

Insights

HAS THE FCA MISSED THE MARK IN ITS ATTEMPTS TO PROTECT CUSTOMER VALUE FOR MONEY IN INSURANCE PRODUCTS?

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SUMMARY

The FCA has become increasingly concerned with protecting customer 'value for money' in the insurance industry. How has this focus been manifested by the regulator and what are the key challenges for insurers?

In recent years the FCA has been increasingly interested in ensuring fair pricing for financial products.

We saw this concern manifest most clearly in the retail insurance sector last year, following publication in November 2019 of the FCA's finalised guidance on value in the distribution chain, FG 19/5. The most important aspect of this new guidance was the FCA's position that there could be a real risk of an insurance product not delivering fair value to its consumers if the number or nature of distributors in the distribution chain meant that customer value leaked out of the product due to excessive distribution costs. This can take the form of remuneration for distributors

Unfortunately the FCA has declined to provide clear rules as to what level of remuneration it would consider acceptable, making it hard for insurers to ensure that they are operating within the rules. The European Insurance and Occupational Pensions Authority (EIOPA), however, has followed the FCA's lead by publishing its own report on insurance value for money in late 2019, focussing specifically upon retail customers of travel insurance. EIOPA stated that "While the average commissions in travel insurance are around 24% of the gross written premium (GWP), there are insurers that pay extremely high commissions to distributors, of significantly more than 50% of the premium". By naming the level above which commission is said to become "extremely high", EIOPA's report is more useful to insurers looking for an external reference point to guide them when renegotiating their distribution contracts in view of the FCA's report.

While the FCA's concern in this area is not misplaced, its execution strategy is misguided. To tackle the thorny issue of value-for-money leakage in retail insurance as a result of inflated commissions, something more pointed than a guidance paper is needed to assist FCA-regulated insurers who are trying their best to comply with the guidance in FG 19/5.

Polly James and Siân Cowan wrote about this in our Emerging Themes in Financial Regulation 2021 publication.

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