FINANCIAL CONDUCT AUTHORITY

General Insurance value measures reporting and publication

Policy Statement
PS20/9

September 2020

This relates to

Consultation Paper 19/08
which is available on our website at
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1 Summary

1.1 In our GI add-ons market study (MS14/1) we identified poor product value as an area of harm in general insurance (GI), caused by ineffective competition between providers of GI products and a lack of common measures of value.

1.2 Value lies in the relationship between the price paid by the customer and the quality of that product. It can often be straightforward to identify the price of the product, but sometimes less easy to determine the quality. This can contribute to poor consumer outcomes.

1.3 To help address this we are introducing new rules to report and publish data on value measures, alongside new product governance requirements. These rules aim to help address poor product value in a number of ways. We will publish this data so that it is available to firms, consumers organisations and the media. By shining a light on value in the market, we hope that this will drive firms to improve their products. This data also provides us with a valuable tool when we are supervising firms. Furthermore, under our product governance rules, firms must take value measures data into account when considering whether their products offer fair value to their customer.

Who this affects

1.4 This will affect:

- *General Insurance insurers and intermediaries*
- *trade bodies representing these firms*
- *consumer organisations, the media and consumers*

The wider context of this policy statement

Wider regulatory developments

1.5 Product value is a significant concern for the FCA. We highlighted this in our 2018 Sector View and introduced measures designed to help address this:

- In October 2018, following the implementation of the Insurance Distribution Directive (IDD), we introduced product governance rules. These rules require firms have processes in place to ensure that insurance products are appropriately designed, marketed, distributed and monitored.
- In November 2019, we published guidance for insurance manufacturers and distributors, clarifying our expectation that firms should consider the value that the product and distribution arrangements offer to customers.

1.6 Today we have published our final report on the GI Pricing Practices Market study and consultation on remedies (CP20/19) from that market study. The market study found that some firms increase the price to customers who renew with them year on

year, resulting in some customers paying very high prices. The GI pricing practices consultation sets out our proposals to change the way firms price home and motor insurance, as well as proposed product governance, auto-renewal and reporting rules. These remedies seek to improve outcomes for consumers so that they receive fair value and improve competition. We consider that the value measures rules will complement our GI pricing practices proposals helping to create further incentives for firms to improve the value of their products. Our broad scope for value measures across a wide range of GI products, will mean that firms do not only focus on value for their motor and home products, but across their GI products, including add-ons. The value measures information, which firms will begin to report in 2022, provides additional information about the performance of products to compliment the data we propose to collect on firm's pricing practices. This will provide a richer data source for our Supervisory teams to engage with firms. Furthermore, we expect the publication of the value measures data will drive firms to improve the quality of their products.

Our value measures pilot and consultation

1.7 Our GI add-ons market study (MS14/1) found that some insurance products can offer poor value for money. This included both add-on products and some standalone products. We also found that it was difficult for consumers to understand the value of products they were buying. Following the market study, we published a discussion paper in 2015 (DP15/4) exploring options for the publication of 'value measures'. These options would aim to increase competition between products on the basis of their value, create incentives for firms to improve the products they offer and improve transparency about the value of GI products.

1.8 Following feedback to the discussion paper, in 2016, we launched a pilot of the publication of GI value measures data for buildings and contents, home emergency, personal accident and key cover insurance. In 2018, we assessed the impact of the pilot and found it had a positive impact, improved transparency and awareness of different indicators of product value. We found that some firms used the data to compare themselves to peers, assess their products and consider improvements. The first pilot dataset attracted significant media attention and we have also seen several firms focus on claims acceptance rate in their marketing activity.

1.9 In January 2019, we published Consultation Paper: General Insurance Value Measures reporting (CP19/8), setting out proposals for the report and publication of value measures data across firms and GI products. Value measures information is not targeted directly at consumers and we do not expect consumers to use the published data themselves to judge the value of products they are considering buying. Instead we primarily expect firms, including insurers and intermediaries to use the data, resulting in increased competition on product value between those firms. We also expect consumer organisations and the media will use the data to highlight potential issues to consumers. We also consulted on product governance proposals requiring firms to have effective procedures in place to ensure, on a continuing basis, that their products offer sufficiently good value to customers and, as part of this, take into account value measures information.

1.10 We also intend to use the data in our supervision of product governance rules and to support engagement with firms. The data can help provide us with better insight into potential issues with product value (both at the level of individual firms and across products) for example by comparing premium and claim cost information. We plan to link this data with the data we are proposing to collect after our input pricing practices

consultation (CP20/19), including pricing and claims ratio information for motor and home insurance products, to provide a more complete picture of firms' activity in these markets.

How it links to our objectives

Competition

1.11 Reporting and publishing value measures data, including claims frequencies, claims acceptance rates, average claim pay-outs and claims complaints as a % of claims, should incentivise firms to compete more on product quality and on a wider range of value indicators, rather than just price.

Consumer protection

1.12 Our changes are intended to support more consumers by helping to address poor product value and reduce the risk of unsuitable GI products being bought or sold. Furthermore, the value measures product governance rules will require providers to take value measures data into account when considering product value. The publication of the value measures data will improve transparency, highlighting where consumers may not be getting value from products. For example, where both claims frequencies and claim pay-outs are low for a product.

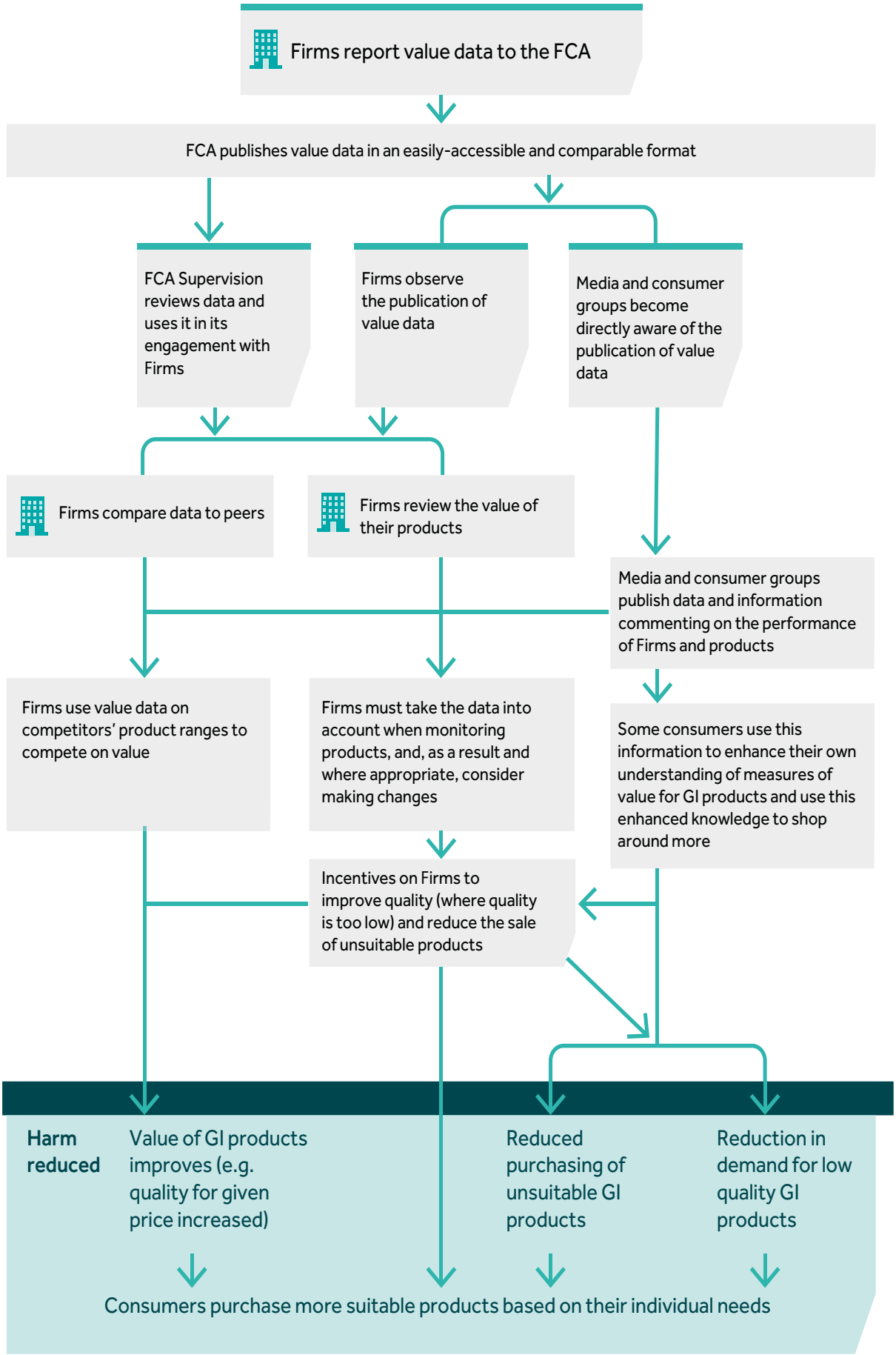
What we are changing

1.13 The main changes will require firms to:

- report GI value measures data covering claims frequencies, claims acceptance rates, average claim pay-outs and claims complaints as a % of claims
- ensure that products offer fair value to customers in the target market

