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Renewal transparency – compliance issues and developments

Introduction

The FCA published its Policy Statement (PS16/21) on Increasing Transparency & Engagement at Renewal in General Insurance Markets in 2016. This followed extensive research and consultation by the regulator with the main aims of improving customer engagement and increasing competition in the sector. The resultant rule changes meant that firms had to meet detailed new requirements for renewal communications from April 1st 2017 - as explained in Hot TopICS of September 2016 and March 2017.

Although it is not yet clear if the measures have dramatically increased the numbers of customers switching at renewal, there are signs that the measures have encouraged greater levels of shopping around. In the meantime, however, the FCA has expressed concern that some firms have failed properly to comply with the new rules and may have been slow to make the necessary changes to their renewal documentation and procedures.

While it continues to monitor how the renewal transparency rules have been implemented, the FCA has started to look into renewal pricing - in particular the issue of dual-pricing (whereby insurers' renewal premiums may be much higher than new business premiums for the same risk). In its latest Business Plan, the FCA says it will "continue work on pricing practices in retail general insurance" and "will conclude the first phase of our diagnostic work to give us a better understanding of retail general insurers' and intermediaries' pricing practices and how these affect household insurance customers".

The subject of excessive premium differences between new and existing customers is also being tackled by the ABI and BIBA in a new set of 'Guiding Principles and Action Points' aimed at their members - insurers and intermediaries respectively.

This article revisits the renewal transparency rules and looks at how the momentum to ensure customers get a fair deal at renewal is increasing.

The renewal transparency rules

The rules in (ICOBS 6) are intended to improve the renewal process and the information and guidance available to customers at renewal. They apply to all renewals of general insurance contracts for consumers other than group policies and those of less than 10 months' duration. In this context 'renewal' means carrying forward a policy, at the point of expiry and as a successive or separate operation of the same nature and duration as the policy, with the same insurance intermediary or the same insurer. Essentially, all personal lines products are in scope, including motor, household and pet insurance.

The responsibility to provide this additional information lies with the firm that is issuing the renewal notice to the consumer. Although the insurer will generally provide last year's premium for comparison purposes, it is up to intermediaries to ensure the correct information is provided to their customers in good time before renewal.

The renewal transparency rules in ICOBS 6 require firms to:

- Disclose last year's premium on all renewal notices.
- Where no mid-term adjustment (MTA) has been made during the year, provide the original premium charged when the policy inceptioned the previous year.



- Where any MTAs have been made during the year, the premium disclosed should be the annualised premium for the previous year based on the expiring terms (excluding any fees/charges associated with the MTA) to enable a like-for-like comparison with the renewal premium.
- Inform customers that they should check that the level of cover is appropriate for their needs and that they can compare prices and cover offered by alternative providers if they wish (Firms are able to determine the exact nature of this wording themselves but it should be positioned alongside the premium details).

In addition to the above, for customers who have renewed with the same provider (insurer or intermediary) for four years or more, firms must provide a prescribed message on their renewal notices informing them they could save money if they switched. This means that even if the broker has moved the customer's insurance from one insurer to another, if the policyholder has been the firm's customer for 4 years or more, then the prescribed statement must be made. The following wording must be used alongside the previous year's premium and the reminder to check the level of cover: 'You have been with us a number of years. You may be able to get the insurance cover you want at a better price if you shop around.' This message must be given to customers who may have already renewed four or more times before these rules came into force.

Good practice guidance

Alongside the formal rule changes, the FCA issued guidance (as part of PS16/21) which firms should consider when inviting renewal covering various aspects of the renewal process including communications, auto-renewals, switching and cancellation. It also specified how fees and charges should be notified and reminded firms of the existing requirements to provide customers with information regarding each individual product (including where the product is sold as an add-on).

The guidance also indicates that firms should:

- Consider whether the language used in the renewal notice discourages the customer from reviewing their policy and still meets their needs (e.g. 'your policy will renew automatically, you do not need to take any action').
- Ensure information on changes to policy terms and conditions is provided clearly to customers at renewal.
- Ensure it is made clear to customers the actions they should take if they do not wish to renew and that there are no barriers to doing this.

The guidance also encourages firms to consider whether there would be a benefit in taking similar transparency measures in relation to commercial customers.

In any event, the renewal transparency information must be presented clearly, accurately and prominently in renewal notices, in a place which makes it easy to compare with the renewal quote. The FCA also expects firms to take into account the findings from their consumer trials which showed that this disclosure was most effective when on the front page of the renewal notice.

