

## General Insurance add-ons: Final report July 2014

The FCA has published its final report on its general insurance add-ons market study. The report finds that the add-on mechanism has a clear impact on consumer behaviour and often affects consumers' decision-making, often providing a structural point of sale advantage. The FCA also found that many consumers are getting poor value not just from some add-on products but also from standalone purchases, as well as a lack of transparency and comparability about the value provided by general insurance products. The FCA is working to design remedies and will consult on proposals later in 2014.

<http://www.fca.org.uk/news/general-insurance-add-ons-market-study>

### Background

Last year the Financial Conduct Authority (FCA) announced a market study into the sale of general insurance add-ons. The regulator was concerned about the potential for detrimental consumer impacts. In particular:

- Whether the add-on mechanism might affect consumer behaviour and the likelihood of consumers making good purchasing decisions;
- If the add-on channel provides the primary product provider with a clear point of sale advantage that could restrict competition and choice for consumers; and
- the consequence of restricted competition and choice would be high mark ups or lower quality products consumers might end up buying inappropriate or unsuitable products, or receive poor value for money or both.

The market study focused on five types of product: travel, gadget, Guaranteed Asset Protection (GAP), home emergency and personal accident insurance. The FCA compared add-on sales with sales on a stand-alone basis for the five products. It analysed a range of information from insurers and intermediaries, including product literature and data relating to sales, pricing, profitability and claims.

In March 2014, the FCA published its provisional findings and proposed remedies. The regulator reported that their findings showed that consumers were not being best served by the way add-ons were being sold. Therefore the report set out remedies aimed at strengthening the market for add-ons through improved product value and the way decisions are presented to the consumer.

The remedies included:

- Impose a deferred opt-in on add-on sales of Guaranteed Asset Protection (GAP) – the FCA aims to break the point of sale advantage enjoyed by those selling add-on GAP by mandating that the sale cannot be concluded at the point of sale of the car or car finance but only at a later point, and that the consumer must be given information about alternatives if the product is offered at the point of sale at all.

- Ban pre-ticked boxes (so-called ‘opt-outs’) for the sale of add-ons because of the negative impact they have on consumer behaviour and consumer outcomes.
- Improve the way add-ons are offered through price comparison websites, focusing in particular on what information consumers can access about add-ons and when this is introduced.
- Require firms to publish claims ratios – to shine a light on low-value products and increase pressure on firms to improve product value.

## Final Report – July 2014

### FCA findings

The FCA has concluded that the feedback received does not challenge its conclusion that the competition for add-ons is not effective. In particular:

- The add-on mechanism has a clear impact on consumer behaviour, often impacting decision making and weakening engagement. This in turn strengthens the point of sale advantage.
- Many consumers are getting poor value for money from both add-on and stand alone products. There is also a lack of transparency and comparability about the value provided by GI products.

The General Insurance add-ons Final Report was published in July. The FCA’s report focuses primarily on feedback on the regulator’s findings, rather than comments on methodology.

The FCA concludes that the evidence presented in the consultation responses did not challenge their original conclusion that the add-on market is not effective. Indeed many respondents acknowledged that add-ons do affect consumer behaviour.

The FCA was keen to make clear that some add-ons provide value and that it does not want to impede sales. It wants the consumer to be able to make informed choices – hence the focus on transparency and ability to compare products. The report is also sets out that there are no easy solutions to improving the add-on market.

### Feedback and findings on proposed remedies

#### GAP ad-on sales

- *Impose a deferred opt-in on add-on sales of Guaranteed Asset Protection (GAP) – break the point of sale advantage enjoyed by those selling add-on GAP by mandating that the sale cannot be concluded at the point of sale of the car or car finance but only at a later point, and that the consumer must be given information about alternatives if the product is offered at the point of sale at all.*

Respondents, in the main, acknowledged the need for change to the GAP market. However, they expressed concerns over the FCA’s proposed remedy, claiming it amounted to a point of sale ban. The FCA has said that it intends to undertake further work on how to take action and will consult on revised plans in the future. Consideration will also be given to remedies used in the extended warranties market and proposals made by respondents including: ensuring better quality of information at the point of sale, disclosure of alternative options and extending of cooling off periods. The regulator will also investigate the potential impact on consumers of the loss of purchase convenience.

**Outcome: Further investigations and consultations to follow.**

### Opt-outs

- *Ban pre-ticked boxes (so-called 'opt-outs') for the sale of add-ons because of the negative impact they have on consumer behaviour and consumer outcomes.*

Respondents called for a number of points of clarification around this proposal, including on how such a ban would distinguish add-ons from cover options for core insurance products, whether the ban would apply to bundled insurance products and whether auto-renewal of GI policies would be covered by the ban. In response, the FCA say that any final proposal will need to be carefully designed to ensure that other business practices are not unintentionally impacted.

**Outcome:** Further work on design of a remedy.

### Price comparison websites (PCWs)

- *Improve the way add-ons are offered through price comparison websites, focusing in particular on what information consumers can access about add-ons and when this is introduced.*

Respondents supported the FCA's high-level proposal to improve how add-ons are sold through PCWs – however they highlighted a number of challenges in relation to policy design – including developing standard summary descriptions of PCWs. The FCA will work with the Competitions and Markets Agency (CMA), who has been investigating add-ons in motor insurance, to ensure a consistent remedy. Although the regulator has also indicated that it will also be looking towards firms to create a market-led solution.

**Outcome:** FCA to work with CMA. There is also an expectation for market-led options.

### Publication of claims ratios

- *Require firms to publish claims ratios – to shine a light on low-value products and increase pressure on firms to improve product value.*

The majority of firms were critical of this proposal. Most said that the claims ratio would not be effective in encouraging better consumer decision making, and that this was not a good arbiter of value. It was also argued that such information could confuse consumers and also lead to misunderstandings (with consumers not realising what the ratio represents).

Firms also raised a number of logistical issues around using the claims ratio; for example, difficulties in ensuring that firms calculate the ratio in a reliable and consistent way and determining the correct level of granularity (e.g. scheme, product or product group).

A number of alternatives were put forward by respondents, including claims frequency, average claim settlement times and product cover comparisons.

The FCA says it understands the difficulties in trying to demonstrate value but that it will continue to investigate all avenues, including those alternatives put forward by firms. The claims ratio remains the regulator's preferred option but it will consider others. A series of industry workshops will be held in the near future to work through the detail of future proposals.

**Outcome:** FCA to hold industry workshops to develop a suitable remedy.

### Other suggestions

The FCA has a number of relevant workstreams underway that will inform the thinking on remedies, and in relation to disclosure in particular. It is undertaking randomised controlled trials with a small number of firms in the GI space to establish what information is most helpful to consumers in the renewal letters they receive. The results of these trials

will provide a strong evidence base on how to make disclosure at renewal most effective, and where insights are relevant these will inform our thinking on add-ons too.

The FCA is also investigating how disclosure can be made to work best for consumers and whether we could do more to encourage smart, effective disclosure. Initial findings of this work will be published in the autumn.

***CII Policy & Public Affairs  
August 2014***