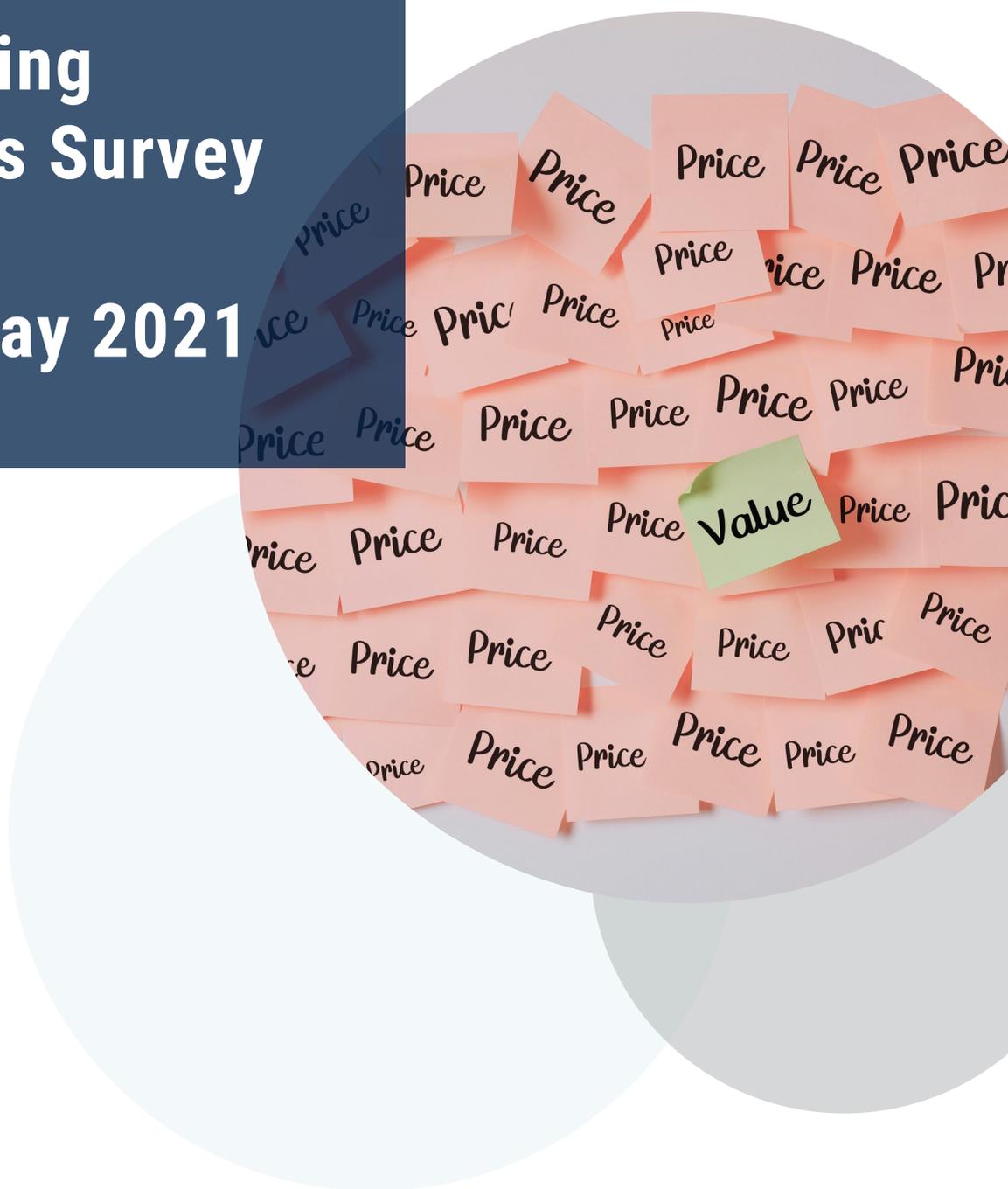


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FCA Pricing Remedies Survey

April - May 2021



Edited by:

Ben Johnson, Managing Director & Global
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INTRODUCTION

