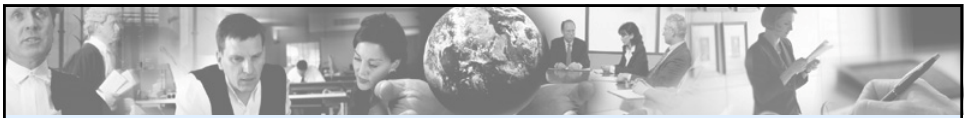

GI Consumer Duty + new MOBI rules

Branko Bjelobaba FCII
Regulation & Compliance Consultant

Branko Ltd

FCA compliance consultants

* BIBA Compliance Manual
* Engaging Events
* Tailored Solutions

British Insurance Brokers' Association

Today's event

- Thank you to your LI for hosting
- Interaction, debate and your questions are very much welcome!
- Please provide your FB
- You will get the slides

brankobjelobaba Linkedin

brankoinsurance

Learning outcomes…

By the end of this event you will have gained an insight into:

- Where we are with Consumer Duty and what you should have done;
- Current issues when it comes to general insurance:-
  - Key aspects of the product governance rules to include product value assessments;
  - New rules on multi-occupancy insurances and the ramifications for insurers and brokers alike

Bear in mind…

- Today is not formal ‘advice’
- It is an **<u>overview</u>** in my own words of the key issues
- Consumer Duty and Product Governance are very closely linked
- Please take up whatever professional help you need to ensure your business remains compliant
- BIBA - fair value assessment framework, events and new edition of the Compliance Manual

1. Consumer Duty

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FCA are asking

1. Are you satisfied your products and services are well designed and perform as expected?
2. Do they have features that could harm vulnerable customers? How do you communicate with them and are these effective? Is your customer support meeting their needs?
3. What action have you taken as a result of your fair value assessments?
4. What data, MI and other intelligence are you using?
5. How are you testing the effectiveness of your communications? How are you acting on these results?
6. How good is your post-sale support?
7. Do individuals understand their role and responsibility?
8. Have you identified the key risks to your ability to deliver good outcomes and sorted them?

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Examples of MI

- Outcomes of product reviews/manufacturer value assessments to incl PF and fees (this is key)
- Readability of policy documentation
- Complaints data - why, how addressed, redress paid, what can improve post complaint, etc
- Claims data - volumes, frequency, quantum, declinatures, loss ratios, interaction with service partners, time taken, etc
- Cancellations/lapses/re-broking - reasons
- Customer feedback/scores/surveys/social media
- Vulnerable customer data/awareness
- Defaqto, Insurance DataLab, Trust Pilot, Consumer Intelligence, Insurance Times Broker Survey, Fairer Finance, etc

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FCA

Consumer Duty implementation: good practice and areas for improvement

Good and poor practice | **Published:** 20/02/2024 | **Last updated:** 22/02/2024

Copy available – please message me if wanted

Products and Services

- We want firms to share relevant information with each other - this will help firms to quickly address issues to prevent consumer harm and deliver good outcomes
- Not pay close enough attention to ensuring that their distribution strategies are driving good customer outcomes - a manufacturer must consider how it expects a product to be sold and regularly monitor the product and its distribution over time so that it can deliver good customer outcomes
- Fail to grasp that they might have a role in a distribution chain, what that role is, and what it means for their responsibilities - where a firm has a material influence over customer outcomes but does not have a direct relationship with the end customer, <u>it will still be subject to the Duty</u>

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Price and Value

- Fail to show that products offer fair value - some firms have relied solely on an assessment of similar product offerings in a market - this alone does not prove that the customer is getting a good deal. In addition, no qualitative reasoning outlining why a firm considers that its product offers fair value
- Unable to justify what they provide for the remuneration they receive. We expect firms to be able to explain their remuneration practices and how they are proportionate to the work they do
- Add fees along the distribution chain that might mean the overall cost to the end consumer does not represent fair value. This is likely to be particularly relevant where there are long or complex distribution chains with multiple fees added by multiple parties
- Charge customers for a service they are not benefiting from
- Fail to share sufficient information to enable other firms in the distribution chain to properly assess value to the end customer
- Understand what has to be done where it considers a product does not provide fair value

