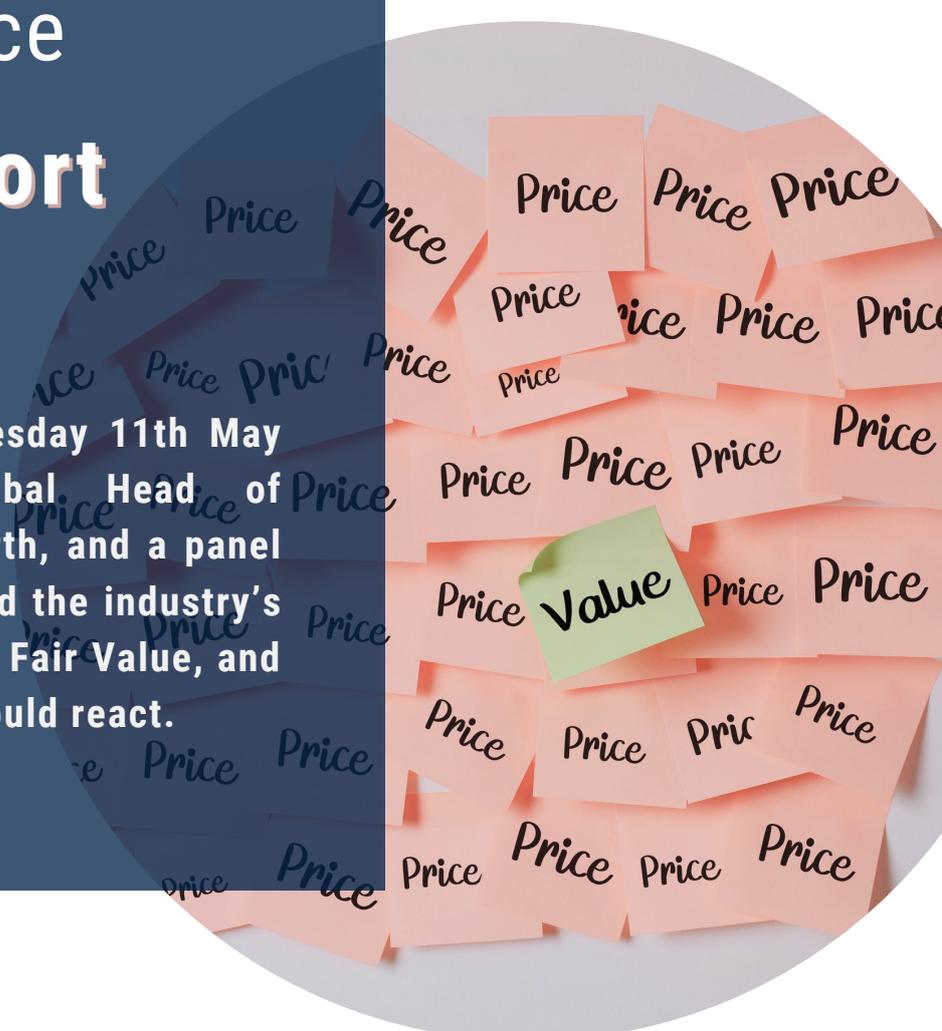


FCA Pricing Remedies: Embedding Fair Value Within Insurance **Webinar Report**

In this webinar, held on Tuesday 11th May 2021, Ben Johnson, Global Head of Insurance at Sheffield Haworth, and a panel of industry experts, discussed the industry's attitudes towards pricing and Fair Value, and how insurance companies should react.



Edited by:

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SECTION 1

Welcome and Panellist Introductions



Ben Johnson is Global Head of Insurance at Sheffield Haworth, building out the insurance practice into the leading provider of transformation talent solutions that combine industry expertise with strategic thinking – driving creativity, innovation, diversity, and inclusion for clients. He has 15 years’ experience in talent consultancy in the industry.



Suneeta Padda is Founding Director of Padda Consulting, the specialist London-based compliance consultancy. Suneeta has over 20 years’ experience of compliance across the Insurance market, including 5 years working at the FCA, a stint as Head of Compliance at XL Catlin, some time as Interim Head of Compliance at Lloyd’s, and at a selection of Brokers where some focus on personal lines.



James Yerkess is the Founder and MD of HAL Consulting, which joins highly experienced value and pricing experts with exclusive benchmarking data to deliver long term sustainable growth across global locations. James’ 20+ year career spans executive leadership roles across financial services, global retailers and start-up banks.



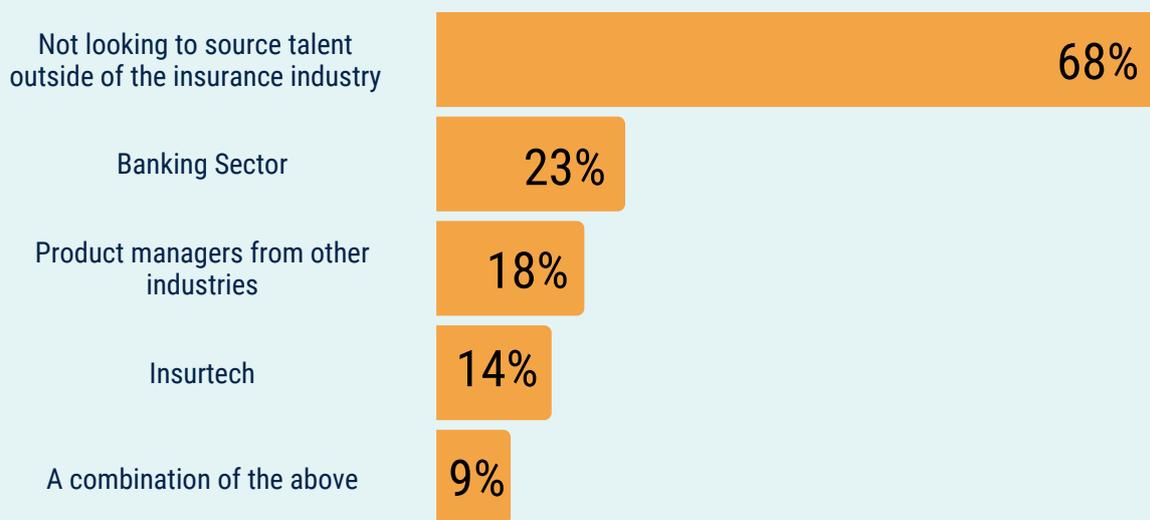
Colin Robertson has extensive executive level, P&L, product, brand and proposition expertise, and an equally extensive network of specialists within insurance, banking, and regulators. Over the last 20 years, he has developed a breadth of knowledge across personal lines insurance and retail banking, working with brands such as Direct Line, More Than, RBS and Tesco.

