) on fairness of pricing in financial services.

- On 19 December 2018 the CMA issued its response to the super-complaint.
- On 19 June 2019 the FCA issued an update on its investigations.
- On 23 July 2019, the FCA issued a Guidance DP on the Fair Treatment of Customers in a Vulnerable Position
- The FCA's preliminary report is expected in Q3 2019.
- Their final report is scheduled for Q4 2019.

Potential Impact on Insurance Sector Complaint Functions?

Any Potential Impact is dependent on a number of factors, including the following:

- The FCA's appetite to accept all or some of the CMA recommendations.
- The FCA's own recommendations and proposed actions in its final report & their guidance on the treatment of customers in a vulnerable position.
- FCA expectations / demands in respect of action required by firms over pricing and any potential remediation.
- Potential level of customer detriment across the sector.
- Input from consumers, consumer groups, CMCs, industry and Parliament.
- Scope of potential Past Business Reviews (PBRs) for firms across the sector.
- Complexities of possible remediation plans following PBRs.
- Enforcement action against firms.
- Mainstream & social media coverage.
- Potential application of time-barring rules on complaints.
- Possible legal challenges.

How Could This Impact the Retail GI Sector

How Bad Could It Be for Firms?

It is possible, although unlikely, that this review will have a minimal impact. CMCs, and others, will be looking for the next PPI level issue and, although it is difficult to determine at this time, the insurance pricing issue could be significant: Some potential issues are as follows:

- PBRs could be complex, time consuming and costly.
- The volume of customers impacted could be significant.
- Remediation reviews could be substantial and expensive.
- Redress levels, dependent on the FCA / FOS, could be sizeable.
- The volume of customers complaining could be overwhelming for firms complaint functions.
- Investigations, initially at least, would be more complex than PPI.
- Some CMCs could create additional and unnecessary work.
- FOS consistency could take some time to resolve, resulting in increased FOS fees before firms achieve a consistent approach.

How Can ICSR Support Firms?

Complaint volumes could increase significantly and ICSR could offer assistance in various ways:

Advisory
• Design / draft TOR documents. • Design and assist with Past Business Reviews. • Assist with the design & implementation of remediation strategies. • Design 'Knowledge Centres' & other tools to improve efficiencies and to aid complaint handlers effectiveness. • Assist with the design & implementation of redress strategies. • Influence firm culture through improved complaint outcomes. • Provide regulatory insights to ensure consistency & compliance with FCA rules and expectations. • Assist with MI and RCA models.

Conclusions

The outcome of the FCA review is unknown at this point and it is difficult to determine what that will be. On 23 July 2019, the FCA issued a Guidance Consultation paper on the Fair Treatment of Vulnerable Customers, which has been a key focus during the pricing review. However, any one of the following outcomes is possible:

1. A ‘slap on the wrist’ for a percentage of the market for unfair pricing practices, with minimal follow-up action required.
2. Widespread criticism of the market, with minimal enforcement action, plus PBRs and remediation required by a limited number of firms.
3. Extensive enforcement action and / or a large volume of firms required to undertake detailed PBRs and large, complex remediation projects.

As previously mentioned, there is uncertainty as to the outcome of the FCA report, but options 2 & 3 ,would result in significant impact to affected firms within the GI market and this will not be limited to Household policies.

Any Questions?

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