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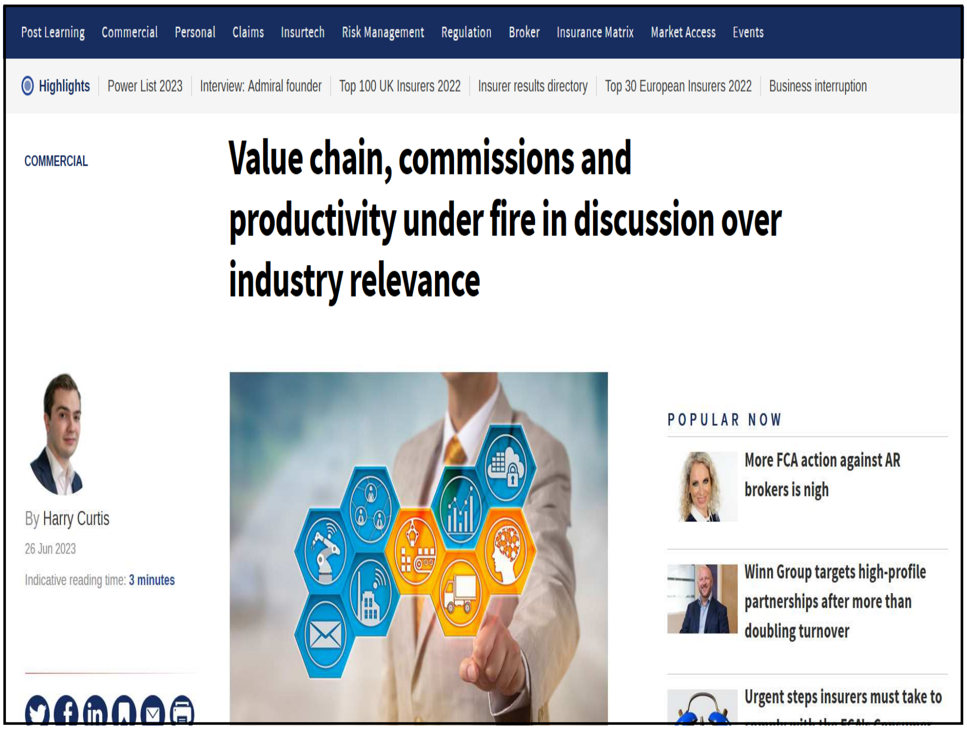
Sheldon Mills 20th Feb 2024

- You do need to get it all done by July but if you are struggling with the order, ask: Which products or services are likely to cause the greatest harm? Where is the most work needed? This, rather than if a product is open or closed, should be the key factor – particularly once the July deadline has passed.
- This is where your board report will be key: it will be used to assess and evidence how firms have provided good outcomes for consumers under the Duty. The first one will be due by the end of July.

2. Product Governance



Post Learning Commercial Personal Claims Insurtech Risk Management Regulation Broker Insurance Matrix Market Access Events

Highlights | Power List 2023 | Interview: Admiral founder | Top 100 UK Insurers 2022 | Insurer results directory | Top 30 European Insurers 2022 | Business interruption

COMMERCIAL

Value chain, commissions and productivity under fire in discussion over industry relevance

By Harry Curtis

26 Jun 2023

Indicative reading time: 3 minutes

POPULAR NOW

More FCA action against AR brokers is nigh

Winn Group targets high-profile partnerships after more than doubling turnover

Urgent steps insurers must take to

- “We have too long a value chain, that value chain is probably too complicated, and all along that value chain there are administration costs, there is profit to be made, there is brokerage being taken,” WTW

- “There are too many areas where we have expenses that are not justifiable - for every $1 the customer pays 40 cents and doesn’t know what for…we have to reduce [expenses] by at least half, or even more.” Swiss Re

- British American Tobacco - “too much leakage of **<u>our</u>** premium along the way”

Email: Matt.Brewis@fca.org.uk

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23 February 2024

Dear Sir/Madam,

Re: Product Governance Thematic Review – General Insurance and Pure Protection

Ensuring financial products and services offer consumers fair value has been a key focus for the FCA, for a number of years. For General Insurance and Pure Protection, we implemented fair value rules ("PROD 4") in 2021, and these were further strengthened and introduced across all products we regulate as part of the Consumer Duty. As consumers across the country are affected by the current cost of living crisis, the fairness of the price of financial products and services and the value they offer is more important than ever before.

In March 2023, we began a thematic review assessing insurance manufacturers' and distributors' product oversight and governance arrangements and whether firms are meeting their obligations and our expectations. The background to our review and details of the work we have undertaken are set out in the annex below. We are sharing our key observations and concerns, so that manufacturers can take swift action, where necessary. These are the key observations from the review of the

Review

- 28 manufacturers
- 39 distributors
- Home, motor, travel, pet, health cash plans and private medical insurance
- Commercial insurances sold to SMEs
- Whole of life, over 50s, term assurance, critical illness and income protection
- Product oversight and governance
- Product reviews and FVAs

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Fair value assessments

- Did not always consider the expected total price to be paid by the consumer and the elements that make up the total price
- Most firms considered the cost of underwriting the product but did not consider the cost of operating the product for the insurance undertaking
- Most insurers had not adequately assessed the distribution arrangements including in relation to the value of the product
- Firms did not evidence how the remuneration of distributors (i.e. any commission, fee, charges, or other payment etc) was consistent with providing fair value including having considered the total price compared to the type and quality of the services provided by the distributor any other person in the distribution arrangements