SECTION 2

High level discussion of survey results

Ben: We'll start by looking at the survey we carried out prior to this webinar to get a flavour of the main topics under discussion. We want to look at some of the most interesting points.

Chart 1: Which industries are you looking to source talent from as a result of the FCA's pricing proposals?



Ben: A whopping 68% who responded to our survey said they weren't looking outside the industry. James – what are your thoughts on this?

James: "At first I was surprised"

It's great to have done this survey with many people who work in the industry. At first I was surprised because I thought people might look for more support from outside the sector. But then I began to reflect the other way.

It's probably taking time for people in the industry to come to terms with and understand the regulations themselves – as it did in banking. In time this might lead to moving a little bit more to bringing in expertise, knowledge, and skills from other sectors which will further enrich the knowledge that's already in insurance.

“ It's good that nearly a quarter of people are thinking of reaching out to a sector that has lived this and could help a lot of insurers through this early period. ”

James: “It’s good that so many are reaching out to banking”

The thing I think is great here is that you do see 23% actually looking towards a sector (banking) that has lived, breathed, and experienced Fair Value regulation over five or six years. It’s experienced the good side of regulation in terms of commercial advantage.

It’s also experienced the challenges of Fair Value regulation in terms of what the regulator does do when compliance isn’t achieved. I think it’s good that nearly a quarter of people are thinking of reaching out to a sector that has lived this and could help a lot of insurers through this early period.

Ben: *Suneeta – you and I have worked together many times over the years. Does this surprise you at all that whilst 23% are looking to the banking sector still, 68% are focusing very much within the insurance industry itself?*

“**The insurance sector should be looking at more experienced professionals who have been through this before and have lived and breathed some of the challenges.**”

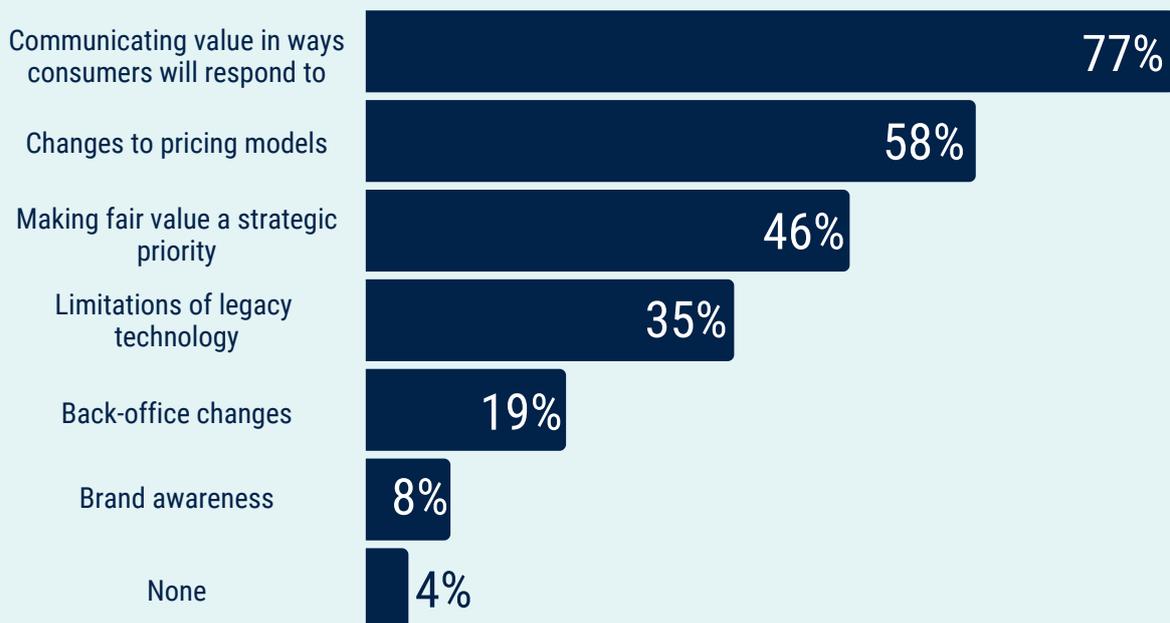
Suneeta: “This does surprise me”

It does a bit because I think that the insurance sector should be looking at more experienced professionals who have been through this before and have lived and breathed some of the challenges in implementing Fair Value pricing within their own sector.

Sixty-eight per cent is quite high when you look at how very few insurers have got it spot on through a customer-centric model identifying manufacturers, product, distributors, etc. So that does actually surprise me quite a lot.

Ben: *It’s interesting that only 14% are looking at insurtech, which is where we could see some of the more significant or interesting disruption coming from.*

Chart 2: What do you see as the biggest challenges of embedding Fair Value into your business?



Ben: *Colin, pricing models are one of your areas of expertise. What do you think to these findings?*

Colin: "Communicating value to customers is one of the biggest challenges"

It doesn't surprise me to see the changes to pricing models being scored so highly there because I think that has undoubtedly taken up a lot of time, energy, and brain power from people over recent months in terms of how they meet the new remedies.

Communicating value to customers – I think that is one of the biggest challenges. The work I'm doing in this space at the moment would strongly suggest that, in order to deliver Fair Value, it's not just about what you do, but about how you do it.

