



FCA PRICING REMEDIES: EMBEDDING FAIR VALUE WITHIN INSURANCE

At a webinar held on Tuesday 11th May, 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 to gain competitive advantage.

Section 1: Host and panellists

- Ben Johnson, Global Head of Insurance at Sheffield Haworth
- Suneeta Padda, Founding Director of Padda Consulting
- James Yerkess, Founder and MD of HAL Consulting
- Colin Robertson, 20 years' experience across retail banking and general insurance at RBS, Tesco, Direct Line Group, and RSA

Section 2: High level discussion of survey results

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

68% of respondents said they weren't looking outside the industry. This seems surprising, but it will probably take time for people in the industry to come to terms with and understand the regulations themselves. On the other hand, almost a quarter (23%) are looking at hiring from the banking sector, which is potentially positive.

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

Changes to pricing models scored the highest, which makes sense given the circumstances. Communicating value to customers will be one of the biggest challenges, while making Fair Value a strategic priority is going to take years, not months.

- **Chart 3: What are your biggest concerns with the FCA's pricing remedies?**

The implications of the regulations will be far reaching in terms of business strategy design, proposition, etc. And it's good that people recognise that. If you look back at banking there were those firms who saw Fair Value regulations as a way to get competitive advantage. Insurers should do the same.

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

From the responses, it's encouraging that the response is being led by the business, because this has to be seen as more than just a compliance issue. Not enough respondents seems to realise the importance of reviewing the claims process, however, since this is crucial to many consumers when it comes to judging Fair Value.

Section 3: Main discussion

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

It's about achieving the regulator's desired outcomes and showing how they got there. The industry will be under a fair bit of scrutiny, and rebuilding trust in the industry is central to the FCA's approach. At the same time, it's important for firms to balance compliance challenges with the customer perspective and commercial considerations.

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

Everyone's trying to work out how they compare with their peers. While all companies are keen to comply, they're also keen to avoid being commercially disadvantaged, which is where benchmarking will be particularly useful. Collating and sharing the right data is likely to pose a challenge for many, as is knowing where to start when it comes to benchmarking.

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

This will drive more innovation for some, perhaps greater adoption of some of the digital and mobile-centric activity, or of open finance to help make better risk decisions and streamline processes. From a consumer point of view it will probably drive transformation that leads to greater transparency and hopefully more trust. In some respects, price comparison websites may be leading the way. The proposals may also stimulate new market entrants, which could really shake things up, as they did in the banking sector.

- **Topic 4:** Where are insurers and intermediaries most likely to struggle to satisfy the FCA's expectations?

While price is relatively easy to measure, insurers may struggle to measure quality and speed. This does suggest a potential opportunity for new entrants. The real challenge for the sector as a whole may be the old one of really understanding what customers want. Customers don't understand prices changing if they understand why they've changed, which is another reason why good communication is likely to be key to successful implementation – especially when their premiums go up next year!

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

Getting customer communication right remains essential. But insurers must also ensure they have a strong feedback loop in place for January next year so they can react quickly once the regulations come into force. It's all about starting early and being prepared so you're not caught out. Other tips include looking to learn from other sectors – including banking, who have been through this same challenge – and focusing on gaining 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?*

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?*

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?*

Find out more:

To get the full, in-depth write up of this webinar, please contact **Ben Johnson**