

GUIDANCE ON INCREASING TRANSPARENCY AND ENGAGEMENT AT RENEWAL

Background

In August 2016 the FCA finalised their new pro-competition initiative, designed to encourage increased transparency about pricing at renewal as well as greater engagement and better-informed decisions on the part of customers.

The FCA's new rules and guidance, set out in [Policy Statement PS16/21](#), apply from 1 April 2017 to the renewal of any consumer insurance product which is not a group policy, and where the duration is 10 months or more.

How will the new rules affect MGAs?

MGAs distributing consumer products through brokers will need to be aware of the new rules, whilst understanding that responsibility for their implementation rests with the broker. However, it would not be unreasonable to expect MGAs to assist their brokers with the provision of *previous premium information*, one of the key elements of the new rules, as set out below.

MGAs which engage in direct sales must be fully conversant with and apply the new rules to their consumer insurance renewals with effect from 1 April 2017.

What are the new requirements?

The requirements are three-fold:

1. At each renewal, last year's premium must be displayed to the customer;
2. Text must be included in the renewal letter to encourage customers to check that their cover is still right for them and to 'shop around' for the best deal; and
3. Consumers who have renewed with a firm for four or more times must be identified and given a prescribed message, encouraging them to 'shop around'.

Each requirement will now be examined in turn.

What constitutes 'last year's premium'?

The figure displayed in the renewal letter or other communication to the consumer must be the premium previously charged by the product provider (which may be an MGA), inclusive of commission and IPT, but excluding any fees or charges. Fees and charges must still be shown separately in the renewal price, so that the customer is made aware of the total cost of renewing before they become liable for payment.

If the consumer has previously actively elected to buy optional additional products, the amount to be shown as last year's premium should include the cost of those products. This requirement does not, however, remove the need for the firm to also tell the customer about the renewal cost of individual add-on products, in case they wish to opt out of any of them at renewal.

If the customer has not actively elected to include optional additional products, then the relevant cost(s) should be shown separately, in line with FCA requirements set out in [Policy Statement PS 15/22](#).

Where should last year's renewal premium be displayed?

The FCA considers that the most effective place to show premium information is on the first page of the renewal invitation. Firms are, therefore, expected to adopt this practice.

What if the policy has been subject to a mid-term adjustment in the last year?

In these instances, the premium displayed for the previous year should be the annualised premium reflecting mid-term adjustments. As previously stated, the calculation must exclude fees and charges.

Firms may also display the premium actually charged at last year's renewal, in addition to the annualised premium, if they wish to do so.

Can supplementary explanations of premium changes be provided too?

Yes. Firms may add explanations which help to increase customers' understanding, although any such messages must not obscure the premium information. Examples might include:

- how the annualised premium has been calculated;
- a reminder of mid-term adjustments (of which there may have been more than one), and how they affected the premium;
- advice that the premium includes the cost of optional additional products; and
- any increase in the rate of Insurance Premium Tax.

There may be a variety of other reasons why a premium appears to have increased disproportionately, including suppression of the additional premium generated by a mid-term adjustment, the end of an introductory discount period, claims made or reported, a product provider's experience of claims in a certain area and the loss of a no claims discount.

What approach should be taken to the 'shopping around' message (first to third renewals)?

The FCA have stated that they 'do not want to encourage an excessive focus on price' (see [Consultation Paper CP 15/41](#)). They want the message to incorporate a reminder to customers that they should (a) check that the level of cover offered is appropriate for their needs and (b) that they may wish to check the prices and levels of cover offered by other providers.

The positioning of this message must make it clear to the customer that it is key information.

Can the 'shopping around' message be worded as a question?

Yes, provided the question isn't worded in such a way as to dilute the message or discourage the consumer from looking elsewhere. The example the FCA provides is as follows:

'Have you checked that your insurance still meets your needs? Have you considered shopping around to find the best deal for the cover you want?'

What 'shopping around' message must be given for the fourth consecutive and subsequent renewals?

The FCA-prescribed wording is as follows:

'You have been with us a number of years. You may be able to get the insurance cover you want at a better price if you shop around.'

There is no option in the new rules to alter the wording provided by the FCA.

Are there any options on how to present 'shopping around' messages (prescriptive or otherwise)?

Yes. The FCA take the view that individual firms are best placed to decide how to deliver the message. This may mean adding to it, as long as consumers are not discouraged from shopping around. For example, firms may wish to remind customers about the specialist nature of their offering, or may want to advise customers of the scope of the marketing exercise they have carried out before presenting the renewal terms. In addition, for classes of business such as travel, private medical and pet insurance, the FCA expects firms to actively remind customers that they may not be able to find cover for pre-existing medical conditions (if included) elsewhere.

If the insurer changes at renewal, can this be treated as a new sale for the purpose of the new rules?

In most cases, the answer is no. In the Policy Statement, the FCA states that where the intermediary changes the insurer behind the policy, but the features and exclusions of the policy are so similar to the previous one, it would be tantamount to a renewal from the consumer's perspective.

The FCA's position is confirmed in a new rule at ICOBS 6.1.12A, which states that a 'renewal' means 'carrying forward a policy, at the point of expiry and as a successive or separate operation of the same nature and duration as the policy, with the same insurance intermediary or the same insurer.'

Do the new rules apply when a policy is transferred from one intermediary to another?

Yes. When an insurance policy is transferred from one intermediary to another, the new intermediary will need to find out how many years that customer has been covered by the existing insurer, to determine which 'shopping around' message should be applied.

The changes are effective from 1 April 2017. Does this mean they apply to policies falling due for renewal from April 1 onwards?

The requirements apply to *activities undertaken* by firms from 1 April 2017 onwards. For example, if the firm's normal practice is to issue renewal invitations 21 days in advance, policies renewing on or after 21 April 2017 will be affected.

Do commercial customers come into scope?

No, although the FCA has stated that it would like firms to consider whether there would be any benefit to making wider changes within their businesses.

What else do MGAs need to consider?

The FCA expects MGAs distributing products through brokers to have oversight of their distribution channels. The degree of oversight expected will vary according to the role that the MGA plays in relation to the product. For example, where an MGA is responsible for design of that product, the FCA would expect it to take more responsibility for information provided to customers at renewal.

More information about the FCA's expectations of MGAs can be found in Thematic Review [TR15/7 Delegated authority: Outsourcing in the general insurance market](#) and [The Responsibilities of Providers and Distributors for the Fair Treatment of Customers \(RPPD\)](#).

This paper is intended only as a high-level summary of the FCA's position on increasing transparency and engagement at renewal. Firms are advised to seek their own professional advice in connection with any issues raised in this paper which could affect their businesses. They should also be aware that matters relating to UK insurance regulation are subject to change.