Firms falling short of renewal expectations

In October 2017 the FCA commented on how the new rules had been implemented, saying that they had seen several examples of firms who have failed to comply fully with the rules. For example, some firms obscured the required information or did not place the information in a prominent position. This had been observed across smaller and larger firms including both insurers and intermediaries.

The areas where firms had failed to meet the rules fell into four broad categories, described by the FCA as follows:

1. Providing incorrect premium information:

Firms did not always take into account prior discounts (either introductory or 'premium holidays') or mid-term adjustments when providing these figures. Some firms did not present fees clearly and consistently across both years which made it difficult for consumers to make a clear comparison. Consumers must be given a figure that reflects the premium they paid previously.

2. Failing to present the premiums and shopping around message clearly, accurately and in a way which draws the reader's attention:



There were a number of examples where firms did not give sufficient prominence to the premium comparison and shopping around messages. This included a monthly premium being highlighted on page one, with the transparency information displayed later in the documentation and with less prominence. There were also several examples where the prescribed wording for the fourth and subsequent renewal was missing, or where firms had included additional wording that could be seen to be discouraging consumers from shopping around. Some intermediaries had included a wording to suggest they had done a consumer's shopping around for them which may discourage consumers from shopping around.

[The FCA suggests this may also be inaccurate and misleading, particularly where intermediaries deal with only a small panel of insurers or have not undertaken a full review of the renewal. Brokers and intermediaries who do shop around are able to explain their service alongside these new required disclosures provided that this does not attempt to distract consumers from the required comparison and shopping around messages.]

3. Not implementing the rule changes for all products and customers:

A significant number of technical issues across both insurers and intermediaries had arisen where changes to IT systems had simply failed to implement the changes required by the new rules. Firms had failed to include all necessary changes in their IT updates. These related mainly to niche books of business or legacy systems that had not been included but, in some cases, they had been overlooked in change programs

4. Failing to properly identify a 'renewal':

The FCA identified some cases where firms had proposed a renewal, but had internally referred to this as an 'expiry' or 're-brokering' notice and not provided the transparency information.

Earlier this year the FCA found that the breakdown insurer, RAC, was failing to clearly display the prior and current year premiums and the shopping around message in its breakdown policy renewal documentation. RAC agreed to contact affected customers with the possibility of offering a refund or the right to cancel if they lost out as a result. This followed an instance in June 2017 in which the FCA found that another firm, Admiral, had included inaccurate premiums in renewal documents issued to some customers. This involved showing last year's quoted premium, before discounts were applied, rather than what the customer actually paid. Admiral agreed to take substantial remedial action.

Renewal Pricing

In the light of FCA initiatives on transparency, including looking at renewal pricing, the ABI and BIBA have taken action to tackle the question of excessive premium differences between new and existing customers. The trade bodies have jointly published a set of 'Guiding Principles and Action Points' for firms to incorporate into their renewal pricing procedures for key personal product lines such as home, motor and travel insurance.

These **Guiding Principles** are intended to provide a framework for a commitment by ABI and BIBA members to:

- Not support excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.
- Commit to working towards better outcomes for long-standing customers. For a stable and consistent outcome, all market participants outside of the ABI and BIBA need to make similar commitments.
- Support the FCA's requirements on disclosure of last year's price at renewal. It is essential that all market participants meet these requirements in full.
- Take action so that customers' tendency to shop around at renewal is not used to lead to -excessive pricing differences that unfairly penalise long-standing customers.
- Ensure the ethos and approach to better outcomes for long-standing customers will be given Board or senior management level priority and formally incorporated into firms' procedures for determining the premium at renewal.

Crucially, this places an onus onto ABI and BIBA members (and indirectly onto other UK insurers and intermediaries) that influence the premiums paid by customers to evidence how they are taking steps to address excessive premium differences that unfairly penalise long-standing customers. Those steps will vary between firms in line with their customer base, business models and pricing strategies and any actions they may already have taken.



Supporting **Action Points** to the Guiding Principles state:

- Members should make clear in written, online or verbal customer communications that the new customer premium only applies for that year and subsequent renewal premiums may be higher.
- Members who impact the final premium paid by customers should review their pricing approach for customers who have been with them longer than five years and assess whether this approach delivers a fair outcome.
- Members will actively review their customers' tendency to shop around in line with the existing ABI and BIBA Code for potentially vulnerable customers at renewal, to ensure outcomes for these customers are carefully considered against the Guiding Principles.
- The ABI & BIBA will publish a report in no more than two years' time that demonstrates how ABI and BIBA members have sought to tackle excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.
- The ABI and BIBA will not seek to defend cases where there are excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.