I think working through that communication element will be really important. If I think about the renewal pricing space going forwards, while price walking is no longer allowed, price increases are absolutely still going to be there.

“ Making Fair Value a strategic priority is going to last years, not months. ”

Thinking about how you communicate within your renewal notice – any price movement – and getting that right... the people who get that more right than others will be a really key differentiator in terms of who's successful and who's not.

In terms of making Fair Value a strategic priority, from speaking to many in the industry, I think it's something that's a journey which is going to last years, not months – and we're fairly early on. So that doesn't surprise me.

The bit that I think is interesting is the limitations of legacy technology. Linked to the insurtech point previously, if I think about what I can see going on in the retail banking space, there does seem to be a recognition from a number of the large retail banks that the legacy technology no longer works.

And if I can use a Formula One analogy – there's new regulations coming next year and in terms of who's going to build a completely new car that absolutely delivers against those regulations... how long will it be in insurance potentially until you realise that trying to live with the current car with a few bolt-ons or improvements isn't going to cut it? I think that's going to be a really interesting space to watch if you think about some of the parallels with the retail banking sector.

Ben: *We hear about the legacy technology in insurance being an issue Colin, but is that a lazy excuse? Change is challenging but it has to happen – what are your thoughts on that?*

Colin: "There will be winners and losers come 1st January 2022"

Everybody's basically furiously working out at the moment what their answer is on pricing and Fair Value. Round about the 1st January everyone's going to have to show their cards.

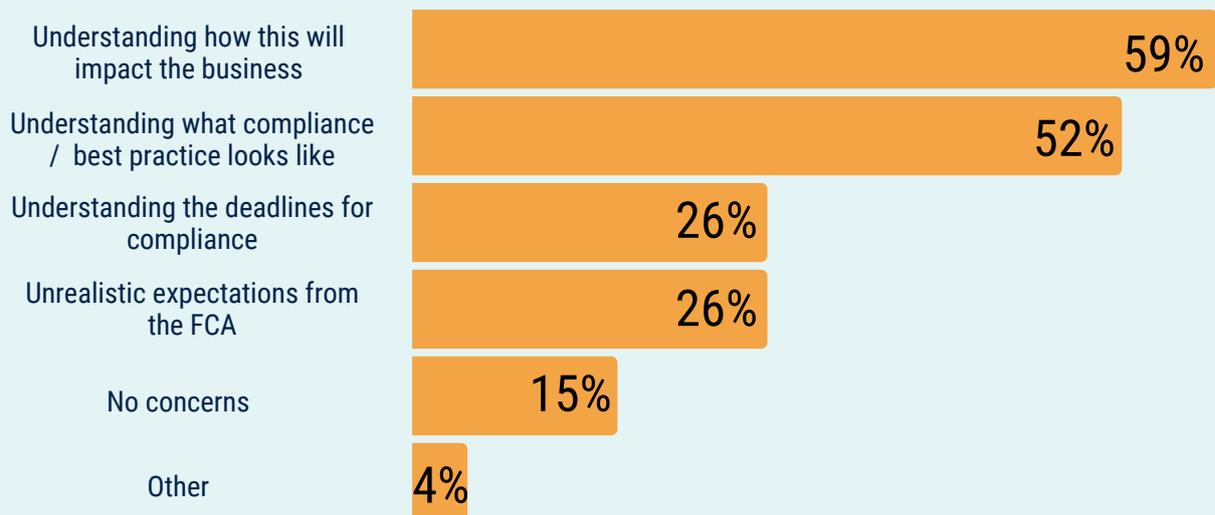
“ If you’re on large legacy systems with multiple portfolios, it’s going to be a far harder task than if you’re on a newer, nimble platform. ”

Like everything in life, there are going to be those that have got it right and those that have got it wrong. Your ability to respond quickly with the right changes will be crucial.

The reality of it is, if you’re on large legacy systems with multiple portfolios, that’s going to be a far harder task than if you’re on a newer, nimble platform with far fewer products potentially but the ability to do releases in weeks rather than months.

And that’s just a fact. The reality is there’s a lot of clunky platforms out there that make this stuff really tricky.

Chart 3: What are your biggest concerns with the FCA’s pricing remedies?



James: "The implications will be far reaching"

I really like this one because this gets a bit gritty in terms of the implications of the regulations or the pricing remedies. They will be far reaching in terms of business strategy design, proposition, etc. And that’s good that people recognise that.

The important thing here is that it has a positive impact. If you look back at banking there were those firms who saw Fair Value regulations as a way to get competitive advantage and move forwards.

You only have to think about some of the firms in the payment space such as Revolut or Wise that have come in and made significant advantage out of fairer, more structured pricing which has, in turn, led to them getting commercial advantage. And then there are firms who have struggled to achieve commercial advantage and therefore their business models have become untenable.

The other bit about best practice is really interesting as well. One observation I've had working with people across the industry is that those I've seen be more successful so far have struck a good balance between looking for best practice in a compliance and attestation space but also looking for best practice in terms of communication and commercial advantage.

So this isn't just a compliance exercise looking for best practice around how to comply. Some are taking that further and saying how can I learn in a best practice sense about getting the right commercial outcomes that allow me to move ahead of competitors.

“ Just setting the right price is only halfway there in terms of then being able to communicate price image in the correct way to the consumer. ”

Also communication: when you look at price as one component, price reality and price image are two very important things to get right. Just setting the right price is only halfway there in terms of then being able to communicate price image in the correct way to the consumer.

Also communication: when you look at price as one component, price reality and price image are two very important things to get right. Just setting the right price is only halfway there in terms of then being able to communicate price image in the correct way to the consumer.

One of the areas the regulator was very hot on with banking was where that gets mismatched. So people have average to weak pricing or Fair Value and yet they're communicating that they have stronger value than they really do – that becomes more of a question for the regulator.

Great to see that people are seeing there will be an impact and good to see people reaching out for best practice. The key bit is to make sure you're on the winning side with that rather than the losing side.