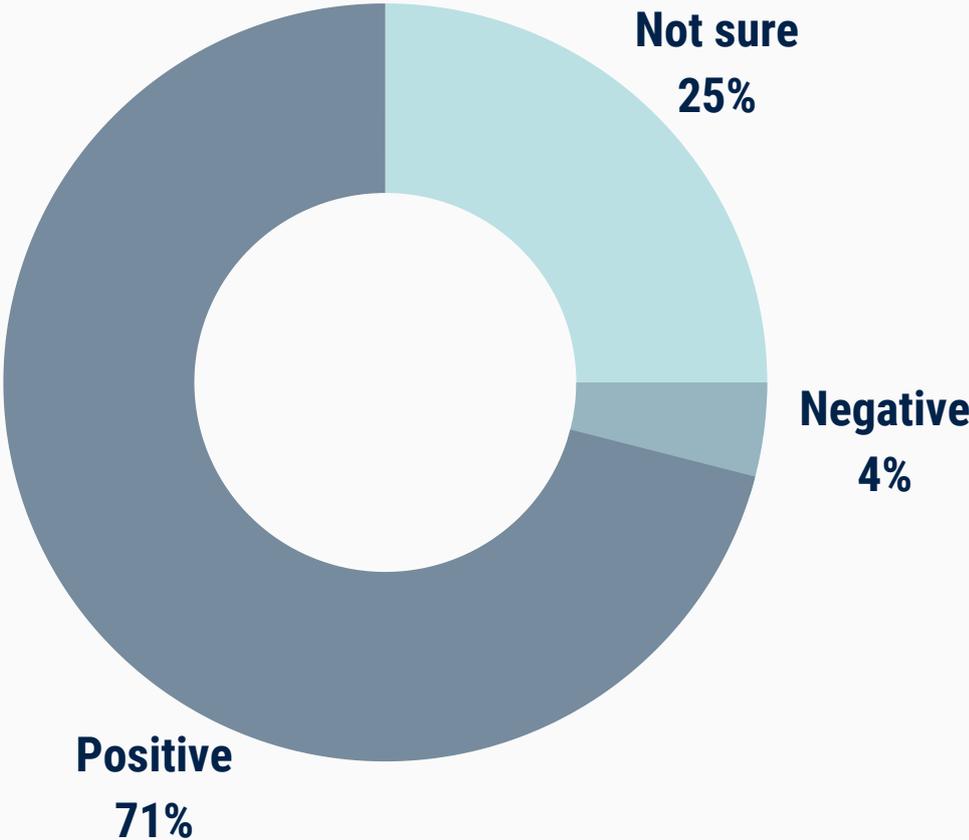
With the Financial Conduct Authority's general insurance pricing remedies (CP20/19) due to come into force in January 2022, Sheffield Haworth decided to take the temperature of the insurance industry on the topic.

We invited hundreds of professionals from within the UK general insurance industry to participate in our survey, and here were the results. Please note that the survey was conducted in April and May 2021, before the FCA published its final policy statement.

If you are one of those who took the time to answer, thank you for participating.

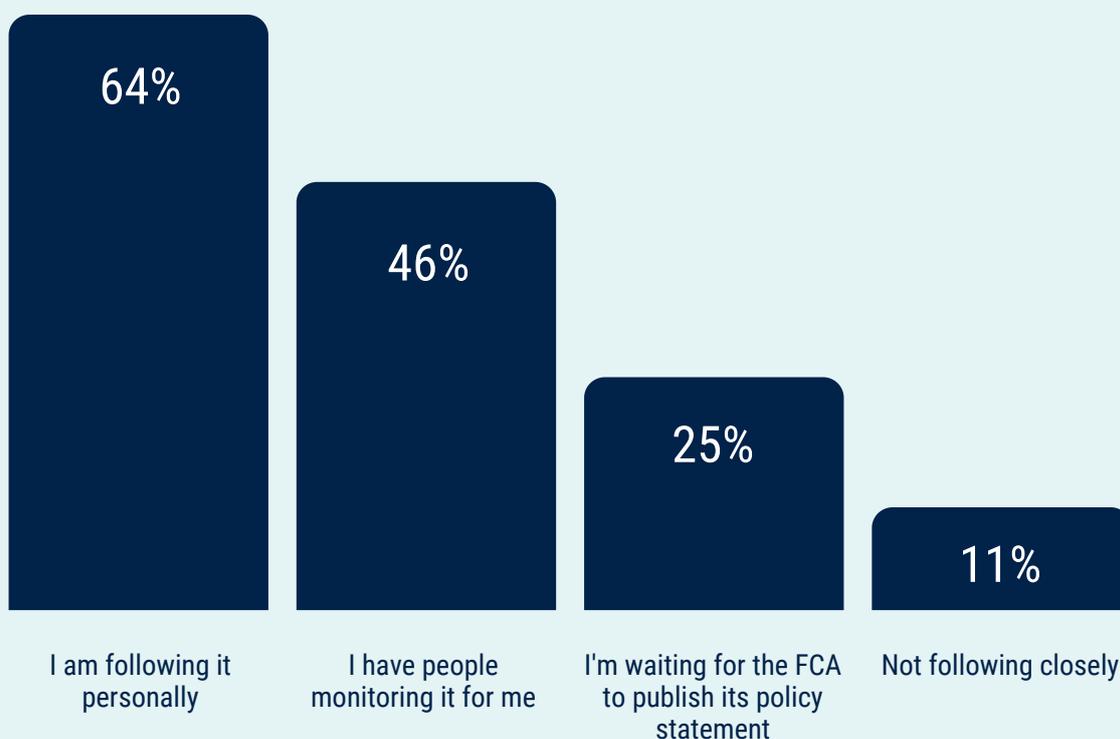
SURVEY RESULTS

Question 1: Do you think the FCA’s proposed pricing remedies are positive or negative for the insurance industry?



Almost three quarters of respondents (71%) said the proposed remedies were positive, with only 4% saying they were negative. But, more interestingly, a full quarter of respondents (25%) said they were unsure. As you’ll see from chart 3, this probably reflects the fact that insurers are still grappling with what the remedies will mean on a practical level, and how much time and effort it could take them to comply – as well as the fact that, at the time of the survey, the FCA had not yet published its final proposals.

Question 2: How closely are you monitoring the FCA's pricing proposals?



