

# THE FCA Pricing Proposals - how could they affect your business?

On 4th March, Consumer Intelligence hosted a webinar with Kate Collyer, Chief Economist and Interim Director of Competition at the Financial Conduct Authority on the FCA's ongoing general insurance pricing proposals. Over 700 people attended.

**Judging by the questions attendees asked on the day, the industry seems unclear about the scope of the proposals, as well as the FCA's intentions.**

In brief, the proposed pricing remedies are about "embedding" Fair Value into general insurance. Pricing is just one part of this. It also includes:

- The claims experience.
- Every part of the distribution chain – including brokers, MGAs, and even price comparison websites.

And the FCA will look into all aspects of insurance services, from add-ons and premium finance to the contracts brokers and MGAs have with underwriters.

Most importantly, this is unlikely to be a one-off intervention that only focuses on pricing at acquisition and renewal. It feels like this is the start of the same kind of decade-long regulation we've seen in banking since 2008/9.

## Key quotes from Kate Collyer, Chief Economist, FCA

### Timescales:

- The FCA published its General Insurance Pricing Practices Study in Sept 2020.
- It closed its consultation on 25th Jan 2020.
- **Kate: "Our remedies are still at the proposal phase."**
- It will publish its Policy Statement "in Q2 2021". (Most likely in June.)
- Firms will then have until the end of September 2021 for the systems and controls (SYSC) rules and product governance rules, and;
- Until the end of 2021 for the pricing and auto-renewal remedies and the reporting requirements.

### The scope and intentions of the proposals:

Kate: **"Providing Fair Value should be central to a firm's culture and purpose."**

**"Consumers don't feel they are getting Fair Value. So we'll be looking for:**

- A demonstrated commitment to Fair Value – companies evolving to *simpler and more transparent pricing* models.
- That firms look at governance – regularly and holistically. This should be *owned by senior managers and driven by them*.
- We expect insurers to think about value *through the whole distribution chain*. This means changes to how products and services are designed and built and how they are distributed – including focusing on the remuneration model of distributors, such as brokers, MGAs, and price comparison sites."

**“When it comes to remedies we are likely to recommend, we expect to see:**

- **Increased competition.**
- Companies offering **long-term value.**
- Consumers being **better informed.**
- That the quote the customer gets at acquisition should be better – more reflective of the cost and **not subject to change without good reason.**”

On price comparison websites: “We still expect to see consumers searching to find the best deal for them. They need to compare, so **we expect use of PWCs to continue.** There will still be strong competition.”

### **What does Fair Value look like?**

Kate: **“Fair Value is much broader than just pricing.”**

- “Pricing matters. That’s clear. Pricing is key to defining value relative to the budget of the consumer and the service on offer.”
- “But **there are many other things that affect value.**”
- Non-monetary value would include the time and effort in choosing a product.
- On the other side, **there are a range of benefits people will pay for**, such as:
  - The actual utility of the product.
  - Extra services that come with it.
  - Any ongoing service the consumer might get.
- “The industry should start from **the point of view of the consumer.** This is absolutely crucial.”

“Think of the overall benefit that people get. **It should be thought about holistically:** pricing and service and quality together make up value, which is the combination of these things.”

### **How long will companies have to comply with the new rules?**

Kate: **“We’ve just closed our consultation. We will clarify our position on the timeline in due course.”**

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### **How will the FCA monitor compliance?**

Things the FCA “will look for from companies”:

- Consumer outcomes – does it look like the consumer is getting Fair Value?
- How firms are treating consumers. Consumers should be able to make well-informed decisions. They should have the right information to allow this. “We would look to see if firms are stopping consumers from making those decisions – by making it harder to find the right information, for example.”
- They will focus on consumer groups that might not be receiving Fair Value, eg vulnerable consumers.

### **How will reporting work?**

- **“We’ll be monitoring closely** to see how firms adapt their models.”
- One example given: the “quality of core insurance products and **all aspects of products and the distribution chain**”.
- “This will be supported by the proposed reporting requirements.”
- “This reported data will mean we [the FCA] can work out what’s going on – and **take follow-up action with the appropriate firms.**”

## Key Takeaways – from Ian Hughes at Consumer Intelligence, who hosted the webinar:

- 1** Fair Value is a principle that's here to stay. It's not a one-off change; it's the start of a long regulatory process.
- 2** This is about governance, not form filling. It needs to be embedded in your culture and driven at the highest strategic level.
- 3** It's time to be positive. These changes are a commercial opportunity to create better products for consumers and to foster customer loyalty.

## Key Takeaways – the Sheffield Haworth View:

- 1** Many insurance businesses **don't yet understand the scope** of the pricing proposals or the FCA's intentions.
- 2** The concept of Fair Value is not just about pricing – **it covers every aspect** of what the industry does: product design, distribution, marketing and comms, claims, and customer service.
- 3** Kate made crystal clear that **the FCA will monitor firms and "take follow up action"** for non-compliance. In our view, this is likely to include the use of fines.
- 4** This language is similar to what the banking sector went through since 2009 with regulation. Insurance firms can therefore look to the banks' experience for **examples of how to adapt successfully**.
- 5** Because it touches upon so many disciplines and every part of the distribution chain, the FCA's pricing intervention is not a one-off, discrete project. It will almost certainly **require significant customer-centric transformation** at the strategic and operational level for most insurance businesses, both internally and with its partners.
- 6** This transformation will, in turn, foster the development of new roles, new functions, and new responsibilities. Those firms that take the first steps towards sourcing external skills and developing internal skills will likely gain a **significant competitive advantage**.

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