Ben: *The insurance industry has spent years convincing customers that value is measured by price. What can we learn from the banking sector in how we can effectively communicate other aspects of Fair Value like cover breadth or quality of service?*

James: **“All the elements have to reflect Fair Value – not just price”**

It's a journey. I would say price is one important part of the proposition.

I'm sure we've all seen the Colin the Caterpillar cake and Cuthbert cake controversy between Marks & Spencer and Aldi. The prices are different but what Aldi and Marks & Spencer are debating is value. Who's got the intellectual licence? Is one cake better than another?

Although it's a topical and relatively amusing example, I think for insurers the point about price is an important component part but if you look at the customer lifecycle or buying a policy, renewing a policy, making a claim, receiving communication – all those elements have to reflect Fair Value.

“ There's a lot that can be learned from banking that can shortcut things for insurers. ”

And I think it took the banks two or three years to work out that that was the case in their version of the customer lifecycle journey. So there's a lot that can be learned from banking that can shortcut things for insurers and a lot of positive lessons about how to see value in the way the regulator wants rather than just price.

Ben: *Suneeta – understanding what compliance and best practice look like is very much on the agenda, going by these survey responses. What are your thoughts?*

Suneeta: **“There's a lot of information to digest - this affects every part of the distribution chain”**

It is. If we look at the pricing practices, embedding Fair Value is one element. But in the insurance sector the other driver of price becomes the distribution chain which bumps up the price because everybody in the chain wants to have their cut, from an insurer to an MGA to a coverholder to a retail broker and then on to the end insured.

“ From a regulatory perspective, it's absolutely looking at the pricing practices and embedding Fair Values, absolutely looking at your pricing practices, but it's not in isolation. ”

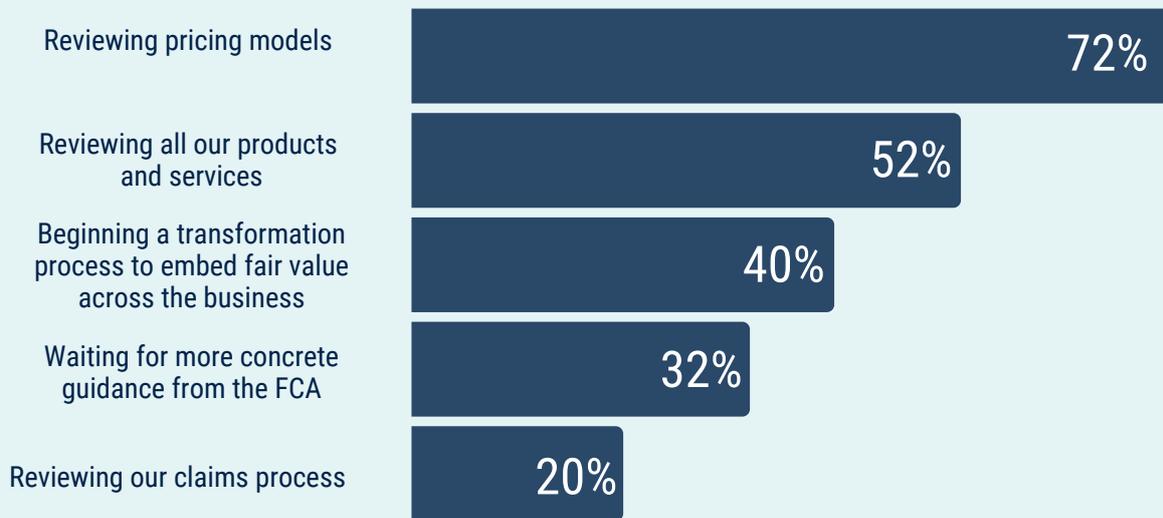
We need to be looking at the pricing practices and at what James has said in terms of the Fair Value of a product, but also looking at the general insurance distribution chain and what the regulator is putting in that space.

From a regulatory perspective, it's absolutely looking at the pricing practices and embedding Fair Values, but it's not in isolation.

You've got a customer-centric strategy for these types of products, but you've also got to think about what the FCA has put out there on vulnerable customers, general insurance distribution chain – you've got to factor all of those other requirements into your pricing.

Once you start reading what the regulator has been doing in terms of the market study on pricing practices – and I don't know how many people have actually read through the document – there are probably about another 20 links to other documents that form part of that study, which takes a lot of digestion.

Chart 4: Which parts of your business have you started to change in response to the FCA proposals?



Colin: “This is being led by the business, which is encouraging”

What’s encouraging on this one is that it’s being led by the business, which I think is really important. This can’t be seen as just a compliance, regulatory challenge. There’s a customer element that needs to strongly play into this that perhaps doesn’t come through in the way it might.

“ **When you try and understand what Fair Value means to customers, for those that make a claim it’s all about the claim.** ”

The bit I’ll pick up on is that reviewing our claims process comes last. But actually, when you try and understand what Fair Value means to customers, for those that make a claim it’s all about the claim. That will determine whether or not they feel they’ve received Fair Value – in term of how their claim was handled.

So it really is a holistic business challenge, delivering against Fair Value. The order in which people are tackling it logically makes sense to me given where were at on this journey, because if you go back to some of the challenges that renewal transparency threw up for the industry, making sure you deliver what you intend to deliver on the 1st January will be at the forefront of people’s minds.

But I can already feel a change happening where people are starting to think about what does Fair Value mean when I think about it more broadly for my business than just pricing models.

SECTION 3

Main Discussion

Discussion Topic 1: How can companies measure and demonstrate Fair Value to the regulator?

Suneeta: “It’s about achieving the desired outcomes and showing your working out”

The regulator is actually setting value measures. Firms have got to start thinking about their pricing practices and the correlating indicators.

The way I always explain things when it comes to compliance: it’s about achieving the right outcomes and it’s about being able to show the regulator all your working out. Whatever you have done as a firm that has led to the outcome of being priced fairly within your environment – as long as you can demonstrate and evidence this then that can cut the mustard but this is only one aspect.