Almost all respondents are monitoring closely, with a clear majority of respondents following the proposals personally. However, the 11% of respondents not following the proposals closely may find themselves in a sticky situation come January 2022, given that they will only have seven months in which to comply with the FCA's policy statement. This is also true for the 25% of respondents waiting for the policy statement before monitoring closely. Perhaps this is because those insurers feel the FCA is likely to be more lenient on timescales than previously thought, yet this does seem a potentially risky stance to take.

Question 3: What are you biggest concerns with the FCA's pricing remedies?

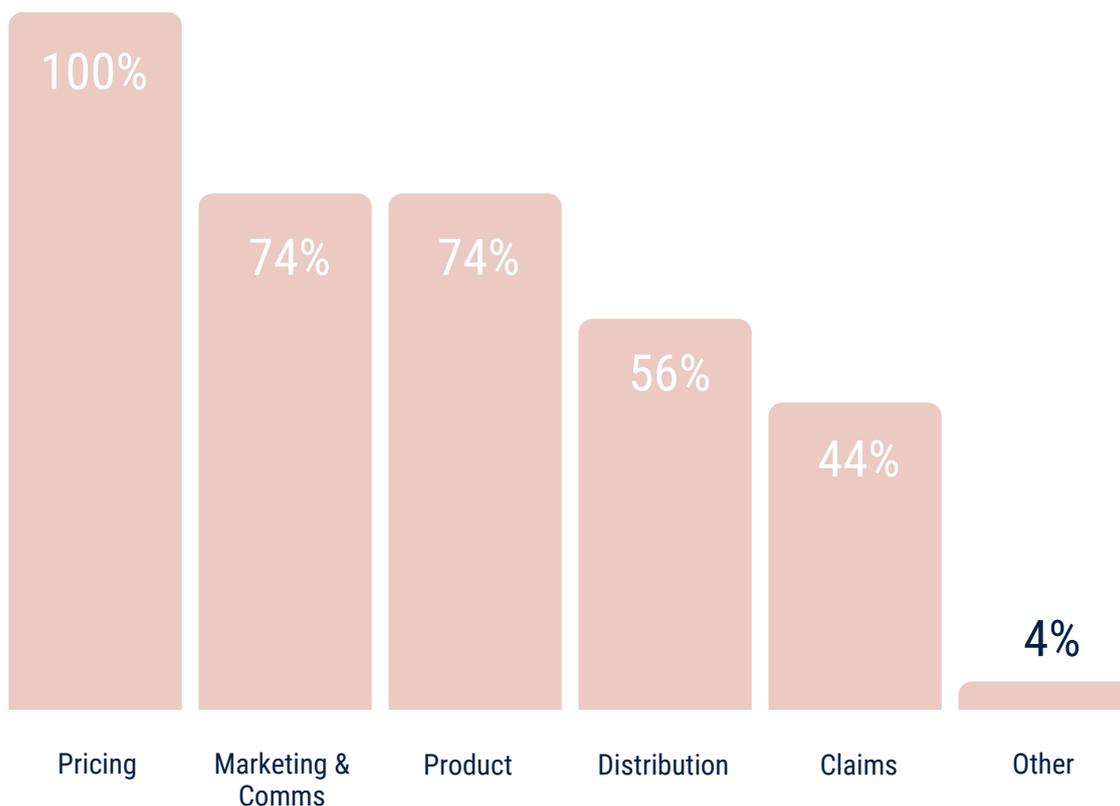


According to our respondents, almost 6 in every 10 insurers (59%) do not yet understand how the FCA's pricing remedies will impact their business. This is potentially a matter of some concern, given that the FCA has indicated insurers will have only seven months in which to comply with the proposals published in their policy statement.

More understandable are the 52% of respondents who still aren't sure what best practice looks like. Again, conversations with many in the industry suggest that insurers want more clarity from the FCA on exactly what good looks like in this regard.

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.

Question 4: Given the FCA's focus on Fair Value as part of its pricing remedies, which parts of your business do you expect this to impact?