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Senior Managers

- A firm's governing body has ultimate responsibility for these arrangements and needs to ensure that the firm complies
- NEDs have a key role here - are you happy with the way your firm makes its money?
- FCA remind firms that they must have a <u>Senior Manager responsible for compliance</u> with the regulatory system to incl product governance and pricing
- It should be clear which SM has responsibility for these areas (check your SoR)

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Brokers need to…

1. Assess impact of any distribution arrangements and whether these provide/enhance fair value
2. Obtain manufacturers value assessments
3. Provided manufacturers with all relevant information to enable them to assess how your fees/charges, add-on products, finance costs and distribution arrangements impact fair value
4. Is the commission being paid commensurate with the services you are providing and the value you provide?

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ONEROUS Issues

- What value do the distribution arrangements provide to the end customer and what does each party in the chain do to enhance value?
- Are such arrangements unnecessarily complex which might mean customers are at greater risk of not receiving fair value?
- Firms must not use a distribution channel unless it results in demonstrable fair value and regular reviews now needed
- Commercial business is included
- Premium finance is included

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In a nutshell

- Joint obligation - insurer and broker
- Agree what roles each party has in the manufacturing and/or distribution process
- Understand if what you do adds or detracts from the value of the product to the end customer
- Is there anyone else in the chain and if so
  - what do they do?
  - how much do they get paid for it?
  - is this fair?
  - how does any of this add value to the end customer?
- Brokers to incl net rated uplifts, add-on products, fees, charges and premium finance

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Home > News > FCA to undertake work in the motor finance market

FCA to undertake work in the motor finance market

Statements | First published: 11/01/2024 | Last updated: 11/01/2024 | Print Page | Share page

In 2021, the FCA banned discretionary commission arrangements. This removed the incentive for brokers to increase the interest rate that a customer pays for their motor finance. We asked firms to review their practices and, where harm was identified, to address this.

There have been a high number of complaints from customers to motor finance firms claiming compensation for commission arrangements prior to the ban.

Firms are rejecting most complaints because they consider that they have not acted unfairly nor caused their customers loss based on the applicable legal and regulatory requirements.

InsurancePOST Post Learning Commercial Personal Claims Insurtech Risk Management Regulation Broker Insurance Matrix Market Access Events

Highlights | Top 100 UK Insurers 2023 | Top 75 MGAs 2023 | Top 30 European Insurers 2023 | Best Insurance Employers 2023 | Power List 2023 | Interview: Ombudsman's Rachel Lam | More

Premium finance

Another area Brewis is keen to address is around premium finance.

Brewis calls premium finance a "poor product", but an essential one to allow people to pay for their premium monthly.

"I wholeheartedly agree with those who think this is a poverty premium," he says.

"Those who are paying monthly are subsidising those who can afford to pay annually. It is a tax on being poor."

He hints that work around premium finance could be coming at some point this year.

"I have talked about it enough. It came up in the [July] Treasury Select Committee meeting around multi-occupancy, and it was in the Dear CEO letter that we sent out outlining all the areas we have concerns."

- What does it cost you to do the admin on the finance?
- Is the standard commission enough?
- Can you justify ANY uplift?
- Are you telling your client you are doing this and why?
- Lenders are complicit if clients are being ripped off

Premium Finance

- 11% of insurer income was from non-core and 48% of that was interest made on PF
- Hastings £110m
- Direct Line £92m
- Some brokers 48% APR
- LV 17.5% APR
- "The insurance distribution crowd have taken the view that this is a money-making opportunity."

