



The Money Charity response to FCA CP19/8 on General Insurance Value Measures reporting (April 2019)

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

the **MONEY** *Charity*

The Money Charity (TMC) welcomes the opportunity to comment on the FCA's Consultation Paper CP19/8 on General Insurance Value Measures reporting.

As explained on the cover page, we are a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.

Complementing our financial capability work we engage with financial services policy, as the design, pricing and methods of selling financial products have a direct bearing on people's ability to behave in financially capable ways.

We welcome the FCA's proposal to introduce General Insurance Value Measures reporting and, with the two variations set out below, support the FCA's detailed proposals.

Key Points

- For most consultation questions we support what the FCA proposes.
- We disagree with the FCA's proposal (Q1) to exclude insurance provided with packaged bank accounts. We think this type of insurance should be included.
- We propose an additional metric (Q7): *aggregate claims payments as a proportion of aggregate consumer revenues* for each product reported on. The reasons for this are explained in our answer to Q7.

Responses to consultation questions

Q1: Do you agree with our proposals for the product scope?

We disagree with the proposal to exclude insurance provided with packaged bank accounts. This is an insurance product that has significant consumer take-up and is a candidate for poor value because of the packaging. For example, a typical insurance package might offer travel, car breakdown and mobile phone insurance. A given user may qualify for only one or two of the three categories of insurance, and/or their insurance needs may fluctuate from year to year while their cover is continuous. For example, a given user may travel internationally several times in one year, but not at all the following year.

Providers may argue that it is up to the consumer to adjust their cover according to their needs, but it is easy to overlook this adjustment when cover is provided continuously via a monthly account payment. The nature of packaging is that it is difficult or impossible to adjust individual items. This may lead to consumer inertia and poor value for money.

The FCA has investigated packaged bank accounts and found them often to be problematic:

“... customers can find these accounts complicated to understand because they contain a bundle of insurance and non-insurance benefits. It is important that customers understand whether they are eligible to claim on the insurance policies in their account.

There is a risk that customers suffer detriment if they rely on one or more policies, only to find out later that they are ineligible to claim.”¹

Packaged bank accounts are subject to a substantial volume of complaints, suggesting that consumers often realise after the fact that the cover offered was not suitable for them.

In the December Quarter 2018, packaged banks accounts were the product category seventh most complained about to the Financial Ombudsman Service, with 2337 new cases and 13% of cases resolved in the consumer’s favour.²

In the FCA’s complaints data for H1 2018, packaged bank accounts were the sixth most complained about product category with 184,886 complaints.³

We do not agree with CP19/8 that it would be too complex to publish the data for packaged bank accounts. Firms must be aware how these products are performing for them and it should be possible to establish measures that fairly reflect the overall performance of these products from the consumer’s point of view, for example via claims ratios and measures of aggregate claims value against aggregate consumer revenues (see our answer to Q7).

Q2: Do you agree with our proposals on reporting responsibility?

Yes. We particularly agree that EEA and Gibraltar firms should be included. If there are any other significant overseas bases for UK insurance business, these should be brought into the net too. It is not desirable that the use of offshore entities should lead to escaping consumer protection and reporting provisions. All firms supplying insurance services to UK consumers, wherever based, should be included.

¹ From the FCA’s 2016 thematic review of packaged bank accounts, available at:

<https://www.fca.org.uk/publications/thematic-reviews/packaged-bank-accounts-tr16-8>

² <https://www.financial-ombudsman.org.uk/publications/ombudsman-news/147/pdf/third-quarter-statistics.pdf>

³ These are aggregate complaints to financial firms as reported to the FCA. See:

<https://www.fca.org.uk/publication/data/complaints-data-analysis-2018-h1.pdf#page=10>.

Q3: Do you agree with our proposal to require data to be split by the largest distribution arrangements?

We are not familiar with the detail of the data so we cannot comment on the precise splits. However we think the principle to be applied should be that the splits must allow the substance of what is being reported to be visible, ie the data for underperforming products should not be hidden within the data for better performing products (from the consumer point of view).

Q4: Do you agree with our proposals for the treatment of add-ons and optional extras?

Broadly, yes.