Vulnerable customers

The FCA expects firms to consider renewals to be part of the 'smarter communications' initiative and to review whether their current approach produces the right outcomes for customers, in particular vulnerable customers.

Vulnerable customers might be more likely to be disadvantaged at renewal by simply renewing their policy from one year to the next without checking they are getting the cover they really need at a fair price.

The Guiding Principles and Action Points on renewal pricing now sit alongside the joint 'Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal', which was introduced in 2016 by the ABI and BIBA to help insurers and insurance brokers recognise and help potentially vulnerable customers who may need extra support when renewing their motor and home insurance policies.

Under the voluntary Code participating insurers and brokers are committed to:

- Ensuring staff are adequately trained to recognise and understand potentially vulnerable customers at renewal and be able to offer flexible options to help address needs (where necessary).
- Periodically reviewing legacy policies to, where possible, identify vulnerable customers to ensure they are aware of any more suitable alternative products now available.
- Asking potentially vulnerable customers at renewal if their current policy and renewal terms meet their needs, and make clear the importance of reviewing their cover.
- Considering if additional communication, for example a telephone call, is needed to help vulnerable customers through the renewal process.
- Ensuring that the customer's options, and how they can exercise them, are always clearly set out.

The Code does not define vulnerability. However it recognises that there is a range of factors that affect many people and may lead to vulnerability in financial services, such as people with age-related impairments, physical disability, severe or long-term illness, mental health issues and low literacy, numeracy or financial capability. Firms are expected to take steps to determine which of their customers might be vulnerable depending on their customer base.

Summary

For insurance brokers and other intermediaries, renewal transparency involves more than just sending out the correct renewal papers. The FCA rules and principles are now supplemented by useful guidance and important trade body Codes. Firms need to go the extra mile to communicate effectively and fairly with customers, not simply adhere to the formal rules.

The FCA continues to monitor compliance with a view to taking appropriate action where necessary. Where firms are not prepared to resolve issues voluntarily, the regulator is prepared to take enforcement action.

On a more general note, the FCA has expressed concern that firms were under-prepared to implement the renewal transparency rules – which were thought to be relatively straightforward – and warned that the upcoming regulatory changes such as the Insurance Distribution Directive (IDD) and the Senior Managers and Certification Regime (SM&CR) are



more complex. Firms have been reminded of the need to ensure that regulatory changes are managed effectively in future. To quote the FCA, "Under-preparation for major regulatory change is not acceptable"!

What do I need to do now?

Below are some steps firms could take with regard to their renewal procedures:

- **Review your existing suite of consumer renewal invitations to ensure that they are consistent with the renewal transparency Rules in ICOBS 6 and make any necessary changes without delay.**
- **Bear in mind that the prescribed statement must be included where the customer has had 4 or more renewals through the intermediary even if the intermediary has moved the customer's insurance from one insurer to another.**
- **Consider the style and language of renewal invitations to establish if changes need to be made so that customers are well informed about any changes in cover, are not discouraged from reviewing their insurance, the steps to be taken if they do not wish to renew the insurance and ensuring that the information provided covers each individual product in a clear and accurate way.**
- **Ensure the premiums detailed in the renewal invitation are accurate and take into account prior discounts.**
- **Be mindful of the 'Guiding Principles and Action Points' for firms to incorporate into their renewal pricing procedures for key personal product lines such as home, motor and travel insurance.**
- **Take into account the joint 'Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal'.**

Further information

PS16/21 Increasing transparency and engagement at renewal in general insurance markets and Guidance on improving general insurance renewal practices: <https://www.fca.org.uk/publication/policy/ps16-21.pdf>

ABI and BIBA Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal: <https://d10ou7l0uhgg4f.cloudfront.net/wp-content/uploads/2016/01/27155759/ABIandBIBACodevulnerabl.pdf>

Review of the ABI and BIBA Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal: <https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2017/new-abi-document.pdf>

FCA webpages on Smarter Consumer Communications: <https://www.fca.org.uk/publications/discussion-papers/smarter-consumer-communications-further-step-journey>

FCA Business Plan 2018/19: <https://www.fca.org.uk/publications/corporate-documents/our-business-plan-2018-19>

ABI and BIBA Guiding Principles and Action Points on renewal pricing: <https://d10ou7l0uhgg4f.cloudfront.net/wp-content/uploads/2018/05/08101514/GPAP.pdf>

If you would like any help or information on the renewals, ICS Services, Elearning or anything else we might be able to help you with, please contact your usual ICS representative, Head Office on 01892 539600 or admin@insurancecompliance.co.uk