Slide 25

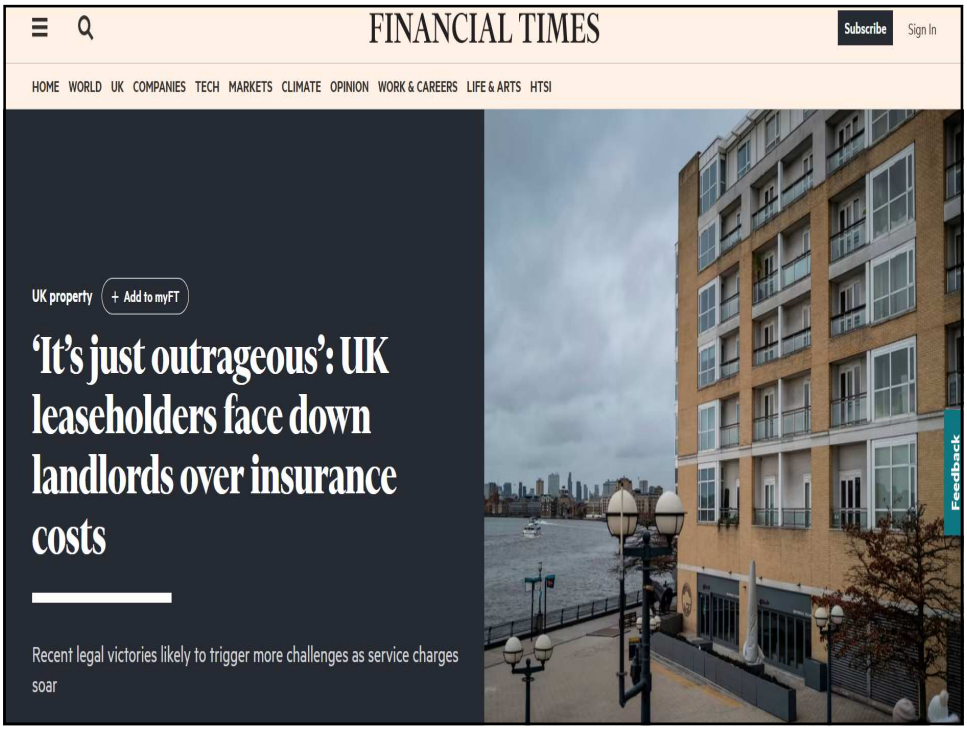
a1 admin, 11/03/2024

3. Multi-occupancy

"There is a **huge insurance scandal** coming down the track with what has been going on with managing agents and leaseholders. It is **absolutely outrageous**; they are just ripping people off."

"That is why the issue of control of insurance costs is fast becoming a **critical battlefield** in excessive charges for leaseholders, who are forced to pay towards a group insurance policy but have no control to, as it were, “go compare” which is the best insurance policy to choose."

“…spent £1.6 million in secret insurance commissions…this is potentially **corruption**…excessive costs have been paid that run into thousands of millions across the UK."



15. Buildings insurance premiums have soared hundreds of percent in recent years causing untold harm to ordinary people. What will be the measure of success for the FCA to deem their intervention, alongside that of the ABI (Association of British Insurers) and the Government, a success?
16. Why did you let regulated insurers get away with causing harm and ripping off innocent leaseholders for years?
17. Your Sep 2022 Report on insurance for multi-occupancy buildings repeatedly complained that firms were not able to provide requested information. Has this situation been resolved, and do you now have access to full data from all firms in the sector?
18. When can we expect an update on the Sep 2022 report (beyond the Apr 2023 report on broker commissions) based on complete data?
19. Will Mr Rathi and Mr Mills meet the End Our Cladding Scandal campaign team to discuss the FCA's work on leasehold building insurance premiums?
20. What action are you taking to push the ABI and your regulated members to launch the long-promised Reinsurance scheme that you recommended? The timescales in your report have been passed and people are still being ripped off left, right and centre. **The FCA's reforms may provide transparency but will only tell us how much we're being ripped off and will still give us no choice as the actual consumer paying for insurance. What more needs to happen to ensure the harm will be resolved fully?**
21. Insurance for Leasehold flats: where conduct in the past has been to maximise unjustified revenue from third parties before rules contained in FCA Policy Statement PS23/14 comes into force, will the FCA advocate compensation by those parties to leaseholders?
22. What is the FCA's Stance on Insurance Companies mandating remediation as a requirement to provide cover for buildings with Cladding primarily B1 rated cladding. In our Instance Encapsulated EPS, legally available and fit for purpose on buildings below 11m.
23. Where are the FCA and Insurance companies at with the formation of an insurance fund for buildings affected by cladding?
24. **Could the FCA please clarify which are the enforcement and redress procedures** open to leaseholders, and which is the authority in charge of enforcing new PS23/14 rules, **in case of non-compliance with such rules by any FCA authorised and regulated firm?**

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What's been said?

- Needs of LH not considered in product design
- Premiums up 56% and broker pay up 46% (13 brokers place 85% of all property owners' business) and costs had not increased at the same rate
- Brokers placing on basis of remuneration only
- Brokers were often unable to articulate what insurance related services or benefits of value were provided by the parties receiving shared commissions
- Inadequate evidence to show brokers deliver fair value (due to deficiencies in their product value assessment work, shortcomings in their recording and analysis of their own costs) and insufficient scrutiny of the commissions they pay to others