Regarding legal expenses, we accept that the average claim payout is less relevant for the reasons stated in CP19/8 (page 16). However, legal expenses would be captured by the aggregate measure we propose in answer to question 7, which strengthens the argument for this additional measure.

Q5: Do you agree with our proposals on granularity, reporting periods and frequency?

We are happy with 12 month reporting for the year to December, as proposed on page 16 of CP19/8.

Q6: Do you agree with our proposals for reporting thresholds?

The proposed thresholds (3,000 policies or £400,000) seem reasonable, provided there are regulatory checks to make sure firms do not artificially split products to get under the threshold.

Q7: Do you agree with our proposals on the value measures metrics?

We agree with the value measures proposed, but propose an additional measure which we think gets to the heart of consumer value, namely *aggregate claims payments as a proportion of aggregate consumer revenues* (the gross product margin). Firms know this statistic and use it for internal evaluation,⁴ so it will not be hard to report. It does not compromise commercial confidentiality, as it combines profit and costs into a single number which is meaningful from a consumer point of view.

The difference between aggregate claims payments and aggregate consumer revenues is comprised of administration and distribution costs plus profits. If claims payments are

⁴ It is closely related to the Combined Ratio, which is a standard measure of the performance of insurance. See: <https://www.investopedia.com/terms/c/combinedratio.asp>

a particularly low proportion of total revenues, this means either that the product has high costs or is highly profitable (or both). Consumers should be suspicious of products that have particularly low ratios of claims payouts to total revenues – these products are either inefficient or unfairly priced.

If the FCA collects and publishes these numbers it will be possible to see the average margin, the normal range of margins and the outliers. Products with particularly low claims payout ratios will attract regulator and media interest and alerted consumers will have the opportunity to think twice about these products or avoid them altogether. In cases of egregious exploitation and/or consumer inertia, the regulator will be able to take tougher action.

The FCA thematic review TR19/2 (General insurance distribution chain) has drawn attention to excessive costs and poor practices in the distribution chains of many insurance products, saying for example:

‘While we have seen some progress in the governance and controls around GI distribution chains since 2015, we often encountered a lack of customer focus or consideration of value... The widespread extent of these issues within the GI sector is extremely disappointing given the focus and emphasis placed on these areas by the FCA in recent years.’⁵

In certain cases, the FCA reports, the majority of revenues were taken as commission and fees in the distribution chain, with only a minority of revenues being passed to the insurance manufacturer, let alone to the consumer in the form of claims payouts.⁶ In one example of domestic UK travel insurance sold by a bus tour operator, 73% of the premium revenues were kept by the tour operator as commission,⁷ suggesting that this particular product was close to being a scam.

The measure we propose (aggregate claims payouts as a proportion of total consumer revenues) would expose inefficient and/or exploitative distribution chains. Indeed the FCA has already been using this measure in its review of general insurance,⁸ which proves its necessity as a means of assessing consumer value.

The measure also has scholarly support, for example being one of the metrics proposed by Lowe (2017) in her paper on consumers and competition.⁹

⁵FCA 2019, TR19/2, page 6.

⁶ See, for example, TR19/2, page 17.

⁷ TR19/2, page 15.

⁸ FCA 2019, TR19/2, pp 15-19.

⁹ Jonquil Lowe 2017, *Consumers and competition: delivering more effective consumer power in retail financial markets*, IKD Working Paper No.82, The Open University, page 50.

Q8: Do you agree with our proposals on metric definitions?

Yes, these seem to make sense.

Q9: Do you agree with our proposals for the publication of value measures data in bands?

Yes.

Q10: Do you agree with our proposal to add a specific requirement to our rules to cover the use of value measures data in the product oversight and governance process?

Yes.

Q11: Do you agree with our cost benefit analysis?

The CB analysis seems reasonable. We expect GI value measures to improve economic efficiency by helping consumers and regulators bear down on inefficient and exploitative products, to the benefit of consumers and the UK economy.

We particularly welcome the FCA's continued reference to the findings of behavioural science,¹⁰ which in our experience continue to become more widely recognised and used across the policy community. Policy is likely to be better when based on a realistic understanding of human nature and the way that cognitive and other biases affect human decisions.

(end)

¹⁰ FCA 2019, CP19/8, page 27.