



COMPLIANCE

Broker briefing: FCA's new renewal transparency rules

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Broker Briefing: FCA's new renewal transparency rules

The 1st April 2017 is the date when all insurers and intermediaries dealing with consumer insurances must start to comply with the FCA's new renewal transparency rules.

Some brokers objected to the 'shopping around' aspect of the rules during the consultation period, concerned that they may threaten the role of the broker and result in customers making purchase decisions based purely on price.

On the other hand, all change brings opportunities and if brokers are agile, responsive and have access to great markets they may well be able to win new customers whilst they are 'shopping around'.

I recommend that you read [FCA's Policy Statement PS16/21](#) which describes the background to the adoption of the rules.

In this briefing I will summarise the new requirements, discuss the implications for brokers and identify what aspects of your communication you need to change.

IN A NUTSHELL BROKERS WILL NEED TO:

- Show clearly the renewal premium *and* last year's premium (or an annualised premium of last year's premium including mid-term adjustments) in renewal communications issued on or after April 1st 2017
- Include a statement in all renewal invitations suggesting that the consumer may wish to shop around
- After every fourth consecutive renewal include an additional FCA prescribed statement suggesting that the consumer shops around in the renewal invitation
- Discuss with their software houses how to make the changes to documentation required quickly and effectively
- Discuss with insurers and software houses how to quickly calculate and build in mid-term adjustments in to 'last year's premium' when applicable
- Discuss with insurers and software houses how to monitor the fourth renewal year requirement (e.g. include 'age of policy' in policy field)
- Review and streamline their processes for automatically re-quoting risks to minimise the risk of losing a customer who shops around
- Continue to demonstrate the value of the products and services they provide to consumers in terms of price, service and coverage
- Be alive to and respond quickly to the opportunities of prospects shopping around or cross selling opportunities when existing customers shop around on other insurance lines

Policy Statement PS16/21 – An Overview

WHAT IS THE PURPOSE OF THE RULES?

FCA's aim in making these changes is to encourage consumers to 'engage, shop around, and make better-informed decisions'.

Randomised trials conducted in 2014 demonstrated that household insurance buyers were not inclined to shop around. The results of the study showed that by including the expiring premium next to the renewal premium, the number of consumers shopping around (to either switch or negotiate their home insurance) increased by 11-18%. The study also suggested that price increases diminish after five years on average and that when price increases diminish, disclosure of previous premium is less effective in prompting action from consumers. So the rule was born....

There were fewer signs of customer inertia on motor premiums but the new rules still applies to all consumer insurances.

Following consultation Policy Statement PS16/21 was issued in 2016 and the new rules will be incorporated in ICOBS (at 6.1.12AR).

WHAT DO THE NEW RULES REQUIRE?

The requirements relate to the need for firms to include both last year's premium and statements designed to encourage the consumer to 'shop around' for a better deal in renewal invitations.

Expiring premium requirement

All firms (including brokers) will have to provide the following information in good time before every renewal:

- The renewal premium
- Last year's premium or if there has been a mid-term adjustment the annualised premium for the expiring risk
- Statements alongside the premiums:
 - indicating that the consumer should check that the level of cover offered at renewal is appropriate for their needs
 - that the consumer can use to compare the prices and levels of cover offered by alternative providers

ADDITIONAL SHOPPING AROUND STATEMENT AFTER FOURTH RENEWAL

If the proposed renewal is the fourth or subsequent renewal, the FCA requires the firms to provide an additional prescribed message to replace the statement above as follows:

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

DOES IT APPLY TO ALL INSURANCES?

No, the rule applies to all consumer insurances with a duration of 10 months or longer.

NB. Although the new rule does not apply to commercial insurances, the FCA has encouraged firms to consider whether the same issues were relevant and if necessary, adapt their documentation accordingly. Some insurers e.g. Axa have changed their SME commercial insurance renewal information to include last year's premium accordingly.

WHERE DO WE SHOW LAST YEAR'S PREMIUM?

The FCA states that the prescribed information should be included clearly, accurately and prominently at renewal, in a place that makes it easy to compare with the renewal quote.

For instance, the renewal premium and last year's premium could be shown next to each other. The FCA also expects firms to take note of their trials – this information is more effective if it is on the first page of the renewal invitation.

WHAT PREMIUM DO WE SHOW?

Last year's premium should be comparable with the renewal premium and be the gross premium (inclusive of brokerage and IPT).

It should not include fees and charges which should be disclosed separately in accordance with ICOBS as at present. The FCA has pointed to existing disclosure requirements in place for firms to provide information on fees before they are incurred (See ICOBS 4.3.1R and guidance at ICOBS 4.3.2G).

If the policy contains 'add ons' e.g. legal expenses, then the premium shown should be for the whole package including the 'add ons' although the premiums chargeable for the add on coverage should also be specified separately.

HOW DO WE CALCULATE THE ANNUALISED PREMIUM IF THERE IS A MID-TERM ADJUSTMENT?

The method of calculation was not prescribed by the FCA although common sense suggested it should be calculated by adjusting any pro rata additional premium and adjusting the premium accordingly as per the example below:

ADJUSTING LAST YEAR'S PREMIUM FOR MID-TERM ADJUSTMENTS

In this example the renewal premium was £5,000.