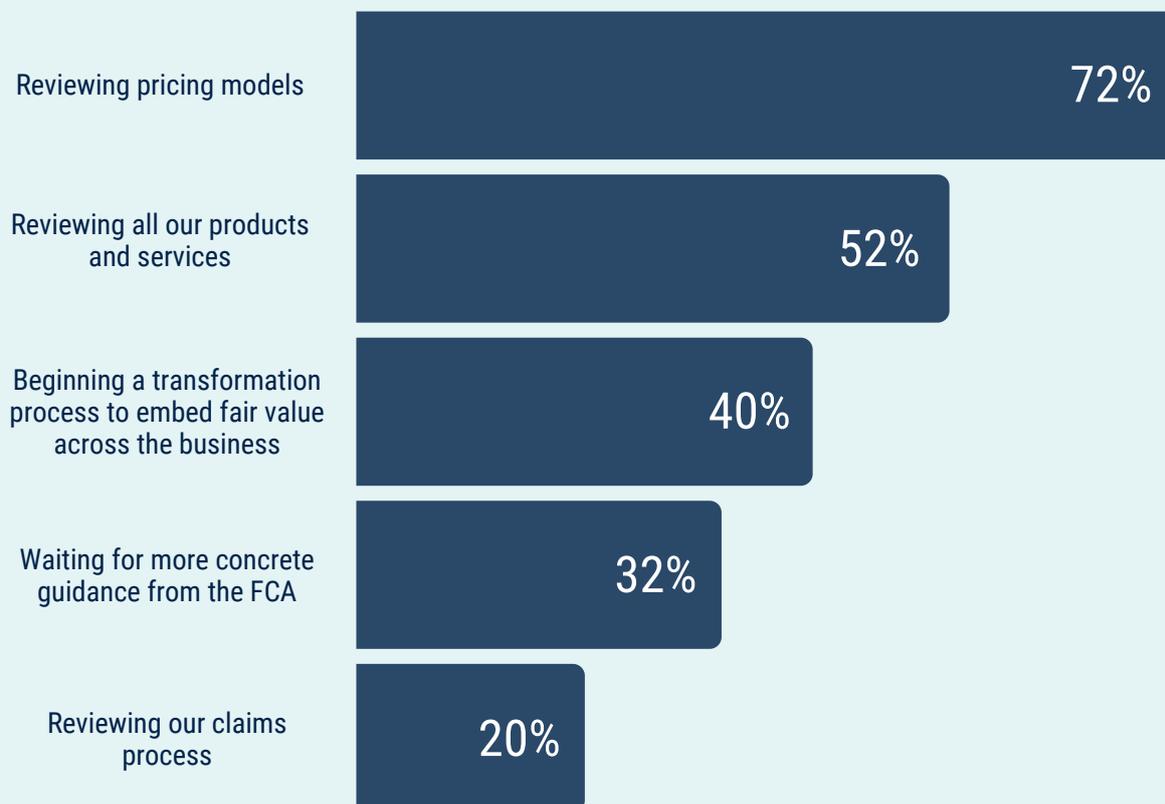


While the focus on pricing is expected, of more interest are how many respondents identified marketing and comms (74%) and product (also 74%) as areas where they expect the proposals to impact.

The FCA has indicated that clear and transparent communications will help provide Fair Value to consumers in the future. Similarly, the regulator has stated that all aspects of a product must contribute towards Fair Value, from add-on services to premium finance.

The answers to this question suggest that insurers are pretty well aware that the FCA proposals will impact many vital parts of the business. This may also suggest the industry is prepared to approach compliance from a holistic point of view, and not just focusing on pricing.

Question 5: Which parts of your business have you started to change in response to the FCA proposals?