Outcome we are seeking

1.14 Our rules aim to help address poor product value, and reduce the risk of unsuitable GI products being bought and sold. Below we set out the causal chain that we included in our consultation (CP19/8). This is our view of how we expect publishing GI value measures data to have a positive impact on consumer outcomes. We expect outcomes will include improvements to product value, reduced purchasing of unsuitable GI products and a reduction in the demand for low quality GI products.


Firms report value data to the FCA
FCA publishes value data in an easily-accessible and comparable format
FCA Supervision reviews data and uses it in its engagement with Firms
Firms observe the publication of value data
Media and consumer groups become directly aware of the publication of value data
Firms compare data to peers
Firms review the value of their products
Media and consumer groups publish data and information commenting on the performance of Firms and products
Firms use value data on competitors' product ranges to compete on value
Firms must take the data into account when monitoring products, and, as a result and where appropriate, consider making changes
Some consumers use this information to enhance their own understanding of measures of value for GI products and use this enhanced knowledge to shop around more
Incentives on Firms to improve quality (where quality is too low) and reduce the sale of unsuitable products
Harm reduced
Value of GI products improves (e.g. quality for given price increased)
Reduced purchasing of unsuitable GI products
Reduction in demand for low quality GI products
Consumers purchase more suitable products based on their individual needs

Measuring success

1.15 We intend to assess the impact of our rules in the following ways:

- By monitoring how the reported metrics change over time, both at a firm and product level. This will show us how consumers are using their products (claims frequencies and average claims pay-outs). It will also highlight whether the sale of poor value products has reduced by looking at indicators such as the claims acceptance rate and the volume of sales, and whether consumers are satisfied with their products (by looking at indicators such as claims complaints as a % of claims).
- Through engagement with firms, such as ongoing supervisory work and our planned post implementation review, we will assess what impact these measures have on firms and if there have been improvements in product value. Examples may include firms improving quality relative to price, through changes such as extending cover, reducing or simplifying the number of policy exclusions. Improvements could also be demonstrated for example by firms making their claims handling process easier to navigate and improving sales processes to increase consumers' understanding of products.
- We will engage with consumer organisations to understand how they used the data.

1.16 We intend to conduct a post implementation review to consider the impact our rules and guidance have had.

Summary of feedback and our response

1.17 We received 35 responses to CP19/8 from insurers, intermediaries, trade bodies and consumer organisations. This feedback was mixed. Consumer organisations, one trade body and a minority of firms supported our high-level proposals. However, most firms and trade bodies considered that our proposals would result in significant costs, but without corresponding benefits for either consumers or firms.

1.18 Overall, we consider that the value measures rules will improve market transparency around value in GI and create incentives for firms to make improvements to their products. The value measures rules will provide indicators of value across a wide range of GI products, as well as provide data to support our engagement with firms about the value of their products.

1.19 Some firms questioned whether publishing value measures data would in practice create incentives for firms to make improvements and expressed concern that:

- the value measures data already published had not been extensively used by consumer organisations or the media
- the data would be insufficiently robust to be used to compare firms
- there is scope for firms to influence the reporting of the data
- whether we had made an adequate case for reporting data by different distribution arrangements
- we had underestimated the cost of implementing the proposals

1.20 However, other respondents supported our proposals. They considered that publishing value measures data would help improve market transparency and competition around product value and create incentives for firms to make improvements.

1.21 More detail on the feedback and our response is set out in chapter 2.

1.22 Based on the feedback received we are implementing the rules as set out in CP19/8, although we have made changes and have reassessed the cost estimates for the CBA. After accounting for these changes, we still consider the benefits from introducing the key proposals in CP19/8 to be higher than the estimated costs. The changes we have made are:

- including additional GI products – alloy wheel insurance, vehicle cosmetic insurance, mis-fuelling, pot-hole cover, event and wedding insurance
- removing private medical insurance from scope
- replacing the requirement for firms to report data for different distribution arrangements separately, with a requirement for them to report the names (but not the data) of the firms and/or brands which represent the largest 5 distribution arrangements
- removing the requirement for vehicle breakdown firms to report average claims pay-out data
- removing the requirement for firms to report the amount that the highest 5% of claims are above
- minor adjustments to the metric and product definitions and clarifications set out and explained on pages 24 to 27 below

1.23 Brexit changes, which give effect to this Policy Statement, will be made at a later date.

Equality and diversity considerations

1.24 We expect that the rules will help drive product improvements benefiting consumers purchasing GI products, including vulnerable consumers.

Next steps

What you need to do next

1.25 The product governance rules for firms to consider whether their products offer fair value to customers will come into force on 1 January 2021. The new reporting rules for reporting value measures data will not come into force until 1 July 2021. However, for the purposes of the product governance rules, during the transitional period between 1 January 2021 and 1 July 2021, SUP 16.27R will be deemed to take effect to enable the product governance rules that refer to them to operate. This is set out in the transitional provisions and firms can use the Handbook's "time travel" function to access SUP 16.27R for those purposes. The deemed effect will not affect firms' reporting requirements, with the first report due for submission for data between 1 July 2021 and 31 December 2021 on 28 February 2022. If your firm is affected by these changes, you will need to introduce changes to capture and report the value measures data in Q1 2022 on data for July 2021 onwards.

What we will do next

1.26 We will work with stakeholders in the Private Medical Insurance market to develop value measures metrics for that product. We will also consider the value measures product governance rules and the need for any amendments, as we develop the GI pricing practices product governance rules that we consulted on today (CP20/19)

2 CP19/8 Feedback and our response

2.1 In this chapter, we summarise the feedback to CP19/8 and our response.

High-level feedback to CP19/8

2.2 Some respondents expressed views about the merits and costs of our proposals as a whole. Most firms and trade bodies argued that the proposals would not generate material benefits, and that the costs would be significantly higher than our estimates in the CP. More detail on the feedback about benefits and costs are set out in paragraphs 2.76 to 2.82 below.

2.3 Other respondents, including a minority of firms, one trade body and consumer organisations, supported the proposals but also suggested minor amendments.

Product scope

2.4 The GI value measures pilot included home insurance (buildings and contents), home emergency, personal accident and key cover. In CP19/8 we proposed extending the reporting requirements to all GI products (with some exceptions for no claims bonus protection, packaged bank accounts (PBA) and commercial products). We asked:

Q1: ***Do you agree with our proposals for the product scope?***

2.5 Some respondents disagreed with the proposal to broaden the scope. They argued that the increased costs would not be matched by benefits. They recommended that we limit the scope to potentially poor value products, such as those identified in the GI add-ons market study.

2.6 Some respondents, including consumer organisations and a minority of firms, broadly supported the product scope. Two insurers agreed that a broad scope could help highlight where there are value issues across products. However, one of these firms noted that requirements to further split out products, such as splitting out the data by different distribution arrangements, may create confusion by providing too detailed information and risk of losing sight of overall product values. Two respondents suggested that GAP insurance could be split into the different types of GAP insurance, as these could have different claims experience.

2.7 A few firms argued that additional GI products should be in scope, such as vehicle cosmetic insurance which covers cosmetic damage, alloy wheel insurance, mis-fuelling and pot-hole cover. It was also questioned whether bloodstock insurance, event/wedding insurance and fine arts and antiques insurance would be within scope.

2.8 Our proposed exclusion of PBAs attracted mixed views from respondents. Several respondents noted that insurance in PBAs can have low claims frequencies, low customer engagement and draw a lot of complaints. However, others noted that the

reporting for this product would be complicated and may only capture a limited part of the product, which may also include a range of other non-insurance goods or services.