After six months, the insured purchased some additional valuables for which an additional premium of £500 was charged for six months.

The annualised premium including this adjustment would be £6,000 (£5,000 plus £1,000 annual equivalent of six months' additional premium).

Remember to ensure that this figure is 'fair clear and not misleading' such a figure should not be called 'last year's premium'.

I would also recommend that you discuss with your insurers/software providers whether they will automatically be able to provide you with the adjusted annualised premium when processing any mid-term adjustment and then include it in the renewal documentation.

CAN WE EXPLAIN WHY THE CLIENT'S PREMIUM HAS INCREASED E.G. BECAUSE OF CLAIMS?

Yes. However, the FCA states that such explanations should not obscure the required disclosures.

CAN WE WRITE OUR OWN SHOPPING AROUND STATEMENT?

The 'shopping around' statements for the first three renewals are not prescribed but the 'shopping around' statement for the fourth consecutive renewal is prescribed by the FCA.

First three renewals 'shopping around' statement

The FCA's suggested wording to use for the first three renewals is phrased as a question:

'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?'

As a broker, you may prefer the BIBA suggested version (below) or come up with one of your own:

'Please feel free to speak to us if you want to look at other alternatives and we can shop around for you or you can shop around for an alternative policy yourself.'

Fourth consecutive renewal statement

The FCA's prescribed statement that must be included in renewal documentation for the fourth consecutive renewal is:

'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.'

HOW DO WE ENSURE WE DO NOT MISS THE FOURTH CONSECUTIVE RENEWAL?

You need to discuss with insurers and your software houses how the notice can be automatically triggered e.g. by including 'age of policy' as another field.

Until you have an automated system you may need to put in place a manual system.

But we shop around on behalf of clients, is this not sufficient?

No. The FCA is aware that brokers do not necessarily have agencies with every market and there may be better deals elsewhere so the statement must be included.

This does not mean we should not shop around on our client's behalf - the better deal they have with us the less likely they are to find a better one.

Will the 'shop around' requirement not mean that customers focus solely on price and risk ending up with a bad deal?

This argument was made during the consultation and the FCA altered the 'shopping around' requirement so that consumers were encouraged to consider cover as well as price.

However, it remains a risk. Coverage and service are key aspects of High Net Worth policies in particular and brokers need to ensure that consumers are aware of the tangible benefits of both.

DOES THE RULE CREATE A THREAT THAT WE LOSE CUSTOMERS WHO WILL BE MORE LIKELY TO SHOP AROUND?

Yes, if the proposed changes work as the FCA anticipates but only if the consumer does find a better deal elsewhere.

DO YOU HAVE AN AUTOMATIC RE-QUOTING SERVICE ALREADY? IF SO YOU ARE WELL PREPARED.

How can you easily and quickly ensure the consumer has the best deal and they understand its benefits?

MIGHT WE LOSE CUSTOMERS TO INSURANCE AGGREGATORS WHO DO NOT PROVIDE APPROPRIATE COVER BUT MAY HAVE A LOWER PRICE?

It's possible but again if our customer already has the best deal in terms of premium, cover and service we can minimise that risk.

IS THERE A SALES OPPORTUNITY?

When I discuss increasing new business with brokers they often state that new customers are difficult to acquire as they are loyal to their existing brokers. Those loyal customers are now going to be told every five years to shop around, so yes there is an opportunity we just need to know how to exploit it?

Also there may be existing customers who do not arrange all their insurances with us and are now being told by their other providers to shop around. Can we make 'shopping around' easy and painless for them? If so we will have another sales opportunity.

WHAT'S NEXT?

Hopefully your firm is already well under way with its preparations for April 1st – you would be fools not to...

However, to finish here is a checklist to ensure you are on track.

Renewal Transparency Rules Checklist

Action	Completed?
All relevant client staff aware of changes?	
Identified all policies in scope?	
Considered whether to make adjustments to commercial insurance renewal invitations?	
All consumer renewal documentation shows last year's premium (if does not already do so) next to renewal premium and on first page of invitation?	
Agreed method to annualise premiums in event of a mid-term adjustment agreed?	
Agreed with insurers/software providers that they provide new annualised premium on expiring basis when processing any mid-term adjustment?	
Do we provide explanations of why premiums have increased (without obscuring the required disclosures)?	
Annual shopping around statements agreed and included in all renewal communications in line with FCA guidance?	
Agreed system in place with insurers and software providers to ensure additional shopping around notice automatically included if fourth consecutive renewal e.g. age of policy field?	
If automatic system not in place – is appropriate manual system in place to monitor fourth consecutive renewal?	
Is process in place to ensure we can quickly and easily ascertain whether current insurer represents best value for the customer e.g. automatic re-quoting service?	
Are we demonstrating to our customers the value we bring in terms of service and ensuring their cover meets their needs?	
Are we in a position to quickly respond to opportunities and encourage prospects or customers who do not place all their insurance with us to 'shop around' using us?	
Does our documentation demonstrate we are complying with PS16/21?	

Need more help? Ask Neil

Neil Park is a Fellow of the Chartered Insurance Institute and one of the UK's most respected insurance trainers. Neil is a regular contributor to Broker iQ.

If you or your brokerage need further assistance with information, training or the implementation of the FCA's renewal transparency regulations or have any other insurance training need please contact Neil at:

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