But then there are other indicators. You need to start collating the data, the methodology, the approach. The measure within what you’re looking at is the whole customer journey.

“ The industry will be under a fair bit of scrutiny. ”

It’s ok for everything to work at the front end. But what if I buy a product and it’s not right and I make a complaint and those complaints aren’t dealt with properly or taken seriously? And around the claims process. When something goes wrong how quickly will I have my money to be able to fix this?

From our industry perspective – not just the regulator’s respective but also from a customer’s perspective, the insurance industry will be under a fair bit of scrutiny. If you think about the number of small businesses that have paid into the pot on business interruption insurance for God knows how many years and then they’ve not been able to successfully claim on those.

Yes, customers need to read their policies, but in terms of what the regulator’s going to be looking at, it’s looking at your working out and how you’ve got to that pricing approach.

And your distribution chain. Is it still the same price to get your product from A to D to customer, or A to B to customer? They’ll be looking at what value are those other intermediaries adding, because you put another person in the chain it’s going to bump up the price. So I think there’s going to be a number of things the regulator’s going to be looking at across our sector.

James: “The three Cs – Compliance, Customer, and Commercial – are important here”

For me I would answer your question with three Cs. The first one is Compliance. The FCA has been really quite clear about what it needs to capture in terms of metrics to demonstrate Fair Value – or at least report on Fair Value. So companies will have to do that.

“ How does your customers’ perspective of Fair Value compare to your own compliance attestation data – because if you’ve got mismatches that’s clearly going to be a problem with customers thinking they haven’t got Fair Value. ”

The second point is Customer – and it’s even more important where you begin to evidence – and that’s by capturing what the customer thinks of Fair Value for your brand, your company, and various parts of your process, whether that be the sales process, claims, or renewals.

How does your customers’ perspective of Fair Value compare to your own compliance attestation data – because if you’ve got mismatches that’s clearly going to be a problem with customers thinking they haven’t got Fair Value when you believe you are providing it from a compliance data point of view. That may cause some issues.

The third one is Commercial. The metrics over time for companies that are investing in areas that generate fairer value for customers should start to see positive commercial benefits – commercial advantage.

That’s certainly what happened in banking. Companies that were better with communication, better with structuring all the way through the value proposition – not just price – where the ones that began to win more new business, began to get stronger retention, had lower complaints, restructured their cost models so that they had better return on investment.

“ Companies that were better with communication, better with structuring all the way through the value proposition – not just price – were the ones that did better. ”

So Compliance, Customer, and Commercial should all be triangulated to properly demonstrate to any regulator that you are living, breathing, and focusing on a customer-centric model that delivers Fair Value.

Colin: “This is about rebuilding trust in the industry”

The FCA has come out and said this is about rebuilding trust in the industry. And I think the industry – if we’re being honest, from someone who’s been in the industry for the last ten years – I don’t think any of us were particularly proud of what the implications of renewal pricing were.

But the flip side to that would be, whenever I visited my claims operations, you could feel immensely proud about the work we did for customers. In some respects it was a shame that such great work could be detracted from. So I think the industry has an opportunity to fix that.

“ Introducing the customer into the debate can create some really innovative solutions that allows you to deliver for customers, deliver your commercial outcomes, and deliver your regulatory obligations. ”

Reflecting on James' 3 Cs – to take that one step further, what I think firms could really benefit from is making sure you can measure how well you're delivering for customers. You make sure you can measure how well you're delivering against your compliance. And then you have that as a conversation in terms of how you run your business.

What I've quite often seen in the past is when you're faced with regulatory change like we're seeing at the moment, the debate in terms of the solution can end up between a regulatory approach and a commercial outcome.

And actually you don't really understand your customers and you don't really understand what you need to deliver for your customers it can become a bit of stalemate and you end up swinging between those two parameters.

Introducing the customer into that debate can really add to the thinking and create some really innovative solutions that allows you to deliver for customers, deliver your commercial outcomes, and deliver the regulatory obligations that you need to achieve.

Discussion Topic 2: The importance of reporting and benchmarking for the industry going forward

James: “Everyone's trying to work out how they compare with their peers”

I think everybody is trying to work out how they compare against others – so peer group comparison. Benchmarking is useful but peer group comparison is the key.

I think everyone's trying to work out where they sit as in top, middle, or bottom quartile. And that's important because in other sectors the regulator moved in on the bottom quartile quite quickly and started to manage that by exception rather than the top quartile.

The other bit I sense is people not only looking at how they compare from a compliance perspective but how do they compare from a customer perspective in terms of benchmarking.

“ Whoever signs to take responsibility and accountability for delivering Fair Value should as a minimum be absolutely clear that what they've proposed from a compliance solution matches with what their customers are saying. ”

Which customers are connecting more with the brands? Which customers are connecting more with some of the solutions that are being delivered to evidence Fair Value?

So I see benchmarking and peer group comparison across a compliance layer and across a customer layer. Who's handling claims better than others through the eyes and lens of a customer and alongside that how is a company then evidencing their Fair Value to the regulator with that information?

The benchmarking or peer group comparison can really strengthen how a company evidences to itself first so it's satisfied with its decisions. And whoever signs to take responsibility and accountability for delivering Fair Value should as a minimum be absolutely clear that what they've proposed from a compliance solution matches with what their customers are saying.

Colin: "Being able to benchmark responses should be reassuring"

If I was to put myself in the shoes of the person signing the attestation, what I think companies will be doing at the moment is forming their own view of what compliance looks like.

Certainly if you were able to compare yourself to your peer group, that would give greater assurance in terms of when I submit my information to the FCA that I would feel more comfortable that I am in a place I believe I should be.

“ Everyone's intending to comply, but everyone's concerned they'll be commercially disadvantaged.”

I think the second point which I've heard a lot of people talk about is everyone's intending to comply, but everyone's concerned they'll be commercially disadvantaged. For me, being able to benchmark my response and checking that my commercial response is proportionate would give me comfort that I've done the right thing.