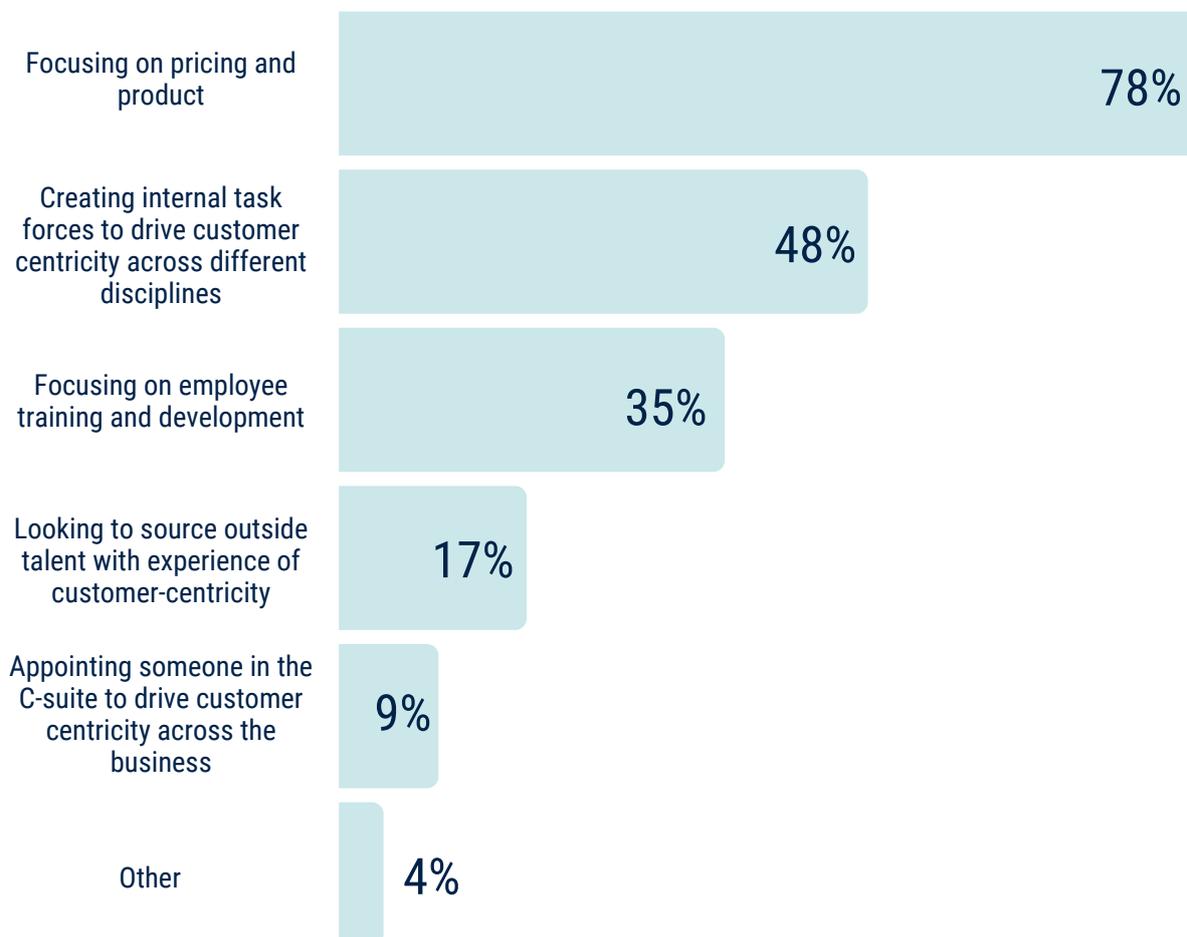


These results are encouraging, insofar as they suggest the industry’s response to the FCA proposals is being led by the business, which we think is important because this shouldn’t be seen as just a compliance, regulatory challenge. There’s a customer element that needs to play into this strongly.

It remains a matter of concern that “reviewing our claims process” comes last (20%). Especially since, for many customers, the claims experience is key to whether or not they feel they have received Fair Value.

That said, the results from our respondents show an awareness that delivering against Fair Value is a holistic business challenge. The order in which insurers are tackling it makes logical sense given where the industry is on this journey because making sure to deliver on the 1st January will be at the forefront of most people’s minds.

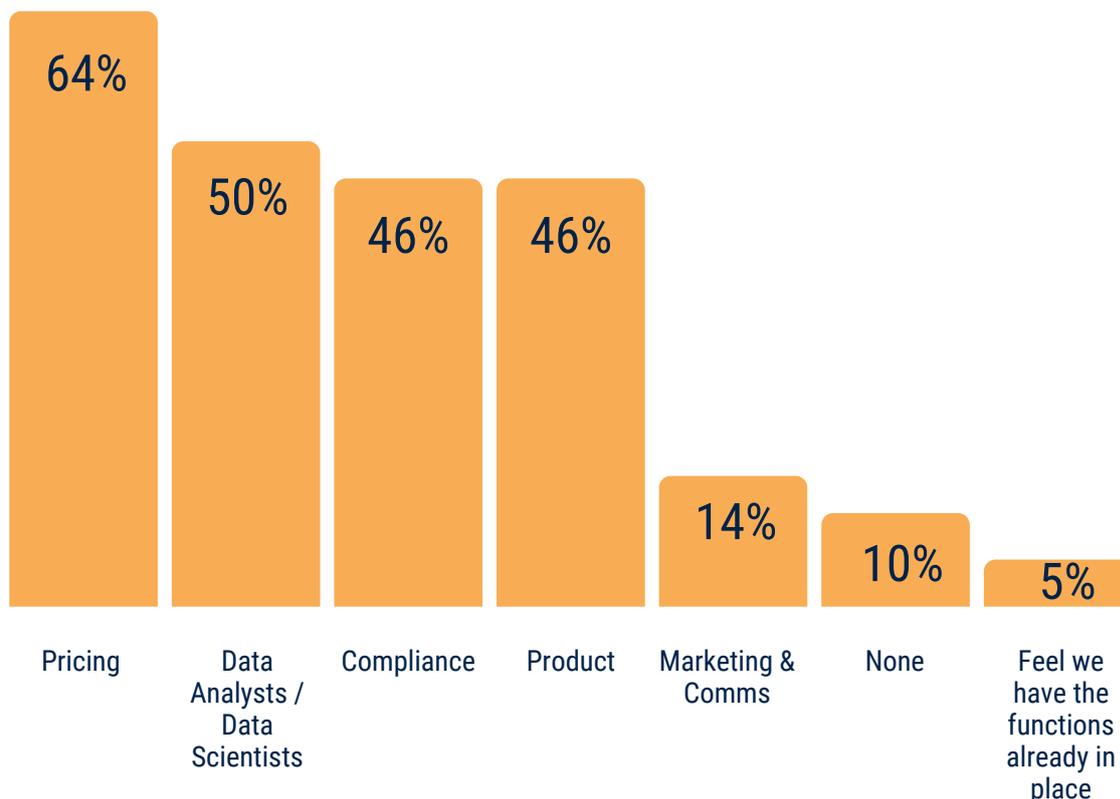
Question 6: How are you looking to embed customer-centricity (Fair Value) in your business long term?



The fact that almost half of respondents (48%) say they are creating internal task forces to drive this change suggests that this response is being driven by the business rather than by compliance. This is true also of the 35% of respondents focusing on employment training and development.

The one potential cause for concern in these results is that fewer than 1 in 10 are looking to appoint someone in the C-suite to drive the change. Given the FCA's repeated emphasis on the need for firms to see Fair Value as a strategic priority, this suggests that either insurers aren't getting the message, or they don't believe it is that important.