2.9 Some respondents also raised issues about including specific products, outlined below.

2.10 **Legal expenses insurance (LEI)** – some respondents suggested that claims acceptance rates for LEI are not comparable with other products. For example, for LEI claims firms will assess whether such claims have a reasonable prospect of success (potentially above 50%) before taking claims forward. This can result in significantly lower claims acceptance rates compared to other products. It was also noted that certain legal expenses services,such as calls to a legal helpline, are often provided without amounting to a claim.

2.11 **Motor insurance** – A number of respondents argued that the competitive nature of motor insurance meant there was little scope for overall value improvements to be made. They also said that third party bodily injury claims could significantly affect average claim payouts with high costs and Periodic Payment Orders. It was also argued that the claims frequency would largely depend on a firm's risk profile, and would not allow for meaningful comparisons between firms.

2.12 **Private Medical Insurance (PMI)** – Some PMI providers argued that if publishing data encouraged consumers to switch products this could result in harm. For example, cover available under an existing policy might be excluded with a new insurer. They also suggested that the value of PMI is derived from the clinical outcome of the customer's treatment rather than a monetary amount. Respondents also flagged issues around identifiying, handling and processing claims for PMI.

2.13 Some respondents also asked for clarification on whether the following are in scope:

- travel insurance sold to customers living or working abroad
- unregulated motor warranty
- policies sold to high net worth (HNW) customers
- group policies
- SME policies

Our response

CP19/8 set out our intention to apply GI value measures reporting and publication across GI, with a few exceptions. We recognised that the remedy benefits would not apply evenly across products, and that we expect benefits to be higher for poorer value products. However, we consider there are valuable benefits to retaining a broad scope so that there is improved transparency and competition across a wide range of products and across a range of quality factors (captured by value measures reporting).

We also recognise that, while different products are not directly comparable, value measures can illustrate the utility that different products provide and in some cases high-level comparisons may be made between products. Including products where there are high claims acceptance rates could result in more confidence in those products, and

we consider there is still benefit for firms to continue to consider product value even where products are performing well. In addition, collecting data across GI products will support our supervision and engagement with firms.

We do not intend to require additional reporting for GAP products as we consider this would add unnecessary cost and complexity to reporting. But we have expanded the list of GI value measures products to include additional GI products suggested by respondents – including alloy wheel insurance, vehicle cosmetic insurance, mis-fuelling, pot-hole cover (being add-on products sold alongside motor insurance), event and wedding insurance. This is consistent with the approach outlined in CP19/8, where we set out that we proposed to apply value measures to nearly all GI products.

However, we do not intend to include those products which tend to have fewer customers such as bloodstock, specialist fine arts and antique insurance which are also more likely to be bespoke (and so less comparable), and so value measures data may be less helpful. We will review the scope of value measures as part of the post implementation review.

We have considered the feedback on PMI and have discussed this further with firms in this market. We recognise that there are challenges in applying our policy to this product and have removed it from the scope of the rules. We will continue to work with stakeholders to develop metrics for PMI that we may consult on in the future, and PMI providers should also review the GI Pricing Practices consultation (CP20/19).

We believe that LEI and motor insurance should remain in scope, and could provide synergies with the proposed pricing practices remedies consulted on in CP20/19. We accept that value measures data on LEI is not directly comparable to other GI products. However, this data allows helpful comparison between firms offering LEI. Given motor insurance is a core GI product, including it within the scope of any remedy would help ensure broader value transparency across GI.

In paragraph 3.6 of CP19/8 we said that products sold to UK consumers provided by UK and EEA firms would be within scope. Group, SME policies and unregulated products are out of scope, and policies for HNW consumers are within scope, but would not be treated as a separate reporting category. However, when we publish the value measures data we may take steps to put it in context to help users understand where products may be predominately targeted at the HNW market. Value measures covers sales to consumers based in the UK.

Reporting responsibility

2.14 In CP19/8 we proposed to apply the value measures reporting responsibility, in most circumstances, to insurers. Exceptions to this approach included certain types of EEA business and business where there is no authorised insurer. We asked:

> **Q2:** ***Do you agree with our proposals on reporting responsibility?***

2.15 Most respondents supported our proposals for reporting responsibility.

2.16 A few respondents suggested that firms handling claims and complaints are likely to be in the best position to report the data. We proposed that the insurer underwriting the main part of the cover must report the value measures data for all elements of the cover. One firm noted that this could be onerous for the reporting firm.

2.17 Another firm considered that it was inappropriate for UK based intermediaries to report data for non-UK insurers, as the reported data would only represent part of the product offering if there are other UK based intermediaries distributing the insurer's product, which would complicate the reporting chain. A trade body noted we could have a considerable job collating the data submitted by potentially 1,000s of intermediaries where they report on behalf of EEA passporting insurers.

2.18 Several respondents asked for clarity on reporting responsibility where there is a joint manufacturer.

Our response

Given the broad support for our reporting responsibility proposals, we intend to proceed with the proposals.

We recognise there could be complications where UK-based intermediaries are required to report data for non-UK insurers. For example where the UK firms rely on non-UK firms to provide them with data to enable those intermediaries to report to us. However, it is important for us to understand the value offered by products underwritten by incoming EEA firms. As there are restrictions on our ability to require these firms to report value data, we believe that it is reasonable to get this from the relevant UK manufacturer or distributor.

The rule SUP 16.27.9 R (3) in appendix 1 provides for joint manufacturers to agree which party is responsible for any reporting.

Splitting data by 5 largest distribution arrangements

2.19 In CP19/8 we proposed that insurers should split their product reporting by the largest 5 distribution arrangements, for example, brand or distributor, with a sixth category for the insurer's remaining business. We asked:

> **Q3:** ***Do you agree with our proposal to require data to be split by the largest distribution arrangements?***

2.20 Some respondents supported the proposal, noting that it would help highlight underperforming arrangements. Some raised concerns that some poor value could be hidden within the sixth category capturing smaller arrangements.

2.21 However, many firms and trade bodies considered that this proposal would add unnecessary complexity and cost without providing corresponding benefits. They also suggested that the data could be confusing for consumers, as some distributors would be listed several times as they have multiple insurers on their panels.

2.22 A few respondents were also concerned that this approach could reveal commercially sensitive information, which would distort competition, breach competition law and provide data that could be used in future bids for business by rival insurers.

2.23 Some respondents suggested keeping the reporting at the same level of granularity as the pilot, by insurer and add-on and stand-alone products, with firms listing the largest distribution arrangements rather than providing data split out by the different arrangements.

2.24 A few respondents suggested that splitting insurer data by distribution channel rather than distribution arrangement could be more helpful in identifying value differences. Potential categories identified were direct, intermediated, Price Comparison Websites (PCW), motor dealers, banks and panel brokers. One trade body said this approach could help us monitor product oversight and governance requirements around the selection of distribution channels and whether some channels have an unfair point of sale advantage.

2.25 Other firms noted that sales method is separate from product performance and splitting the data in this way could create a significant amount of work. Another firm suggested that the proposed reporting threshold should apply to each distribution arrangement. This would mean that firms would only report data for a distribution arrangement where premiums for that arrangement were above £400,000 with more than 3,000 policies in force. They noted that this approach would help avoid volatile results, for distribution arrangements with low activity, that could be misleading.

2.26 Some respondents also asked us to clarify what we mean by 'largest' and whether products sold under different brands should be reported by those brands or the distributor.

Our response

We acknowledge the feedback on the risk of increased reporting complexity and higher costs, and we do not propose to continue with this part of our proposal.

Instead our final rules require insurers to report the names of the firms and/or brands which represent the largest 5 distribution arrangements, rather than providing the detailed data for these individual arrangements, which is consistent with the approach we used for the value measures pilot.

We consider that this will provide users with sufficient detail to identify where there could be potential value issues, but impose less cost and complexity on firms.

Treatment of separate products sold alongside primary products

2.27 In CP19/8 we proposed retaining the pilot approach, where insurance policies sold alongside another product called 'add-ons' in CP19/8 should be reported separately. We proposed that additional elements of cover in the primary product but which are not a separate policy should not be reported separately. The only exception to this was for LEI, which we proposed being reported separately even where it is sold as part of the primary product. This is because LEI operates differently to other products, with firms seeking to establish whether a claim has a reasonable prospect of success and with benefits typically taking the form of legal helplines, legal advice and covering legal costs. We asked:

Q4: ***Do you agree with our proposals for the treatment of add-ons and optional extras?***

2.28 Generally, respondents were supportive of our proposals but some respondents raised concerns. One firm noted that the way firms structure their products, such as whether particular elements are sold as add-ons or optional parts of the core cover would affect comparability. Another firm suggested that data should only be reported where a customer makes a choice about what to purchase alongside a primary product.