Come next year when everyone has to show their hand, having that feedback loop, knowing how I place myself such that if I was one of the losers, I can triangulate my position and then take corrective action in a much more informed way.

I think that would be another aspect that would be much, much easier to do if I know my relative position to others as opposed to only having my own view and trying to work out why it's not quite worked out the way I was hoping.

Ben: *Is accessing and utilising data going to be a challenge for the industry in the context of pricing and Fair Value?*

Suneeta: "Data remains challenging for the industry"

I think data as a whole across the insurance sector and getting the right data, sharing the right information, is challenging not just across pricing practices, but a number of insurance disciplines.

So that will be a challenge, but I think from the insurance sector it's that starting point. It's where do I start with benchmarking? How do I know where I sit with my peers? I suppose this is where the trade bodies and the associations come into their own and bring those members together and look at how collectively they're going to do this.

I know that for other regulatory requirements bodies such as LIBA have been very good at bringing their members together and having those discussions and collectively working on where is that starting point.

I think that's where a number of people out there will be thinking yes we should benchmark, yes we should do all of this, but where do we actually start?

Colin: "General insurance lacks comparison data when compared with retail banking"

Just to build on that, having worked in retail banking and in GI, I was surprised when I got to the GI space that there was really a lack of pure comparison data compared to what I was able to use within the retail banking space.

I definitely see that some insurers find it hard to get their head around the concept of sharing data that could be commercially sensitive. It was one of the key differences I noticed.

Anyone that's been out there scraping through people's report and accounts trying to work out who's done what, etc. In retail banking for products and credit cards there are surveys, there are reports available that allow you in a lot of detail to understand how that all works on a peer comparison basis.

Discussion Topic 3: To what extent could these proposals drive transformation and increase customer-centricity?

James: "This will probably drive more innovation"

Ultimately that's the name of the game. I think there are two bits here. I sense from a lot of firms there is customer-centricity out there. I see a lot of great examples of people striving to deliver for customers across different brands. You can see it.

I think for some it will drive more innovation, perhaps greater adoption of some of the digital and mobile-centric activity. Probably greater adoption of things like open banking, open finance to help make better risk decisions, streamline processes.

And I think from a consumer point of view it will probably drive transformation that leads to greater transparency, improved trust levels, etc., that I think are all good in the value equation for both insurers and customers.

“ The regulator's been very clear that transformation must also involve a value transfer back to the consumer – either through price, or better services and features. ”

The big one on the table for me – which I remain uncertain about, whether it will drive in a transformative sense – is the pricing remedies are quite clear there is a value equation payback to be achieved – somewhere between 3.7 and 11 billion of value transfer over the ten-year period to consumers.

Transformation for transformation's sake is great to create a better customer experience. But the regulator's been very clear that transformation must also involve a value transfer back to the consumer – either through price, or better services and features.

I haven't seen that work its way through yet in terms of how those numbers are actually going to be delivered to the consumer.

Ben: *Better services and features – what do these look like? Do you have any examples?*

James: **“There are several sectors out there who do a great job providing Fair Value”**

I know we've talked about banking a lot already, and it is a good example in terms having been through the mud of Fair Value regulation several times, and it's fairly battered and bruised. There are other sectors out there that are doing a fantastic job of really bring Fair Value to life.

You look at how some of the telecoms companies and retailers are trying to display value. Retailers showing what nutritional value is on products in a way that helps people make an informed choice that isn't just on price, it's also about how you connect with what's in the product.

I think from an insurer's perspective there's an element of looking internally at others in the industry who are doing it well.

But I would say there are also others outside of the industry doing it equally as well – not just banks. They're there because they've been through this recently and are quite scarred from getting things wrong.

But there is also a wider group of people from retailers, food nutrition, digital companies, all of whom are doing a brilliant job of communicating value to the consumer.

Ben: *Who's doing this fantastically within the insurance market?*

James: **“Price comparison websites may be leading the way here”**

I find the price comparison websites actually are beginning to move towards sharing more of a value narrative with the consumer. The price comparison piece is also an important one within this discussion.

Rather than naming one or two, I'd actually say PCWs have a really interesting future role to play in bringing value to life for the consumer.

There's a brilliant PCW in Germany that is trying to produce value metrics for customers and value scores related to Fair Value alongside price comparison. That for me is a real positive in the industry. So PCWs are one area where I've seen some really positive activity over the last couple of months.

Colin: **“How PCWs choose to respond is crucial”**

I think that's where a lot in the industry would like it to go. I say that because... I think there is a view out there that says it's all about price, right? If you look at the price comparison model it drives that direction of travel.

The pricing remedies are quite clear there is a value equation payback to be achieved – somewhere between **3.7 and 11 billion** of value transfer over the ten-year period to consumers.

There's an element of looking internally at others in the industry who are doing it well.

“ If price comparison websites go more towards comparing value, then insurers will end up going in that direction whether they like it or not. ”

I would agree with James in that I think how the PCWs choose to respond to this is pretty crucial. If they move down the direction of value the insurers will end up there whether they like it or not.

“ How many people would pick the cheapest price if that insurer was known as being really poor at claims? But there’s no visibility of that at the moment. ”

Generally, if it’s about rebuilding trust with consumers, it has to become more than about price. It has to be about how you communicate. It has to be about great service. Or it has to be about if I pay X price, this is the quality of cover and this is the level of service I get, this is the quality of claims.

Playing out that claims piece again – how many people would pick the cheapest price if that insurer was known as being really poor at claims? But there’s no visibility of that at the moment. And if that was visible I think you’d see a different decision-making pattern from consumers.

I think that would be the first thing. The second thing in terms of the opportunity to change the industry, I think PCWs will have an important role to play but I think there could be the potential of new entrants.

If a few new entrants come in that could put the cat amongst the pigeons. If they bring a new model, a new way of doing things, that then raises the bar and everyone needs to respond to that.

The reality is, if I look at banking it took banks years to work out and the insurance industry is not as advanced as that. But I think for many there will be key decisions that they need to make over the next three to five years.