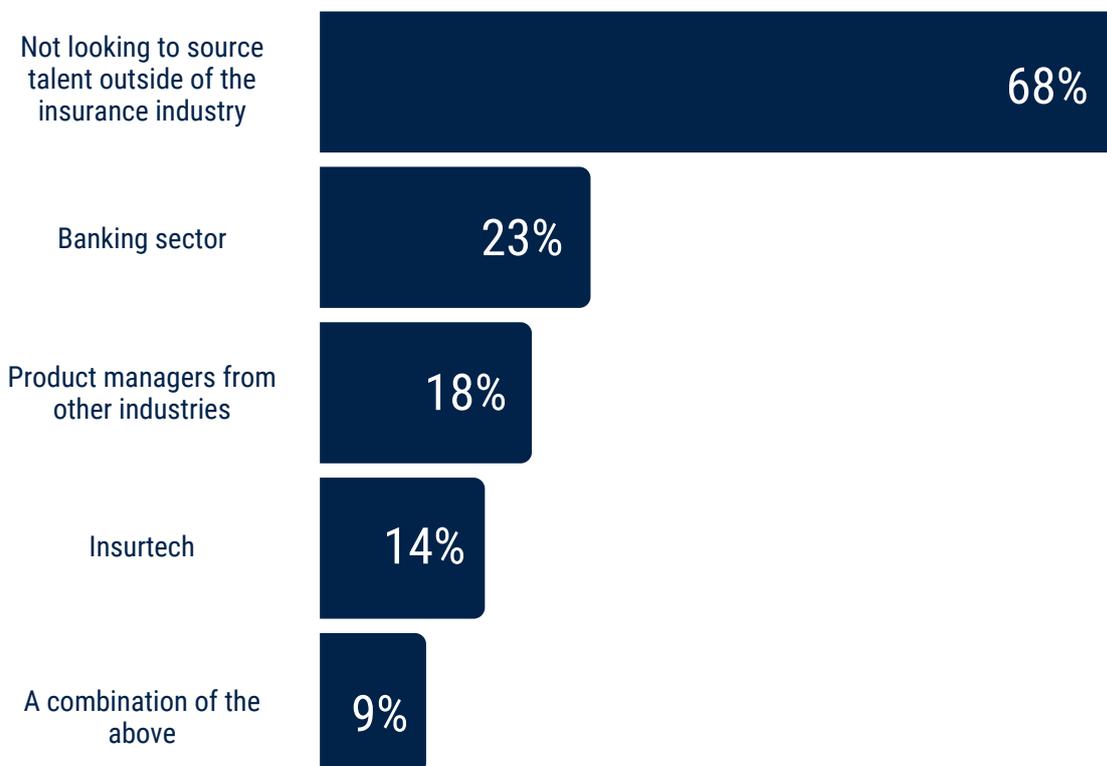
Question 7: What job functions are you likely to invest in as a result of the FCA's pricing proposals?



The spread of answers to this question suggests again that a good proportion of the industry sees this as a challenge that goes beyond pricing alone. The 50% of respondents looking to invest in more data analysts and data scientists seem switched on to the challenges of responding to the FCA proposals, as collecting and submitting pricing and product data will be one of the FCA's key priorities for firms to deliver.

The surprise is that relatively few respondents are looking to expand their marketing and comms function, especially given that 74% of them said they expected the proposals to impact their marketing and comms. Perhaps most respondents don't believe the comms challenge to be very significant in the months ahead, only that how they communicate will have to change. Or perhaps they just see this as less of a priority than pricing, data, compliance, and product.

Question 8: Which industries are you looking to source talent from as a result of the FCA's pricing proposals?