2.29 Views on the treatment of LEI were more mixed. Some firms and trade bodies considered that integral LEI should not be reported separately from the core product. They argued that this is disproportionate and of little benefit to users of the data. However, other respondents accepted the rationale for the proposed approach.

Our response

We will proceed with the proposals outlined in CP19/8 for the treatment of add-ons.

We recognise that there is no uniform approach to the structure of insurance products. Some insurers provide certain elements of cover as part of the primary product, while others provide the same cover as an add-on. This can present difficulties when comparing value-related data. However, we consider that requiring firms to report add-on policies separately, provides a simpler and clearer distinction for firms to apply when compiling and reporting data.

LEI claims are typically only accepted if they have a reasonable prospect of success and this is likely to increase the proportion of claims rejected. If integral LEI claims were recorded along with other claims under a motor policy, this could give a misleading impression of the performance of the primary product.

So we are retaining our approach of requiring LEI to be reported separately (including both where it is an optional extra or included as part of the core cover of a product such as home or motor). We also believe that our proposals provide increased transparency on LEI cover regardless of how it is sold.

Reporting periods and reporting frequency

2.30 In CP19/8, we proposed that value measures data would be reported annually by calendar year. We asked:

Q5: ***Do you agree with our proposals on granularity, reporting periods and frequency?***

2.31 Most respondents agreed with the proposal. Two firms noted that our approach would reduce the burden on firms and avoid seasonal fluctuations affecting the data. However, some suggested that this could create a higher burden for firms with a 31 December year end, who will have existing year end processes to deal with.

Our response

We will proceed with the proposed reporting periods and frequency, being annual reporting on a calendar year basis. However, the first submission will be for the reporting of data covering the six months ended 31 December 2021. This will be reported in Q1 2022.

Reporting thresholds

2.32 In CP19/8 we proposed that firms should report data where both of the following thresholds apply at a product level:

a. where total retail premiums (written) are above £400,000 in the reporting year; and
b. where there are more than 3,000 policies in force during the reporting year.

2.33 For each product where the reporting thresholds are met, firms would report data split by add-on and stand-alone sales and for the different distribution arrangements. We asked:

Q6: ***Do you agree with our proposals for reporting thresholds?***

2.34 Most respondents were supportive. Several recommended that we apply different thresholds for different products, and that the thresholds should be increased to help reduce data volatility. One trade body recommended that non-Solvency II firms should be excluded. One consumer organisation asked how we would assess smaller firms that fall below the reporting thresholds.

2.35 Respondents asked us to clarify whether there would be different thresholds for each reporting category, such as by add-ons and stand-alone products and by the largest distribution arrangements. Others asked how firms should calculate the '3,000 policies in force', and whether they should report on products which are no longer being sold.

Our response

While we recognise that GI products differ in nature, we consider that there are benefits in applying the same reporting thresholds for all products. For example, it will be simpler and more efficient for firms to understand when they need to supply the data. We do not consider it to be appropriate to have a reporting threshold determined by the size of firm, as a smaller firm could have a sizeable share of a particular product market.

We have clarified in the final rules, that while the reporting thresholds apply at product level, we will only publish data for individual categories, such as by add-ons or stand-alone which also met the threshold of 3,000 policies in force and £400,000 premiums written. This will help reduce the risk of volatility in the published data. The calculation of policies in force is set out in the table in SUP 16.26.6 R, and this could include reporting for products which are no longer being sold but meet the threshold for reporting.

However, while the value measures product governance rules will operate for existing products, they will not operate where the firm's activities for those products ceased before the reporting year began.

Value measures metrics

2.36 In CP19/8 we proposed retaining the metrics from the value measures pilot: claims frequency, claims acceptance rate and average claims payout. We also proposed introducing an additional metric: claims complaints as a % of total claims. We asked:

Q7: ***Do you agree with our proposals on the value measures metrics?***

2.37 Several respondents supported the overall package of measures, but others felt that the proposed metrics do not capture product value sufficiently. Others suggested that focus on the proposed metrics could inadvertently steer customers away from firms who provide greater non-monetary value to their customers. We have set out below respondents' views on each metric in turn.

Feedback on claims acceptance rate

2.38 Respondents were generally positive, noting that a high claims acceptance rate can indicate that a product is being sold correctly, the terms and conditions are clear and understandable, and the product provides cover which meets customers' needs and has a fair claims validation process. Several respondents suggested that it could also be helpful to publish common reasons for rejected claims alongside the claims acceptance rate.

2.39 Some respondents noted that while the metric is an indicator of value, it cannot be accurately interpreted without the full context. For example, some firms may be more effective at rejecting invalid claims, enabling them to offer lower premiums.

Feedback on average claim payout

2.40 While some respondents, including consumer organisations and a few firms, supported including average claim payouts, most firms who commented on this metric opposed it.

2.41 Respondents argued that more efficient firms, with lower costs and more competitive commercial arrangements, could appear to have poorer value products compared to less efficient firms because the data may show they have higher level of claims paid out even though the outcome for the consumer is the same. A few respondents noted that the average claims pay-out is likely to be driven by the underlying risk and business mix, as well as external events in a given year. One firm highlighted the risk that high claims payouts are likely with products which have been hollowed out such as stripping back levels of cover, have higher excesses or only cover larger claims. For example, products with higher excesses or only covering larger claims will not pay out on smaller claims and so could have higher average claims pay outs compared to products that cover a wider range of events and smaller claims.

2.42 Several firms said that the average claims payout may create misleading consumer expectations about the payout they might receive if they make a claim. Individual claim amounts can vary significantly from the average. One trade body suggested that industry level data, rather than firm level, for this metric may be more helpful.

2.43 Two respondents questioned whether average claim payout was an appropriate metric for vehicle breakdown, where comparisons between firms with and without their own fleet of vehicles could be misleading. They also noted that metrics such as % of vehicles fixed at roadside or average time to repair may be more appropriate metrics for vehicle breakdown.

Feedback on claims frequency

2.44 There were mixed views on including claims frequency. Some respondents suggested that this is not a helpful indicator of value and that a higher claims frequency could reflect that the firm has a higher risk appetite. For example, in the pet market firms that target older pets are likely to have higher claims frequency. One firm noted that a lower claims frequency could reflect a product that has a lower price, rather than showing poorer value or a lack of awareness of product ownership. One firm was concerned that higher average excess levels would result in lower claims frequency and that some consumers may deduce that products with a lower excess represent better value than those with higher excesses.

2.45 Other respondents were more positive. One firm noted that higher claims frequency can provide an indication of broader level of cover and another firm said that it is helpful in showing the likelihood of customers needing to claim on the policy. Several respondents identified that metrics such as claims frequency and claims acceptance rate complement each other.

Feedback on top 2%/5% of claims

2.46 In CP19/8 we proposed that firms should report to us the claim amount (£) that the highest 2% and highest 5% of claims payouts were above. For example, a firm might pay out on 1,000 claims payouts ranging from £200 to £50,000 with an average pay-out of £600. However, within the 1,000 there could be a small number of very high claims. The firms might tell us that that their top 2% of highest claims payouts were above £12,000. At a product level, this helps give additional context to the average claims pay-out data.

2.47 There was some support for this proposal. One firm said that the metric could help customers understand the likely cost of low-probability events. Another firm supported the use of either 2% or 5% of claims rather than both, although they noted that this information is readily available. However, several respondents considered that this additional information could be confusing for users and added unnecessary cost.

2.48 One trade body commented that they could not see how this data would be useful to consumers or consumer organisations and would increase the cost and complexity of the value measures remedy.

Feedback on claims complaints as a % of claims

2.49 There was support for this metric from a number of respondents. One firm suggested that it gives a good indication of customer satisfaction, and another firm said it gives a good indication on the level of claims service and clarity of cover. However, 2 respondents felt that upheld complaints, rather than all complaints, would provide a better view of value.