If the FCA wants to succeed in its objective it’s going to have to become a lot more customer-centric and then insurers will be much more on the front foot as far as what they need to deliver for customers, as will PCWs, as will new entrants.

Ben: *Do you think we’ll see PCWs become VCWs (value comparison websites) in the future?*

Colin: **“They have to look seriously at going in that direction”**

I think if PCWs are going to fulfil their part of this deal so to speak then they have to look seriously at going in that direction.

Otherwise, if it’s all about I’ve made a claim and it’s all about Fair Value in terms of whether the claim’s been handled well or not – if you don’t have any visibility of that for the insurers that you’re presenting on your website, how can you be confident that the customer is being offered Fair Value?

The answer is you can’t, and so there’s an interesting debate to be had around what’s the commercial model, what do you need to deliver for customers, what are your regulatory obligations?

It’s throwing those three aspects into the melting pot, and that applies equally to the PCWs as it does for the insurers.

James: “The consumer will also want more information to understand Fair Value”

I’d throw a consumer lens on that and say the consumer is going to want to understand themselves how to understand what Fair Value looks like. They will move towards companies that help them understand that. If that’s PCWs, fantastic. If it isn’t, it’ll be someone else.

Consumers over the next few years will themselves find that they are trying to understand what value looks like more.

Discussion Topic 4: Where are insurers and intermediaries most likely to struggle to satisfy the FCA’s expectations?

Suneeta: “Price is easier to measure than quality and speed”

The price is something that’s tangible and can be measured. I think it’s the other two things that might be more difficult. The quality and the speed. When I talk about speed, it’s how quickly your claims will be handled. It’s about the overarching service.

Picking up on what Colin said, this is an opportunity for new entrants. We’ve seen it in banking and we can see it in insurance. How many people on this call order something from Amazon, click click, it’s there. It’s quick. It’s a disruptor.

There will be somebody who will be looking to disrupt the insurance market and ensuring Fair Value for customers, what’s quality, what’s speed, because they’ve got that experience. They’ve got that customer-centric journey.

“ The challenge for the insurance sector as a whole is getting their head around what the customer actually wants.”

They’ve got what Fair Value means – even if you want to complain or send something back, it’s dealt with quickly. So it’s almost like is there an opportunity for a new type of price comparison website to be out there that offers all of that Fair Value?

But that said, the challenge for the insurance sector as a whole is getting their head around what the customer actually wants. What does the customer perceive to be quality or what are the three or four things that a customer looks for in a product?

Price is always one of those things but there are other factors. The quality plays a big part. The service plays a big part. It’s for the sector to think about the whole journey going through the product lifecycle again.

We’ve had this for years, the customer-centric model. Everyone will say that’s how we develop new products. We look at the price. We look at the market. The customer is always central to that.

But that’s when you develop a new product. What about the existing products? This is where the price goes up year on year. Even though the FCA has prescribed that you must give the customer the opportunity to someone to look elsewhere at renewal.



Price is easier to measure than quality or speed.

I think it's putting more onus on the customer and giving more to the customer to create that greater transparency between the insurer and the customer and around the price and the quality of a product, the call for input on Open Finance will allow the customer to engage with a third party and say do you know what, why don't you go out there and find me a better product.

I can see more of that happening, just like we've seen the disruptors in the banking sector doing exactly the same with open banking.

Colin: "It's not just what you do, it's how you do it"

I'd agree with that. On renewal pricing I think prices are still going to go up. The remedy is only designed to flatten it at a rest basis across tenure.

When people drop a new set of rates into the market, what level of moderation are they going to apply? I know from speaking to many people that there's many different views on that. That has a huge bearing on how customers are going to respond to it.

And coming back to what is Fair Value, it's not just what you do but it's how you do it, how do you explain that price movement. At the end of the day, what customers are saying is we don't mind the price moving so long as we understand why it's moved.

The FCA is obviously going to clarify their position come the end of the month [editor's note: this refers to end of May 2021], but still I can see quite a few loopholes in there. Different rating factors are used for different tenures. To what extent is there any dispersal allowed? Can you justify it?

There are things to be worked through, and this applies to pet insurance as well. And pet insurance with veterinary inflation, etc., is one of the hardest ones for customers to get their head round. And it's not subject to the pricing remedy piece, but it's a major concern with pet insurance how premiums can increase.

I think exactly how renewal pricing is going to land is a potential area that the FCA may not get quite what they were hoping for. We're living in a world where we've seen significant price deflation in the motor market in recent months. You've got Covid. This will come to an abrupt end with traffic having jumped back to normal levels in the last week and claims frequency about to reverse. You've got whiplash reform in there and you've got these remedies. How's that all going to play through?

The perceived wisdom in the industry is that new business prices are going to go up and renewal prices are going to come down and so we're going to end up back where we started. Is that where the value transfer is going to happen and, if so, how? No one has ever described the motor market as logical to me. If new entrants come in, goodness knows how it's all going to play through. It's going to be fascinating to watch, to be perfectly honest.

James: "A lot of consumers simply won't understand the FCA's goal when they see their premium has gone up"

But this is the bit where the rubber hits the road, isn't it – satisfying the FCA's expectations. You think this balance between front book and back book and the consequences for new business pricing, that's going to be a real crunch point for consumers. And then obviously the regulator. And then obviously the insurers and intermediaries themselves.

“ Customers say they don't mind the price moving as long as they can understand why it's moved. ”

Some people are going to be severely disadvantaged from that, having to pay higher premiums. You try and explain to a customer that that's because the back book is now not being price walked, it's going to cause lots of stress and tension that insurers at the front end are going to have to deal with in call centres and communications.

So I think that struggling to satisfy FCA expectations and consumer expectations is going to be a real tough point come January and into next year. A lot of consumers simply won't understand the broader strategic goal of the regulator to create a fairer pricing landscape when they see their motor or home insurance premium has gone up by 30 or 40%.