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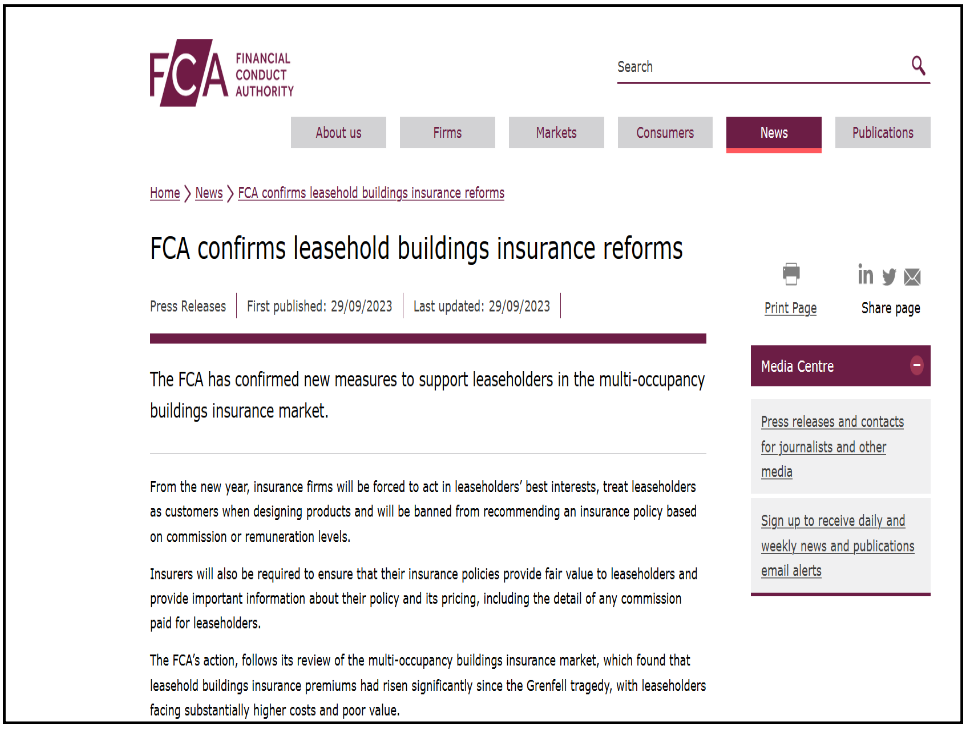

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Home > News > FCA confirms leasehold buildings insurance reforms

FCA confirms leasehold buildings insurance reforms

Press Releases | First published: 29/09/2023 | Last updated: 29/09/2023

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The FCA has confirmed new measures to support leaseholders in the multi-occupancy buildings insurance market.

From the new year, insurance firms will be forced to act in leaseholders' best interests, treat leaseholders as customers when designing products and will be banned from recommending an insurance policy based on commission or remuneration levels.

Insurers will also be required to ensure that their insurance policies provide fair value to leaseholders and provide important information about their policy and its pricing, including the detail of any commission paid for leaseholders.

The FCA's action, follows its review of the multi-occupancy buildings insurance market, which found that leasehold buildings insurance premiums had risen significantly since the Grenfell tragedy, with leaseholders facing substantially higher costs and poor value.

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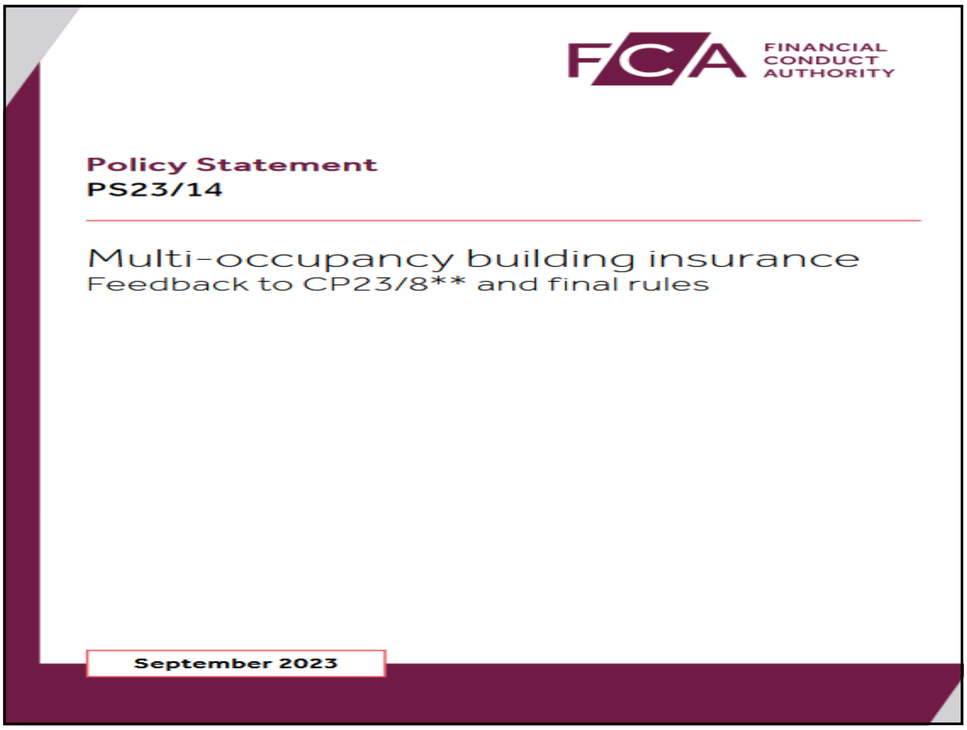