2.50 A few respondents flagged potential complications with claims complaints as a % of claims. One trade body noted that for the Lloyd's market complaints data is currently reported on an aggregate basis and not split for each Lloyd's managing agent. One firm noted that because of the proposed split of products for value measures, firms would need to generate new management information to report the complaints data to the required level of detail.

General observations

2.51 A few respondents flagged issues that could reduce the helpfulness of the published data. For example:

- Data for 'long tail' products may include claims for policies sold several years before.
- Data will be affected by external events, for example, in a period where there were several storms the claims frequency and average claims payout for home insurance could be higher than other periods.
- Data could be distorted for new entrants to the market or where a firm's business is growing or shrinking, compared to a firm with more stable business.

- The metrics represent product averages which will differ from the value offered to individual consumers.
- Not all products will have an annual duration, GAP insurance policy terms could cover a number of years and costs for GAP insurance claims are likely to be higher towards the end of the policy term rather than spread evenly over the course of policy. One firm suggested that breakdown insurance products with a policy duration of less than one year should be excluded from scope, and another firm suggested splitting out products that offer a term of less than 12 months as a separate reporting line.

Alternative or additional metrics

2.52 While we did not request feedback on alternative metrics, some respondents made suggestions. Several consumer organisations suggested that claims ratio would be a helpful additional metric to identify inefficient or exploitative distribution arrangements. Other suggested metrics include: length of claims process, number of voided claims, claims settlement time, % of vehicles fixed at the roadside and average time to repair.

Our response

The metrics were developed in collaboration with industry. Although we recognise that each metric has limitations and does not capture every aspect of value, we continue to believe they provide useful high-level indicators of customer experience. We also consider that the individual metrics complement each other, as well as the additional pricing data that we are proposing to collect for motor and home insurance in CP20/19.

It is also important to recognise that the data fields required to complete the value measures often form part of the equation for more than one metric, and so removing individual metrics may not reduce the overall costs significantly. For example, 'claims registered' forms part of the calculation for claims frequency, claims acceptance rate and claims complaints as a % of claims.

As set out in Chapter 1, the value measures information is not targeted directly at consumers. Instead we primarily expect firms to use the data, as well as consumer organisations and the media. In addition, the value measures data gives our supervision teams data to help identify where there may be product value issues and to enable us to discuss this with firms. For example, the data includes premiums as well as claim payouts – providing our supervision teams with data about what proportion of consumers' premiums are being paid out in claims or claims costs.

As a few respondents noted, the data does not always reflect current product performance. The value measures were designed to capture claims activity within the reporting period – claims made in the reporting period, claims paid-out the reporting period – rather than matching claims back to the sale of the product or period of cover which may have been in a preceding period. The benefit of this approach is that the reported data is more timely. In addition, where a firm's business is growing or shrinking rapidly this can have an impact on the data. External

factors such as the weather can affect the reported data and may result in changes to it, which is outside the relevant firms' control. For example, in periods where there are more extreme weather conditions, such as flooding, there could be an increase in the frequency and severity of claims for home insurance. However, in most cases we would expect a range of firms to be affected by the same external factors, meaning that comparisons between firms are still possible. While these issues can affect the data, we consider that the metrics still provide helpful data.

As well as annual policies, we consider that policies with a duration other than one year should be included in the value measures reporting. The claims frequency calculation is based on the number of policies in force at the end of each month and so the data will adjust accordingly for policies less than one year. Additionally, we do not intend to require firms to report separately on policies of different duration as this could add unnecessary complexity and cost to the reporting.

Claims acceptance rate
Claims acceptance rates received positive support from a majority of respondents who commented on this metric, and we will proceed with our proposals to including it.

Average claim pay-out
This metric received the most comment from industry respondents. We recognise that some firms may have more efficient processes and hence lower claims payouts. However, we consider that the metric is helpful as it provides an indicator of the value of a product, especially when assessed alongside the other value measures. In particular, when considered in the context of the total premium income, this data gives an indication of how much of premiums paid by customers is paid out in claims (total claims as proportion of premium income) for each product. This is a key indicator of value and will help in our supervision of firms.

For vehicle breakdown insurance, we recognise that average claim payout may be a less helpful metric than for other GI products, with response times and % call outs being resolved road side being more helpful metrics. So we have excluded this metric for vehicle breakdown insurance.

Claims frequency
We know that some products and/or providers have higher claims frequencies than others and that different customer segments may have different claims experiences. For example, motor providers which target new drivers are likely to have higher claims frequencies than providers which target more experienced drivers. We also recognise that products with higher excesses could have lower claims frequencies, as some consumers with policies with higher excesses may be less likely to raise claims for small claim amounts.

Despite this, understanding the numbers of consumers claiming on a product will give vital context for value measures such as claims acceptance rate and average claim payout. For example, if a product had both a low claims frequency and low average claims pay-out, this is likely

to be a more reliable indicator of potential poor value than one of these metrics taken alone. So, we will proceed with our proposals for including the claims frequency metric.

Top 2/5% of claims

We consider this data provides helpful context to users about what claim payouts could be in more extreme cases.

We accept that there might be limited additional benefit from collecting both 2% and 5% of claims payout data. We are retaining the requirement to report the claims amount that the highest 2% of claims are above. We believe that this will provide the best indicator of the potential range of claims, as it captures the more extreme claim payouts (i.e. the value (£) that 1 in 50 claims is above). This metric provides additional context to the average claim payout metric, and will be helpful to users of the value measures data.

Claims complaints as a % of claims

Our proposed approach for the 'claims complaints' element of this metric follows closely our existing FCA complaints rules (in DISP). The main difference is that for value measures the product categories are more granular than for our complaints rules. This approach enables the data for this metric to be published alongside the other value measures, which will help users understand how this data relates to the other value measures. Furthermore, this metric provides the benefit of helping to understand the number of claims complaints in the context of the number of claims that are being made. For this metric, we consider that basing the metric on 'upheld complaints' rather than 'complaints' would provide a clearer view on complaints that may lead to redress. However, basing the metric on 'complaints' provides a broader view on customer satisfaction, as well as linking more closely to our FCA existing complaints return (DISP 1 Annex 1 R and specifically table 4). On balance, we think that retaining the calculation based on 'complaints' will be more beneficial, and we will proceed on this basis.

While complaints about Lloyd's managing agents are currently reported on an aggregate basis, we believe that this data should be available at managing agent level and this approach provides data that is split in the same way as the other value measures metrics. As noted above, this approach will help users better consider the value measures complaints alongside the other value measures.

Alternative metrics

We received feedback and suggestions from respondents about alternative or additional value metrics for us to consider. Some of these suggestions were considered in DP15/4 where we explored options for value measures. We do not consider it to be appropriate to publish further metrics at this stage.

Metric definitions

2.53 In CP19/8 we proposed definitions and guidance for the value measures metrics. We asked:

Q8: ***Do you agree with our proposals on metric definitions?***

2.54 A minority of insurers and other firms agreed with the proposed definitions. Other firms and trade bodies suggested changes to the definitions, including to the product definitions, to improve data reporting consistency and comparability between firms. However, another firm recognised that even with more prescriptive guidance there would remain some grey areas affecting reporting consistency.

2.55 Some respondents questioned the circumstances that we proposed should be treated as 'registered and rejected claims' and suggested alternative treatment.

Our response

There were a range of views about the metric definitions and we welcome the feedback and suggestions we received on these and on product definitions. We have made some amendments, explained below, to the definitions to help improve the data consistency between firms.

However, we recognise that regardless of the level of prescription there could be differences in interpretation by firms. Below we set out a number of the points respondents raised about the definitions and our response to them.

Claims registered and claims rejected

2.56 In CP19/8 we defined claims as being any claim by a potential beneficiary, including queries about a potentially claimable event or loss which has taken place. We also consulted on a requirement that 'registered and rejected claims' include situations where a consumer contacts the firm about a potentially claimable event (first notification of loss) and the firm rejects the claim at that time. One firm stated that it would need to be clear that the customer's intention was to make a claim and not just seek advice on the policy and that it would be difficult to achieve consistency. Another respondent asked for clarification of 'claimable event' and 'potentially claimable event'.

2.57 Some respondents also noted that the proposed approach could fundamentally alter how firms log and capture claims, requiring significant changes to systems and processes. Firms also noted that it would also increase the time to log and capture claims.