Colin: "If this is not executed well then consumer trust in the industry might go down"

On that, we all know as well when you take the price down, customers don't understand that! That worries them as much as putting the price up.

My fear is, if it's not executed well then consumer trust in the industry might well go down just because of the disruption. One of the things I know everyone out there is wanting is to make sure we have an orderly transition through this period.

I think there's still work to be done there and hopefully we'll see some clarification points from the FCA on that come the end of the month to make sure that happens.

Discussion Topic 5: How can companies position themselves now to benefit from the new rules?

Colin: "Think about communicating to customers"

For me, there are two things. I sound like a broken record a little bit, but really understanding what's important to customers as well as the regulatory bits that all our customers don't understand that you need to do.

And you're obviously also thinking about your commercial model as well, but I think really getting on top of that and thinking if I'm going to move my prices about how am I going to communicate that to customers so that it lands well?

The second bit is: be prepared for early next year. Make sure you've got a really good feedback loop that allows you to triangulate your position such that hopefully you'll be one of the winners.

But if you're not, you're able to react, react quickly, and move rapidly to a position that you're clearly much more comfortable with. That would be the other piece for me.

“ Make sure you've got a really good feedback loop that allows you to triangulate your position such that hopefully you'll be one of the winners. ”

Suneeta: "Start with collating the data"

It's about starting to collate the data. That's important for our sector as a whole where we don't really have that data and information.

Start thinking about quick five question surveys, what's important to the customer. Start doing some research and analysis on what is important to the customers other than price so that you can start to collate that data, because these things come up very quickly, and with everything else that's on the regulatory agenda this is just one aspect of something that firms are going to have to have to do.

So start early, be prepared. And be ready for next year.

James: "There are 3 important points to keep top of mind"

For me, three simple things. Don't just look internally. Look externally and look across sectors. You'll see other people who have definitely used regulations in the Fair Value space to get commercial advantage. That's number one.

“Where are the strong points and positives in your brand that you can leverage to get commercial advantage?”

Number two is very much understand where the customers are coming from relative to the brand and the organisation. Where are the strong points and positives in your brand that you can leverage and get commercial advantage? You may already be doing things that are really good from a Fair Value perspective that you can dial up more, versus the others in the marketplace.

The third one is: price image is just as important as the real prices being set. I don't think there's enough in the industry going on in a positive sense about really bringing to life price image in a way that enables companies to take advantage of what might be a very strong Fair Value position they might hold. It isn't necessarily translating through to their marketing and brand messages.

Use the delivery of Fair Value that you may be doing and may believe you're doing really well, to communicate that through your marketing and the whole of your communication process with your customers. That will give you a commercial advantage.

SECTION 4

Q&A with webinar attendees

Question 1: If you could summarise Fair Value as 5 key factors, which 5 factors would you choose?

James: Vision and culture first of all. You've got to have a Fair Value vision and culture. You've got to be thinking about this from the start. If you're not, then go home.

Without a doubt, you've got to have Fair Value running through product and pricing as a principle. Your sales and your operating model have got to reflect what your vision and values are in Fair Value along with your pricing.

Your governance, peer group comparisons, and data need to reflect and play back the Fair Value landscape you want to create.

The fifth one is being able to structure your resource and your reward mechanisms in terms of pay and remuneration to reflect Fair Value.

Those would be my five.

Suneeta: I think James summarised that well. The one thing I would add to that is that in every firm this will be assigned to a particular individual. They will be a senior manager who will be accountable and responsible, so all roads lead to that person to make sure that those five points James has just made are seen through.

Question 2: Should insurers really be looking at the banking sector as a model to set the bar for delivering and communicating the changes to customers, or can we use the changes as a platform to be more ambitious?

James: Great question. The banking sector is full of issues, problems, and challenges, and I'm not a cheerleader by any means for the banking sector. The reason we often raise it is because it's gone through the good and bad of Fair Value. There's a lot to be learned about getting it wrong as much as getting it right.

There are some other fantastic sectors out there that deliver Fair Value that should also be looked at that, as the questioner has asked, are quite aspirational.

If you look at the hospitality sector they've spent quite a lot of time looking at behavioural psychology around do you drink faster from a straight glass or a round glass. I've tested it. You drink faster from a straight glass. But that's playing with behavioural psychology and is that fair? Should you charge more for drinking from a round glass versus a straight glass?

So there's lots of sectors that have tackled this issue about fairness and how to deliver it. Same with retailers. I bet if we did a straw poll now – are you someone who likes half price as a phrase, or 50% off? Which one drives your behaviours more in a different direction?

They're all examples where from different sectors they've tackled Fair Value, tried to find what is right from the perspective of compliance, customer, and commercial, and tried to deliver it. There's lots of them out there. Banking is a good one but it's not the only one.

Question 3: Are there standards that can be agreed across the industry to convey and compare to customers other elements of value than price, for example 'official claims handling score', 'speed of claims', 'ease of mta', 'full fat product %' - maybe an industry supported standards agency?

Suneeta: From an insurance perspective, that becomes quite difficult, to set any kind of industry-wide practices. We have different markets. We have different ways of doing things. We've got the London market, we've got the Lloyd's market, we've got international.

There isn't that overarching forum that will set those standards. In the past a lot of those have been driven by regulators and that's how people have been managing to keep up to those standards.

Going forward I think it's a really great idea. But who takes the lead on that? There are so many different insurance bodies. Who is the super insurance body that can set those standards for everybody, because to have standards, they need to be consistently applicable across all the different insurers and not just a certain sector of insurers.

Colin: It's a tricky one I agree. It will be interesting because if you take something like defaqto [the independent financial services comparison website] that's been established in the customer's mind as something that represents quality it's interesting to see if there's an equivalent of that that might emerge in the Fair Value space.

As Suneeta says, will the different bodies come together to create something? Maybe they will, maybe they won't. There is sort of the equivalent of that in the pensions industry, for example. Certainly a defaqto-esque type model should be interesting to watch I think.

To have standards, they need to be consistently applicable across all the different insurers and not just a certain sector of insurers.

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