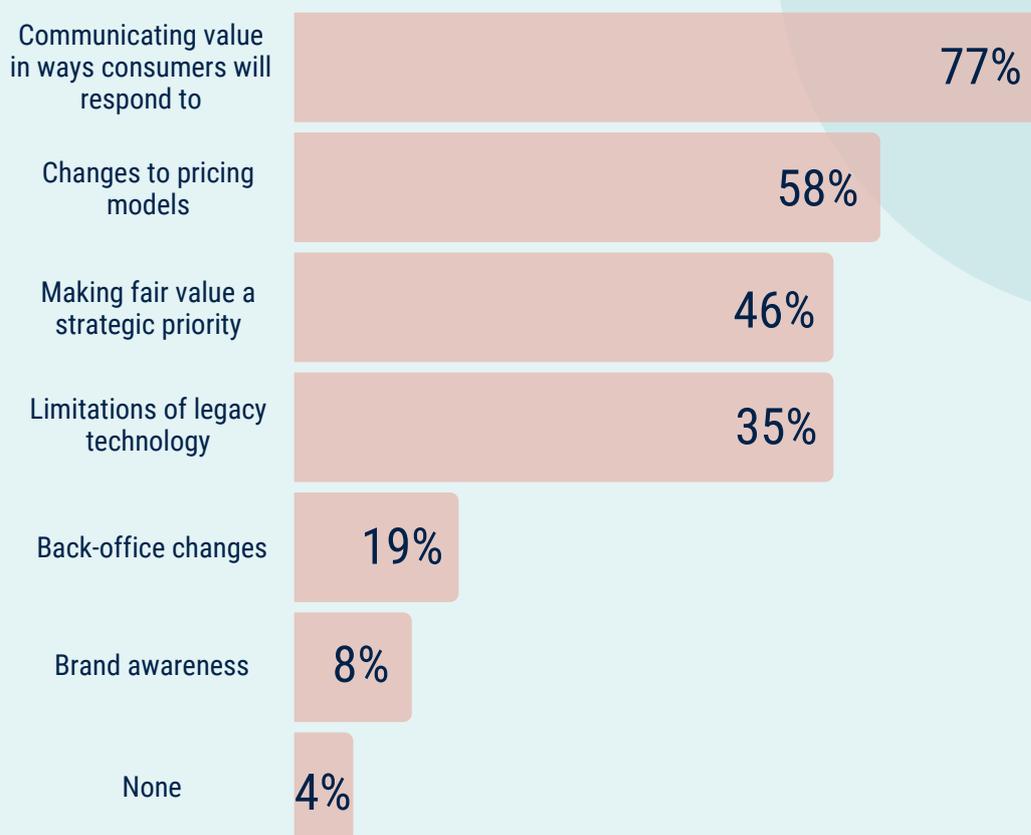


At first sight, the fact that a whopping 68% of respondents are not looking to source talent from outside the industry is surprising, especially since it makes sense for insurers to look for more support from those with more experience of dealing with Fair Value regulation.

On the other hand, these are still early days. 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 more to bringing in expertise, knowledge, and skills from other sectors, which will further enrich the knowledge that's already in insurance.

It is encouraging that almost a quarter of respondents look towards banking, a sector that has lived, breathed, and experienced Fair Value regulation over the last six or seven years. It is potentially positive that that nearly a quarter of people are thinking of reaching out to a sector that could help many insurers through this early period.

Question 9: What do you see as the biggest challenges of embedding Fair Value into your business?



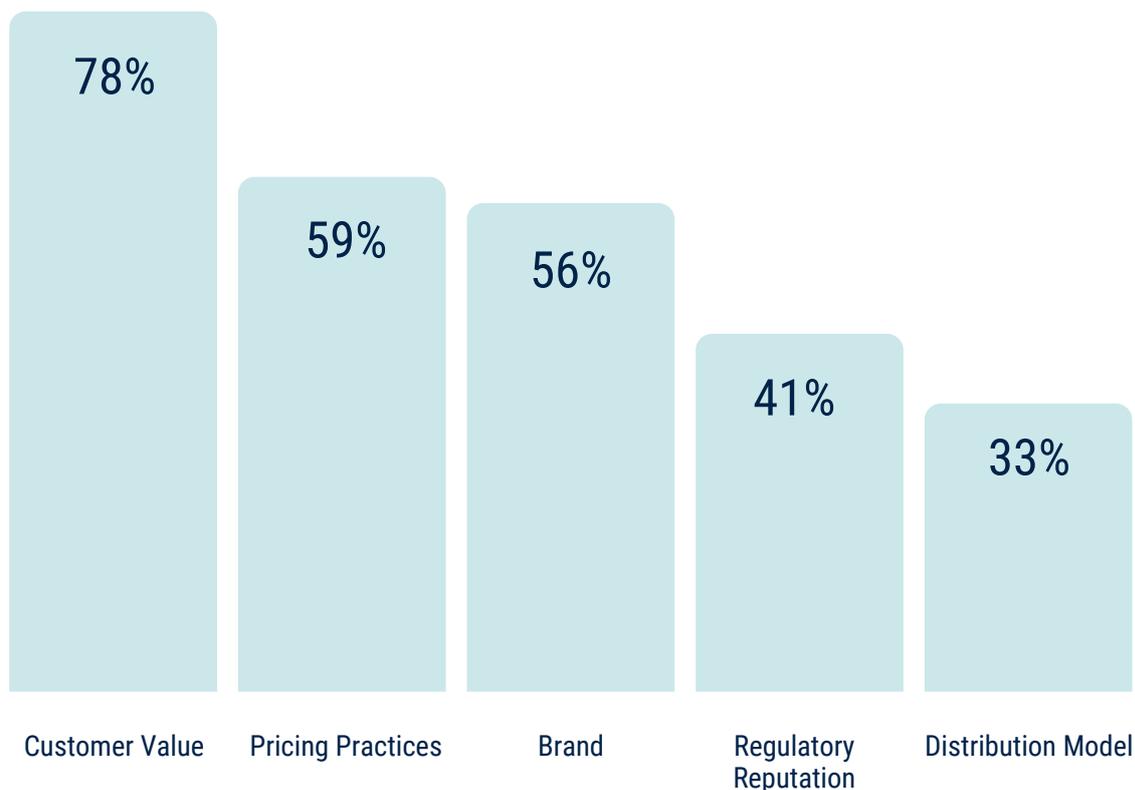
It's no surprise to see the changes to pricing models being scored so highly (58%) in this chart. It has undoubtedly taken up a lot of time, energy, and brain power from insurers over recent months in terms of how they will meet the new remedies.

Communicating value to customers (77%) is one of the biggest challenges, and this chart suggests insurers are well aware of that. Looking at renewal pricing in the future, while price walking is no longer allowed, increases will still happen, so communicating this clearly and transparently to consumers in a way that makes them feel they are still getting Fair Value is going to be crucial.

The fact that limitations of legacy technology scored so low (35%) is a bit of a surprise, given that in the retail banking sector several larger retail banks now recognise that their legacy technology is no longer fit for purpose.

The reality of the situation is that insurers on large legacy systems with multiple portfolios will find changing pricing models and launching new products far harder than those on new, more nimble platforms that can do releases in weeks (or even days) rather than months.