2.58 One firm suggested that claims registered should exclude circumstances where:

- there has not been a claimable event, and
- the policy has been cancelled or voided

2.59 Several respondents suggested that fraudulent claims should be excluded from both registered and declined claims.

Our response

Claims registered – when to capture claims?
We recognise the potential difficulties in capturing claims. In CP19/8 we drew the distinction between customers asking about policy coverage and customers who contact the firm about a claimable or potentially claimable event that has actually taken place. We consider that it is important to capture potentially claimable events which consumers believe they are covered for, even when they are not covered. We intend to proceed with this approach. This will help highlight where there is consumer confusion about what they are covered for or a higher risk of mis-selling.

Treatment of claims rejected at the first notification of loss
We recognise that this treatment will result in costs for some firms as they will need to change how they capture claims. However, we consider that it is important to include claims that are rejected at the first notification of loss as rejected claims. This will help us to capture where consumers misunderstand the coverage of policies they buy and where there are high numbers of claims being rejected at the first point of contact. Therefore, we are proceeding with our proposed approach or treating rejected claims at first point of contact as rejected claims.

Treatment of claims to the wrong insurer, where policies are voided and fraudulent claims
Where the customer has contacted the wrong insurer, our proposed rules and guidance in CP19/8 set out that these claims should not be included in either the registered claims or rejected claims data. In circumstances where the policy has been voided by the insurer we consider that associated claims, which we already proposed should be excluded from rejected claims, should also be excluded from registered claims. Voided policies are policies where firms have lawfully cancelled the whole policy with effect from inception.

CP19/8 proposed that fraudulent claims should be excluded from rejected/declined claims. We recognise that it would be appropriate to also remove fraudulent claims from claims registered to make the data more aligned and comparable, and so have amended the rules for this.

Treatment of walkaways

2.60 Most respondents who specifically responded on the proposed treatment of walkaways supported our proposed approach (that they should be excluded from the published data). However, one respondent suggested that walkaways, except fraud walkaways, should be treated as rejected claims. One respondent requested clarification on the definition of a walkaway.

2.61 Several respondents considered that data on walkaways can help highlight how efficient and consumer friendly claims processes are and give insight into why customers drop their claims.

2.62 One firm recommended that where claims are below the policy excess they should be treated as a walkaway rather than a rejected claim.

Our response
In CP19/8 we set out that where a claim is registered but not subsequently pursued by the customer and closed by the firm, the claim should be treated as a walkaway and removed from claims registered. We do not consider it to be appropriate to treat walkways as rejected claims, because these are claims where firms have not rejected the claim but rather the consumer has not taken forward the claim. However, we consider that it is appropriate to treat claims below the policy excess as rejected claims, rather than walkaways, for the purposes of value measures. This will help capture where products may not be meeting consumers' expectations of the benefit and protection that the product provides.

Clarification on definitions

2.63 Respondents requested clarification on aspects of the proposed definitions, and the table below sets out some of the points raised and our response:

Clarification sought	Our response
Whether the claims complaints calculation should be based on registered, open or closed claims, and what constitutes a claim complaint?	Claims complaints can take place at any stage during the claims process. Claims complaints should be captured on the same basis as Part A-2 DISP Annex 1R Column O
how periodic payment orders should be treated for average claims pay-outs.	In CP19/8 we set out that where a claim settlement includes a regular payment element then the settlement value as it is reported on the firm's system should be included in the cost SUP 16 Annex 48 BG L.
what to do in circumstances where there could be multiple enquiries about a single event and whether this would count as multiple claims.	The proposed rules in CP19/8 set out that where an event covers multiple claims components within a policy it should be treated as a single claim SUP 16 Annex 48 BG Column F. This will include where there are multiple enquiries.
treatment of internal expenses and the general handling of claims, with one firm suggesting that internal investigation costs should not be included as they will not provide an indication of the levels of compensation paid to customers.	For the treatment of internal costs and the extent to which they reflect compensation to consumers, we recognise that not all claim costs will represent compensation paid to customers. Our proposed rules set out that firms should include costs, including both internal and external that firms' incur in handling and investigating individual claims. However, more general claims costs such as a call centre handling claims would not be captured in the reported value measures data SUP 16 Annex 48 BG Column L.

Clarification sought	Our response
In circumstances where a claim has been registered and a payment made to a customer, loss adjuster or solicitor, whether this should be treated as an accepted claim.	CP19/8 set out proposed guidance that where a claim is closed and the firm has incurred claims costs, such as an investigation fee or cost, but the claim is ultimately rejected then this would still be treated as a rejected claim SUP 16 Annex 48 BG Column J. We consider it to be appropriate to retain this approach.
One firm asked whether our proposals would affect how firms report through the Claims and Underwriting Exchange (CUE).	Firms reporting to the CUE is separate from, and so would be unaffected by the value measures reporting.
One firm sought clarification about how to treat an attempted claim under the wrong type of cover or under an add-on the customer has not purchased.	Where consumers seek to make a claim under a core product (such as home or motor), that would be covered under an add-on product that they have not purchased then this would still be captured in the data as this could help highlight where consumers do not understand what is covered under their policy.

Product definitions

2.64 Some respondents sought clearer definitions for the different product categories, such as LEI which was identified to be different for home, motor and travel. One firm reported that tyre insurance can be sold on a stand-alone basis or combined with Alloy insurance. Some respondents suggested ways to further split products into more granular categories. For example, several respondents suggested that GAP insurance is split out by the different types of GAP insurance, such as return to value, return to invoice, vehicle replacement and contract hire, as they expected these to have different average claim payouts. Another respondent recommended that splitting products between annual products and products that offer a term less than 12 months would improve the data.

2.65 One firm suggested that we revised the definitions for healthcare cash plans and dental cover to ensure that the definitions better capture the actual products offered by firms in these markets.

2.66 PMI attracted the most feedback from respondents, with concerns raised about how claims registered would be captured by PMI providers. One firm highlighted potential complications with a customer making multiple claims for an injury or illness, and claims made in circumstances where the customer has not suffered a claimable detriment, eg health and dental check-ups. Others said our proposed definition of a claim cuts across PMI industry standard definitions of pre-authorisation and claims. It was also noted that, for PMI, customers may walk away part way through a claim (for example, ending physiotherapy after 3 sessions even though more sessions were authorised). One insurer asked for guidance on when in the PMI claims journey a claim is 'closed'. One trade body sought further guidance on how firms would capture each stage of the PMI claims journey, including where there are multiple aspects of a claim.

Our response

While we recognise that the products could be defined in different ways, we consider the product definitions provide sufficient clarity to help firms determine under which products their policies would fit. However, there may be cases where there could be some uncertainty and firms will need to exercise their judgment.

Notwithstanding the above, we recognise that healthcare cash plans could cover a wider range of circumstances and so have extended the definition to cover dental work.

For private medical insurance, as set out earlier in this chapter, we are excluding PMI from the scope of the rules in this Policy Statement, but will work with stakeholders to develop value measures for PMI.

Other matters

2.67 One insurer said the proposed definitions could result in firms removing benefits, such as legal helplines, which are not captured in the data, from products which would result in harm to consumers.

2.68 One insurer suggested that for motor LEI claims frequency should be calculated by reference to non-fault claims rather than all claims. They noted that to make a claim under this insurance they must be involved in an accident that is not their fault for the benefit to apply.

Our response

We do not believe that the value measures reporting and publication rules and guidance will encourage firms to remove existing benefits or other aspects of value not captured by our reporting requirements from their products.

Claims frequency for legal expenses
For legal expenses, the value measures treat all the claims the same. If consumers make a claim when they are not eligible, we consider this helps highlights issues of consumers potentially misunderstanding their insurance cover.

Publishing value measures data in bands

2.69 In CP19/8 we proposed publishing the data in bands on the FCA website. We proposed that these bands would be determined by our assessment of the claims profile of the different products. We asked:

Q9: ***Do you agree with our proposals for the publication of value measures data in bands?***

2.70 There was strong support for publishing the data in bands, although a few respondents had a preference for publishing actual figures.

Our response

We will proceed with our proposals for publishing value measures data in bands.

Product oversight and governance

2.71 In CP19/8 we proposed that firms should take value measures data into account when considering whether their products offer value to their customers. For firms the value measures data includes that data reported to the FCA by the firm itself and data relating to other firms, which has been published by the FCA. We asked:

Q10: ***Do you agree with our proposal to add a specific requirement to our rules to cover the use of value measures data in the product oversight and governance process?***

2.72 Most respondents supported our proposals. One trade body suggested that, in addition to the value measures data being part of the products oversight and governance requirements, other quality measures such as retention levels and cancellation rates should also be analysed. This trade body requested further guidance about how the data should be used.