FCA FINANCIAL CONDUCT AUTHORITY

Policy Statement
PS23/14

Multi-occupancy building insurance
Feedback to CP23/8** and final rules

September 2023

Leasehold and Freehold Reform Bill

[AS INTRODUCED]

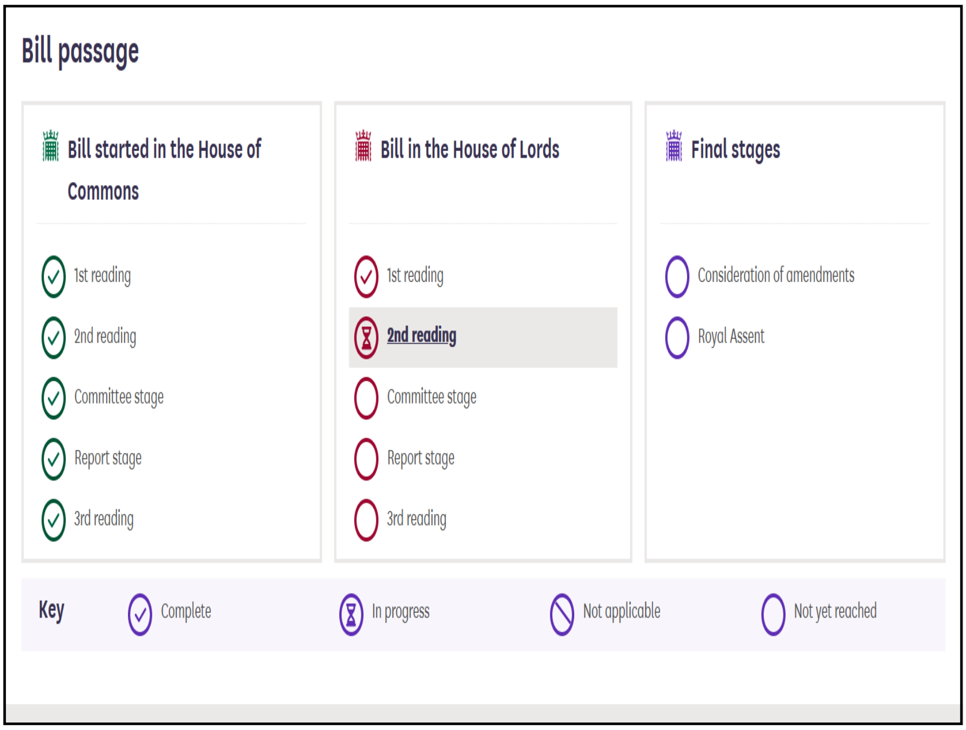
Published
27 Nov 2023

CONTENTS

PART 1

LEASEHOLD ENFRANCHISEMENT AND EXTENSION

Eligibility for enfranchisement and extension



Commission sharing ban

- The Bill will prohibit commissions from being recovered from leaseholders through their service charge (as part of the premium they pay)
- LHs will pay a “permitted insurance payment” for those placing or managing insurance who can charge for their work, e.g. placing or managing the insurance incl if they are handling claims on behalf of LHs
- The intent is the cost will have to reflect the work and time undertaken to carry out the work to understand the basis of the fee and to make it more easily challengeable if considered unreasonable

Andrew Bulmer, Chief Executive of The Property Institute:-

We highlight that an end to the sharing of insurance commissions by these brokers does not mean the banning of remuneration for work done by the managing agents they work with. **Property managers do work in placing insurance, collecting premiums and managing claims, and can still be paid for that work**. The ARMA Consumer Charter & Standards and RICS Service Charge Code has long required proportional fees for work done, and these can be raised transparently through the service charge in the usual way

Bear in mind some are regulated activities…

Considerations?

- FCA have already requested firms stop the sharing of commissions to third parties (incl PMAs and FHs) where there is no appropriate justification and evidence for doing so in line with rules on fair value
- Sensible commissions = lower premiums?
- FCA expect changes in remuneration practices
- Have NEDs been kept in the picture?
- Voluntary industry agreement re flats 4+ storeys tall and with existing fire concerns where commission will be capped at 15% (very limited market)