Question 10: Which areas of your business do you think will positively benefit from the proposed pricing remedies?



It is heart warming to see customer value score so highly in our survey, with over three quarters of respondents thinking this will improve as a result of the pricing remedies.

The most important message here for insurers is to focus on the potential positives, which is another reason why the emphasis on customer value is so promising. If you look back at banking there were firms who saw Fair Value regulations as a way to get a competitive advantage and move forwards. If insurers are thinking in those same terms – and going by these answers, it looks as if they might – then this bodes well for some in the industry to turn these current proposals into competitive advantage also.

Question 11: What does Fair Value mean to you and your business?

Here is a selection of the best and most illuminating answers we received to this question.

Compliance focus:

- “Inevitable and fair, but the FCA must ensure proportionality for compliance as well as grasping there are so many other regulatory issues that this runs the risk of overcrowding a vital part of the FS system.”

Customer focus:

- “Allowing customers to clearly understand quality versus price.”
- “Doing what is ethical, which is what the insurance industry should have done without a regulator telling them.”
- “Fair value is a complex relationship between consumers, providers and the marketplace. It is achieved when the overall price and quality of a product and/or service are deemed fair by the consumer. We are striving to deliver this.”
- “Being a customer champion to ensure when customers buy a 'promise for help' they are consciously competent on the cover they can expect and the reliability of who they choose to buy from”
- “Delivering great customer outcomes.”
- “Doing the right thing for customers.”
- “A resurgence in customer trust.”
- “Providing customers with a product designed for their needs, that delivers good outcomes for the price being charged.”

Commercial focus:

- “Providing a product to a customer with clarity about what the product covers, removes any barriers to claim or cancel at a fair price in relation to the outgoing expenses and claims of the policy.”
- “Higher retention and tenure for customers with more consistent year-on-year pricing.”
- “Having good quality products that meet customers’ needs and works for customers at a price that's reasonable and fair to the customer and that allows the business to make a reasonable profit.”
- “Fair Value should not be new for consumers. However, the general insurance sector have quite a bit of work to do to catch up with the life insurance industry. Fair Value does also align very well to the ability of consumers to shop around and this is an opportunity for firms to separate themselves in regards to delivering these to consumers.”

Insurer focus:

- “Selling customers what they want, and providing a service that they need, at a price that truly reflects the underlying costs and risks posed.”
- “A fair price for a good product for the customers and a reasonable return to our shareholders for the services we provide.”
- “Relationship between price paid and the products and service provided.”

Question 12: What impact, if any, would you expect to see Fair Value have on the insurance industry as a whole?

Here is a selection of the best and most illuminating answers we received to this question. Some respondents clearly believe the impact of the proposals could be negative, both in terms of increased prices for consumers, and the increased cost to insurers of compliance. Others are focused on how the proposals will be positive for customers and for the industry.

Blue implies positive outcome of FCA pricing proposals (c.47%)

Orange implies negative outcome of FCA pricing proposals, either for insurers or consumers (c.26%)

Black implies neutral on whether the proposals are positive or negative (c.26%)

Compliance focus:

- "Hopefully an improvement in ethics."
- "Reduce unethical practices."
- "Consistency of approach."

Customer focus:

- "Greater trust, fairer pricing."
- "Increased trust."
- "Will push new business premiums up."
- "New business rate increases but improved value at renewal."
- "A volatile first year with new business prices generally increasing and renewals prices generally decreasing. Could lead to poor customer outcomes as a result of opportunistic new entrants."
- "Trust levels in the insurance sector rise, and consumers receive better value for money from existing or new entrants."

Commercial focus:

- "Small reputational benefit, short term loss of income, longer term greater opportunity to build a profitable portfolio."
- "A rise of the best brands and products that are truly customer focused."
- "Consolidation of smaller or non-core players as they exit and a renewed focus on new business distribution for legacy players."
- "Consumers pay more for new business, retention increases, aggregator dominance reduces."
- "Improve reputation. More focus on quality underwriting."
- "Theoretically it should encourage a greater focus away from price (differentiation, customer service, claims experience, retention etc) and switching levels would theoretically fall so marketing and acquisition channels should change. LTV profitability should fall given the convergence of renewal and new prices and a step change to embed fair value measures. In practice this may or may not be the case depending on the degree to which the industry responds and complies."

Cost focus:

- "Undetermined but without doubt additional costs and potential distraction from customers and product innovation."
- "More product rationalisation; increased prices due to resource needed to assess fair value annually."
- "Turbulence."
- "I think on the whole the products on offer currently represent fair value. The regulation will create a burden on the industry to demonstrate that effectively."

About Sheffield Haworth

Sheffield Haworth's Global Insurance Practice aims to be the number one provider of transformation talent solutions in the industry. Our goal is to deliver solutions that combine industry expertise with strategic thinking – driving creativity, innovation, diversity and inclusion for clients.

Established in London in 1993, Sheffield Haworth has undergone significant growth and expansion, now employing over 150 professionals in 12 global offices, with a client list that includes a substantial number of leading global organisations.

This report was compiled and edited with assistance from James Yerkess, MD and Founder of Hal Consulting.



About HAL Consulting

HAL Consulting specialises in Fair Value proposition design through the eyes of the customer, helping businesses achieve commercial and regulatory attestation.

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