2.73 However, some respondents considered that the proposals would not change firm behaviour and were not necessary. Others were concerned that the requirements could result in firms using the value measures data rather than their own, more useful internal data which is often more detailed. Several respondents highlighted difficulties in comparing data to peers with firms having to make assumptions about competitor product mixes, claims validation and claims handling processes.

2.74 A few respondents argued that the existing PROD 4 rules were sufficient and we should use these existing rules rather than introducing new product governance requirements.

2.75 One respondent sought clarification about whether the new PROD requirements apply if the firm does not meet the proposed value measures reporting thresholds (i.e. premiums above £400,000 and more than 3,000 policies in force).

Our response

Most of the feedback supported our product governance and oversight proposals and we will proceed with our proposals.

Today, in CP20/19 we have consulted on further product governance rules setting out proposals to ensure firms' behaviour is focused on delivering fair value products to customers. We consider that the value

measures rules are consistent with the proposals in this CP. However, we have made an amendment to require firms to consider whether their products are likely to offer fair value – rather than sufficiently good value as we consulted on in CP19/8 – to customers in their target market. We consider that if a firm is not providing 'sufficiently good value' it will likely also not be providing 'fair value' and so for consistency we have used 'fair value' both in the value measures rules and CP20/19.

The value measures product governance rules will come into force on 1 January 2021. We recognise that, the further product governance rules being proposed in CP20/19 if adopted would come into force at a later date. We consider that bringing in the value measures requirements earlier would not create significant additional costs for firms. Any necessary changes to comply with the value measures rules would be needed at a later date if the pricing practice product governance rules are made. However, we recognise there is the risk that this could cause some firms additional compliance costs to meet 2 sets of rules within a relatively short period of time compared to if all these rules came into force at the same date. However, we consider that the additional benefits of introducing the value measures product governance rules earlier justify these additional costs.

We acknowledge that, in some cases, the data reported by firms has limited benefits for comparisons between firms. Different firms will have differences in their product offerings and target market, and it's important that these differences are considered. For example, some home insurance firms may target high net-worth customers whereas other firms may target more mainstream business. Despite this, we would expect firms to consider this data as well as assessing their own value measures data.

The rules do not prevent firms from using their own data to help assess the value of their products.

Cost Benefit Analysis

2.76 In CP19/8 we estimated costs from our GI value measures proposals to be between £9m and £12m for one-off costs and £1m to £1.4m for ongoing costs. While we did not quantify the benefits of our proposed intervention, we set out our expectation that benefits would exceed costs. We asked:

Q11: ***Do you agree with our cost benefit analysis?***

2.77 While a minority of firms broadly supported our CBA, most firms and trade bodies who commented on the CBA considered that we had underestimated the costs and some respondents questioned why we had not provided an estimate of the expected benefits.

Costs

2.78 Several firms who provided cost estimates for our FCA cost survey, which formed the basis of our CBA, said that the estimates they provided did not accurately reflect the full cost of our proposals. In particular, they did not reflect the proposed changes to the definitions and guidance used in the value measures pilot and the significant one-off costs required to record registered claims under the new approach. It was also noted that requiring the data to be split into the largest 5 distribution arrangements would significantly increase the volume of data resulting in further costs. Several other firms, which did not take part in the survey, commented that the expected costs in the CBA appeared low.

2.79 One trade body identified costs they considered we had not covered in the CBA. These included development costs for small organisations, the need to re-write definitions of a claim, claims procedures and processes and associated staff training costs, higher prices, risk of wrong data being published and less product choice.

Benefits

2.80 Some respondents questioned whether the value measures proposals would have a positive impact and were concerned that we had not quantified benefits. One trade body argued that the focus of the data on claims and not other elements of product value would lower any possible benefit for consumers.

2.81 Respondents questioned whether the value measures pilot had a positive impact, and highlighted the low media take-up for the second and third pilots. One firm said it had not seen any evidence of the publication of pilot data positively impacting media and consumer perceptions or leading to improved value for money for consumers. A few respondents focused on the lack of individual consumers accessing the published data. A few respondents considered that the published data was not sufficiently comparable between firms for stakeholders to be able to review it to assess value and compare across firms, and could potentially mislead users.

2.82 A few respondents suggested that we limit the proposals to products which we consider to have value issues and that this could result in some benefit. Two firms questioned the proposed more detailed reporting by distribution arrangement resulting in higher costs with insufficient evidence of corresponding benefits.

Our response

We developed the value measures definitions in collaboration with industry and the cost estimates were based on data provided by firms that responded to our cost survey.

Costs

We found that certain firms may have reported data for the CBA cost survey based on the pilot definitions rather than the definitions we used in the cost survey itself. We engaged with firms who indicated they had underestimated costs when responding to the survey and adjusted our cost estimates to reflect the updated estimates they provided. Our revised estimates for one-off costs are between £11.6m and £14.5m (compared to £8.6m to £11.6 in our CBA in CP19/8), and our revised

estimates for ongoing costs are between £1.2m and £1.5m (compared to £1.0 to £1.4m in our CBA in CP19/8).

Table 1: Summary costs

Firm/organisation	One-off costs £'m	Ongoing costs £'m
UK GI business underwritten by UK/EEA firms	10.5 – 13.4	1.2 – 1.5
Familiarisation and legal review	0.8	–
FCA	0.3	–
Total	11.6 – 14.5	1.2 – 1.5

Source: FCA

One respondent also asked whether we had missed certain types of costs, such as training costs. We can confirm that training costs were included in the cost survey. The cost survey, which included both smaller and larger firms, also included an opportunity for firms to report other costs, and we included them in our cost estimates where they were provided.

These changes reflect the updated cost estimates certain firms provided. But they also take into account our removal of the requirement to report data by individual distribution arrangements, the exclusion of private medical insurance, the inclusion of the additional products (alloy wheel insurance, vehicle cosmetic insurance, mis-fuelling, pot-hole cover, event and wedding insurance) and factoring in the updated cost estimates provided by certain firms.

We do not consider that these cost estimate increases affect our overall CBA conclusion that we considered the benefits are likely to outweigh the costs.

Benefits

As set out in CP19/8 we do not consider that is it reasonably practicable to quantify the benefits. As outlined in the original CBA, the benefits for value measures are complex to estimate, given the nature and range of potential benefits and the mechanisms through which we expect our intervention to impact the market.

The value measures benefits will, typically, take time to manifest and may manifest themselves in a range of ways. The observations from the pilot helped us to see that the initial steps in our causal chain were being realised, albeit not for all the pilot data publications. As we have set out previously, we do not expect any significant consumer engagement directly with the data.

We expect our intervention to work by changing firm behaviour. This should result from increased market transparency where data is used by firms themselves, consumer organisations and the media. Value measures will also give us an additional supervision tool to engage with firms on value. While we recognise that media take-up of the pilot data was lower in the second and third pilots we consider that the publication of value measures data across a broad scope across GI will attract media

and consumer organisations' attention – in the same way as we have seen for published FCA complaints data.

We do not consider that reporting and publishing value measures will result in firms removing other elements of product value that consumers value, such as helplines. Firms will continue to look for aspects that give them a competitive edge against their rivals.

We recognise that there is a risk that firms may report the data differently and that this may limit comparability between firms. We have sought to reduce this risk through adjusting to the reporting metric definitions, removing private medical insurance from scope and removing the requirements to report data for individual distribution arrangements. However, we do not consider it to be appropriate to have different definitions for each of the products in scope. It is also important that we provide sufficient context to the data we publish, to reduce the risk that firms and other users misinterpret the data.

Our view on the scope of value measures is that it is more beneficial. including being more forward-looking, to apply it across GI. For products where there are currently fewer value issues, it will help to guard against poorer value offerings developing. As set out in the response box beneath paragraph 2.13 we recognise that, while different products are not directly comparable, value measures can show the utility of different products and high-level comparisons between products. They also give our supervisory teams a broad range of data across products to engage with firms. We believe that value measures data across GI could be a positive step and help users, including the FCA, consider value across a range of products.

To help provide context for the benefits, in CP19/8 we set out an indicative break-even analysis showing that only a small positive impact per policy/consumer is required to offset costs. Based on the updated cost information we recalculated the revised annual benefit for the remedy to be net beneficial to be £2.7m to £3.3m compared to £2.0m to £2.8m in CP19/8 looking at a period of 10 years. This equates to 1.5p to 1.9p per policy on average, compared to 1.1p to 1.5p in CP19/8.

