

## INCREASE IN TRANSPARENCY AND ENGAGEMENT FOR CONSUMER RENEWALS

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The FCA have proposed rules which are intended to increase transparency and promote competition for consumers. These rules will come into effect from 1 April 2017. One of the reasons behind this was concern that longstanding customers were paying more than new customers for the same insurance product. It was found that showing the previous premium on renewal was the best way to increase consumer engagement. The FCA wants to encourage consumers to shop around and make better informed decisions.

The FCA produced a Consultation Paper (15/41) in December 2015. The feedback together with final rules and guidance were explained in a Policy Statement, (PS 16/21) in August 2016. An amendment to ICOBS (6.1.12) implements the changes.

### The Changes

The planned requirements are for insurers to:

- Disclose the previous year's premium at renewal
- Include text to encourage consumers to check their cover and shop around for the best deal at each renewal
- Identify consumers who have renewed with them four consecutive times, and give these consumers an additional prescribed message encouraging them to shop around

### The Scope of the Changes

The rules govern consumer renewals of general insurance contracts where the policy has a duration of 10 months or more. An amendment by the FCA has clarified that they do not apply to "group policies". They will impact on retail general insurance markets. For example, cover such as Home and Motor would be affected. Insurers and intermediaries selling retail general insurance products will be required to implement the new rules.

Brokers, as intermediaries, will be caught by the rules. When operating binders, a broker will be acting as the agent of the insurer and it is recommended that suitable wording is discussed with the security behind the cover.

The FCA's Finalised Guidance document (FG 16/8) says that although commercial customers are not "within scope", firms are encouraged "to consider whether any of the issues raised by us about retail consumers would also apply to commercial customers and whether there is benefit to making wider changes".

### What needs to be said or shown

#### (i) The Previous year's premium

For all consumer renewals from 1 April 2017, at the point of renewal, an annualised premium must be shown which reflects mid term adjustments. The annualised figure must exclude any administrative fees and charges. If there have not been any adjustments, the requirement is simply to show the previous year's premium.

(ii) Shopping Around

Firms are able to choose the wording by which they encourage consumers to shop around for alternative cover for the first three renewals. After that, there is a prescribed wording:

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

Where the intermediary changes the insurer behind a policy, but the insurance cover provided remains the same to all intents and purposes and so the consumer considers they have renewed, the “shopping around” statement still needs to be given.

### Scope of cover

The focus on price raises concerns that consumers may not consider the scope or adequacy of cover for their needs. For example, if a medical policy were to be renewed with the same provider, it may cover pre existing conditions whereas a policy with a different provider would not. The FCA have altered the proposed rule so that firms will be required to encourage consumers also to consider cover.

If there are concerns about particular aspects of cover, this may be a point where a broker can add value and avoid problems arising should a consumer end up with inadequate cover by virtue of making a price based change. PS 16/21 reiterated that firms are able to make it clear to their customers (where applicable) that they have cover for pre existing medical conditions and that they may wish to consider this when shopping around.

Firms are allowed to add wording to explain price increases as long as this does not obscure the basic message. In line with the FCA’s overall expectation (set out in principle 7 of its Principles for Business) information needs to be given in a way which is clear, fair and not misleading.

An example of the sort of wording that may be considered was given in the FCA document PS16/21:

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

(iii) Auto renewal, switching & cancelling

In the “Finalised non-handbook guidance note”, (16/8), firms are encouraged to give careful consideration to the way in which they communicate with customers. The guidance stresses the importance of how firms communicate on an auto renewal contract.

Broadly, the messages are:

- To consider language in renewal letters
- To give particular consideration to how you communicate about auto renewal
- When communicating about switching or cancelling, don’t put ways of doing things in place that might be onerous and present barriers to customers
- To consider how potential new customers communicate and whether these modes could be used for opting out or lapsing.

- To consider whether it might be useful for a customer to opt out of auto renewal when entering a contract.

## Communication

A firm must communicate the information clearly and accurately in writing or another durable medium and in a way which is accessible and which draws the consumer's attention to it as key information. The FCA have said that this will not remove existing flexibility for firms that communicate renewal terms by telephone, referring to ICOBS 6.1.14.

Finally, the FCA warn against any attempts to "undermine" what is proposed by artificially increasing prices prior to implementation of the rules.

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