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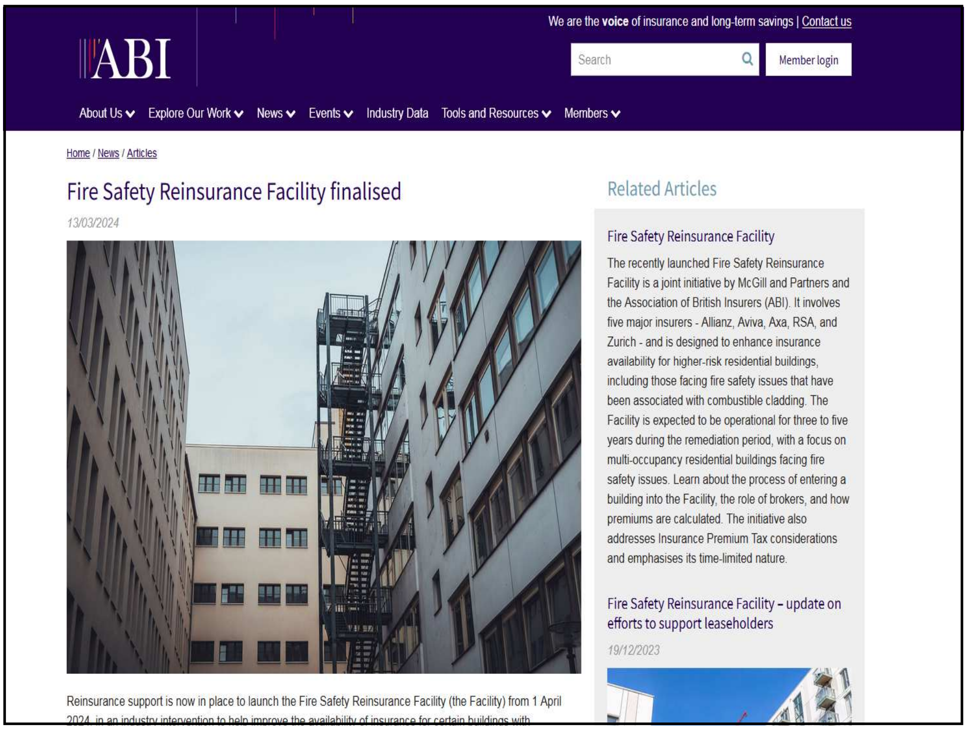

Tim Bailey, President of the ABI, said:

“The Fire Safety Reinsurance Facility has been a priority cross-industry project to expand capacity in the market and boost competition. We're pleased to have made the Facility a reality in order to support leaseholders and as ABI President, I'm grateful to all those involved.“

Aidan Kerr, UK&I Lead at Swiss Re Public Sector Solutions, said:

“Swiss Re is delighted to be acting as lead reinsurer for this facility, which is a great demonstration of how the insurance industry can work together to help support leaseholders. This facility will help to improve availability of insurance for people living in affected buildings, whilst the vital remediation work to rectify their fire safety issues is completed."

Graeme Trudgill, Chief Executive at the British Insurance Brokers’ Association (BIBA), said:

“We are delighted with this new facility, which is the culmination of two years of constructive collaboration between BIBA, McGill and Partners, the ABI, expert real-estate brokers and Government. Launching the facility was a key BIBA commitment in our 2024 Manifesto and aims to create a more affordable insurance solution for medium and high-rise residential buildings that have fire safety issues. We hope that in the longer term this will have positive affect on leaseholders.”

Preamble to the new rules

1. Only applies to residential/non-commercial leaseholders (large risk excl removed)
2. Commercial entities/leaseholders will not be considered as stakeholders <u>but</u> retail leaseholders should be treated equally and fairly regardless as to the status of the freeholder (mixed use?)
3. Policy stakeholder will include all people under an obligation to pay an amount relating to the premium (incl via a service charge) where there is an interest and/or benefit in the subject matter
4. You cannot recommend policies that could provide you (or others) with more remuneration where a better policy with less remuneration is available

5. You must take into account all interests incl prospective or actual customers - that includes policyholders, **stakeholders and leaseholders**
6. When considering the amount of commission paid a firm must act honestly, fairly and professionally in accordance with the best interests of all (if sharing this has to benefit the leaseholder)
7. Remuneration disclosure incls **<u>all</u>** aspects
8. Insurers and brokers will need to show how they have considered the position of leaseholders when designing, pricing and distributing their products
9. Where firms are receiving % based commissions, insurers will need to reduce the rates unless there has been a corresponding increase in benefits

What has to be provided?

The information (insurer and broker which has to be clear and easy to understand) will need to be provided to the customer (i.e. the freeholder) by the intermediary who is in direct contact with them. If there is no intermediary, the insurer will be responsible for providing it directly to the customer

A clear message must accompany this to state that **<u>the freeholder should pass this onwards to leaseholders</u>**

