

## New FCA rules on pricing and governance

The sector has 87 pages of new rules to get its head round and AMII members will need to be aware as to how it affects them when it comes to PMI and protection products.

There are four areas that the new rules cover – pricing, auto-renewals, product governance and reporting.

### Pricing

Following much disquiet in the motor and home insurance markets the FCA will ban from 1st January 2022 what is known as ‘price-walking’ (charging renewing customers more than equivalent new business customers) as it estimates that, in 2018, 6 million motor and home policy holders would have saved £1.2 billion had they paid the average price for their actual risk.

Insurers (and price-setting intermediaries) will be required to offer renewing customers a price that is no higher than they would pay as a new customer. It is therefore likely that firms will no longer offer unsustainably low-priced deals to some customers. Any discounts or incentives which are offered to new customers must also be available to existing customers and intermediaries should not be charging higher fees to renewing customers.

Add-ons sold alongside motor and home policies are also caught by the pricing remedy to include premium finance (as an add-on) with the APR charged being the determining factor (so a renewing customer cannot be charged a higher APR than an equivalent new business customer).

### Auto-Renewing Policies

Firms must provide consumers with a range of easy and accessible methods for opting out of auto-renewal but members will note that private health, PMI and pet insurance are exempt from these requirements.

### Product Governance

The FCA has used this as a platform to bolster its Product Governance requirements which apply across the board, not just to motor and home insurance but also other personal lines products, PMI, PHI, other protection products and commercial risks (except for large risks as defined and reinsurance).

Premium finance arrangements are also captured, meaning that virtually all insurance intermediaries are being brought into scope (where they have a standalone scheme to that offered by the insurer).

There are requirements for firms to assess all products at least every 12 months. The assessment should consider if products provide value for a “reasonably foreseeable period”.

The new rules concentrate on whether products offer fair value to the customer and if firms are acting in their customer's best interest.

Most of the requirements fall on the product manufacturer (the insurer unless you have a role in product design, development, creation and underwriting) so it is important to determine and agree who the manufacturer(s) is (are) for each product offering. This will include an assessment as to the distribution and remuneration arrangements for all products to include legacy/closed-book products.

The new product governance rules come into force 1 October 2021.

### Reporting Requirements

All firms operating in the motor and home insurance space are caught by the reporting requirements.

There are greater reporting requirements for price setting intermediaries; including providing the FCA with an annual attestation signed off by an SMF holder that they have been compliant with the rules throughout the reporting period. Therefore, firms may wish to consider whether they want to be price setting intermediaries.

For firms that are not price setting intermediaries they will be required to provide home and motor data on premium finance, charges and possibly add-ons split by tenure of customers by year ranging from new (T0) to T10+ years.

The first report will be due in September 2022 for the period of the first half of 2022.

### Next actions

It would appear that these new rules won't be a huge burden for AMII members but insurers will need to focus on assessing the value of the product at all stages of the product life cycle – new business, renewal and legacy and whether increases in premium are fair once value has been taken into consideration especially if claims have occurred. Me thinks a lot of navel-gazing will be taking place!

As always, any queries then drop me a line!

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