Information required	Where can I find this information?
Summary of cover	
Name of the insurance undertaking	Policy Wording or Summary
Regulatory status	Policy Wording or Summary
Type of insurance	Policy Wording or Summary
Main risks insured	Policy Wording or Summary
Summary of excluded risks	Policy Wording or Summary
Total policy sum insured, together with; ❶ in the case of a flat, the amount for which the building containing it is insured under the policy and, if specified in the policy, the amount for which the flat is insured under it; and ❷ in the case of a dwelling other than a flat (for example, an individual house insured under the policy), the amount for which the dwelling is insured under the policy	Policy Schedule
Any excess payable in the event of a claim	Policy Wording or Schedule
The term duration of the policy	Policy Schedule
The policy start and end dates	Policy Schedule
Exclusions where claims cannot be made	Policy Wording or Schedule
Significant features and benefits	Policy Wording or Summary
Pricing information	
Total premium for the policy and include: A breakdown of the premium at: ❶ in the case of a flat, building level (if specified in the policy) the flat; and ❷ in the case of a dwelling, that is not a flat, at dwelling level	Policy Schedule*
The amount of insurance premium tax payable	Policy Schedule
Where applicable, the amount of any value added tax	Not applicable

REMUNERATION INFORMATION NB. Contingent commissions, where included, are subject to us meeting certain business criteria with the insurer/s concerned	Commission received by our firm (& associates) Contingent commissions (estimated) Fees added by our firm (& associates) TOTAL INCOME received by us (& associates) The amount received by the [e.g. Freeholder, Property Managing Agent] for placing this insurance business through us	£ £ £__________ £ £
PLACEMENT INFORMATION	We obtained # alternative quotations from the **selected insurance undertaking** and # from **other insurance undertakings** when considering this policy. ('Insurance undertakings' may be insurers, intermediaries and/or wholesalers)	
The reason for recommending the selected policy and why it is considered consistent with the interests of both the customer and the leaseholders	We have advised that the policy recommended is suitable for the reasons shown in our demands & needs statement summarised below: *[e.g. statement of how the particular policy selected meets the cover requirements taking into account terms and exclusions, service levels and cost]*	
CONFLICTS OF INTEREST INFORMATION	When quoting and arranging this insurance we have acted as agent of the customer. We do not hold or control shares representing 10% or more of voting rights in the insurance undertaking selected. The insurance undertaking selected does not hold shares representing 10% or more of the voting rights in our company.	

Further

- Where the broker is contacted by the PH or LH re any of the information supplied, it must respond promptly and provide **good outcomes focused support** (in the interests of the LH):-
  i. Appropriate level of information that is clear, fair and not misleading
  ii. Accessible and easy to understand
  iii. The information required (as set out) where this has not already been passed to the LH
- Where a LH requests this you must not create or rely on unreasonable barriers to respond
- Still no access to FOS…

Implications?

- Cost to play? More brokers? Better value? DPBs/less rigorous alternatives?
- Sharing only (interim) where there is no conflict and when fair to LHs - what does the PMA do?
- How will everyone work together to ensure it is fair for LHs in terms of:-
  – How has the premium been assembled incl a fair contribution to the risk element
  – Lots of evidence of premium loading by insurers to accommodate cost to play
  – Fairness of cover to include premium v limitations
- Past conduct considerations and enforcement?

Allianz

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Multi-occupancy building insurance

On 29 September 2023, the Financial Conduct Authority (FCA) published their policy statement PS23/14 on Multi-occupancy building insurance - Feedback to CP23/8 final rules. The effective date of these rules is **31 December 2023**.

The FCA's action follows its review of the multi-occupancy buildings insurance market and its aim to ensure better outcomes for Leaseholders and other policy stakeholders.

What we're doing

We have three products that are within scope for changes: Complete Property Owners, Property Owners Select and Real Estate Select.

- Limiting commission to 30% (including all brokerage work and any work undertaken by parties on behalf of the broker) but up to 35% as a maximum **where there is demonstrable added-value for the customer**. **Customers on these accounts may see their premium reduced accordingly**
- Removing all forms of low claims rebates
- Limiting the use of risk management funds - evidence of value can be demonstrated for all stakeholders resulting in a reduced loss ratio

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Questions asked?

- If a broker asked the freeholder for details of leaseholders and then distributed the disclosure information direct, would this justify increased commission?
- Data Protection issues - legitimate?
- Does the amount of additional work that is needed to complete FVAs annually count towards the service' that is being provided to the end customer?
- Think about your values, culture and behaviour and the reason for these rules

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Commissions?

- Blunt way to pay for broker services - would charging a fee like other professionals be more professional?
- Can you face your client and justify all your earnings?
- Have you ever reduced your earnings as you have done less work than you expected to do?
- Hidden service level agreements, opaque payments and increased premiums = more earnings
- Truly acting as agent of your customer under the Law of Agency where secret profits cannot be made?
- Have insurers sat down and actually assessed what is a fair commission in conjunction with what brokers have said re the work they do - they should be!

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Learning outcomes…

By the end of this event you have now gained an insight into:

- Where we are with Consumer Duty and what you should have done;
- Current issues when it comes to general insurance:-
  - Key aspects of the product governance rules to include product value assessments;
  - New rules on multi-occupancy insurances and the ramifications for insurers and brokers alike

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Thank you for listening

Questions please

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