Annex 1
List of non-confidential respondents

Association of British Insurers (ABI)

Association of Financial Mutuals (AFM)

AXA UK Group

BISL Limited

BNP Paribas Cardiff Ltd

British Insurance Brokers' Association (BIBA)

BUPA

Civil Service Healthcare Society Limited

Cornish Mutual

esure

Fairer Finance

Finance & Leasing Association (FLA)

Financial Services Consumer Panel

Global Insurance Management Limited

Institute and Faculty of Actuaries (IFoA)

Lloyds Market Association (LMA)

MoneySavingExpert.com

National Franchised Dealers Association (NFDA)

RAC Financial Services

Simply Health

Stonebridge International Insurance Ltd

The Consumer Council

The Money Charity

Vitality Health Limited

Which?

Annex 2
Abbreviations used in this paper

CUE	Claims and Underwriting Exchange
GI	General Insurance
HNW	High Net Worth
IDD	Insurance Distribution Directive
LEI	Legal Expenses Insurance
PBA	Packaged Bank Accounts
PCW	Price Comparison Websites
PMI	Private Medical Insurance

Appendix 1
Made rules (legal instrument)

VALUE MEASURES REPORTING AND MONITORING INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 139A (Power of the FCA to give guidance); and

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.

B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 July 2021, except for Annex C which comes into force on 1 January 2021.

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Supervision manual (SUP)	Annex B
Product Intervention and Product Governance sourcebook (PROD)	Annex C

Notes

E. In this instrument, the "notes" (indicated by "**Note:**") are included for the convenience of the readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the Value Measures Reporting and Monitoring Instrument 2020.

By order of the Board
17 September 2020

Annex A

Amendment to the Glossary of definitions

This Annex comes into force on 1 July 2021.

In this Annex, underlining indicates new text.

commercial customer (in *ICOBS* and *SUP* 16) a *customer* who is not a *consumer*.

Annex B

Amendments to the Supervision manual (SUP)

This Annex comes into force on 1 July 2021.

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

13A Application of the Handbook to Incoming EEA firms

Annex 1G

…

(1) Module of the Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of a firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
SUP	…	…
	SUP 16 (Reporting requirements)	SUP 16 (Reporting requirements)
	… arrange safeguarding and administration of assets. (h) an *insurer* with permission to carry out *general insurance contracts*.	… arrange safeguarding and administration of assets. (g) an *insurer* with permission to carry out *general insurance contracts*.
	…	…
…		

…

16 Reporting requirements

16.1 Application

…

16.1.2 G (1) Subject to (2), the only categories of *firm* to which no section of this chapter applies are:

…

(b) an *incoming EEA firm* or *incoming Treaty firm*, unless it is:

(a) a *firm* of a type listed in *SUP* 16.1.3R as a type of *firm* to which *SUP* 16.6, *SUP* 16.7A, *SUP* 16.9, *SUP* 16.12, ~~or~~ *SUP* 16.14, or *SUP* 16.27 applies; or

…

…

16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16, SUP 16.17, SUP 16.22, ~~and~~ SUP 16.26 and SUP 16.27)

(1) Sections	(2) Categories of firm to which applies		(3) Applicable rule and guidance
…			
SUP 16.25	…		
SUP 16.27	A *firm* which, in respect of *general insurance contracts*, is:		Entire section
	(a)	an *insurer*;	
	(b)	an *incoming firm* falling within (a), including those providing *cross border services*;	
	(c)	a *managing agent*; or	
	(d)	an *insurance intermediary*,	
	to the extent that the *firm* and its business falls within the scope of *SUP* 16.27.7R.		
…			

…

16.2 Purpose

16.2.1 G (1) …

…

(4) The purpose of *SUP* 16.27 is to provide the *FCA* with general insurance value measures data that it can use to publish guidance (and which may also assist with the *FCA's* monitoring of *firms'* compliance with *PROD* 4.5). The purpose of that publication is to:

(a) promote competition in relation to product value, by creating incentives for *firms* to make improvements to products and address poor product performance; and

(b) protect *consumers* by reducing the potential for harm caused by the sale or purchase of poor value products.

…

16.3 General provisions on reporting

Application

16.3.1 G The effect of *SUP* 16.1.1R is that this section applies to every *firm* except:

…

(2) an *incoming EEA firm* or *incoming Treaty firm*, which is not:

(a) a *firm* of a type listed in *SUP* 16.1.3R as a *firm* to which section *SUP* 16.6, ~~or~~ *SUP* 16.12 or *SUP* 16.27 applies;

…

…

Structure of the chapter

16.3.2 G This chapter has been split into the following sections, covering:

…

(20) claims management reporting (*SUP* 16.25); ~~and~~

(21) *Directory persons* information reporting (*SUP* 16.26); and

(22) value measures data reporting (*SUP* 16.27).

…

Confidentiality and sharing of information

16.3.23 G When the *FCA* receives a report which contains confidential information and whose submission is required under this chapter, it is obliged under *Part 23* of the *Act* (Public Record, Disclosure of Information and Co-operation) to treat that information as confidential~~.~~ (~~See~~ see *SUP* 2.2.4G).

16.3.24 G *SUP* 2.3.12AG states that the *FCA* may pass to other regulators information which it has in its possession. Such information includes information contained in reports submitted under this chapter. The *FCA's* disclosure of information to other regulators is subject to *SUP* 2.2.4G (Confidentiality of information). Also, some value measures data in *SUP* 16.27 is used by the *FCA* to create published guidance. This public disclosure is to assist the *FCA* to discharge its public functions.

…

Insert the following new section after SUP 16.26 (Reporting of information about Directory persons). The text is not underlined.

16.27 General insurance value measures reporting

Application

Who?

16.27.1 R The effect of *SUP* 16.1.1R is that this section applies to every *firm* of a type listed in column 1 of the table in *SUP* 16.27.8R.

16.27.2 R The *rules* in this section do not apply to:

(1) an *incoming firm* in respect of that part of its business that was carried on as an *electronic commerce activity* from another *EEA State*; or

(2) an *incoming firm* where the *state of the risk* is an *EEA State* to the extent that the *EEA State* in question imposes measures of like effect.

What?

16.27.3 R This section applies to a *firm* which has carried on the business described in column 2 of the table in *SUP* 16.27.8R in relation to *general insurance contracts*:

(1) which are of a product type set out in *SUP* 16 Annex 48R;

(2) excluding contracts set out in *SUP* 16.27.4R; and

(3) excluding contracts entered into where the *customer* was habitually resident outside the *UK* at the time.

16.27.4 R This section does not apply in relation to the following types of *general insurance contracts*:

(1) no claims bonus protection;

(2) private medical insurance;

(3) contracts provided with a *packaged bank account*;

(4) contracts entered into by a *commercial customer*; or

(5) *group policies*.

Purpose

16.27.5 G The purpose of this section is to require *firm*s to submit information on certain value measures *general insurance contracts* in a standard format to the *FCA*. This information enables the publication of the value measures data in the pursuance of the *FCA's* effective competition and consumer protection objectives.

Definitions

16.27.6 R In this section and *SUP* 16 Annex 48R, *SUP* 16 Annex 48AR and *SUP* 16 Annex 48BG:

"add-on *policy*" means	a *policy* that is sold in connection with, or alongside, another product.
"average claims pay-out" means	total claims pay-out cost divided by the number of claims where all or part of the claim has been accepted and a pay-out has been made and/or benefits provided and the claim is closed at the end of the reporting period.
"average number of *policies* in force" means	the average number of *policies* in force during the relevant reporting period, calculated by adding up the total *policies* in force at the end of each *month* and dividing by the total number of months in the reporting

	period.
"claim" means	any claim made by a potential beneficiary, including queries in respect of a potentially claimable event or loss (which has taken place).
"claims acceptance rate" means	(a) the number of claims registered; less (b) the number of claims rejected; divided by (c) the number of claims registered.
"claims accepted" means	claims where all or part of the claim has been accepted and a pay-out has been made and/or benefit provided, and the claim is closed or settled during the reporting period.
"claims complaints" means	complaints of a type that are reported in column O of the *DISP* 1 Annex 1R Table 4 or would have been reported if the threshold of 500 opened complaints was disregarded.
"claims complaints as a percentage of claims" means	the percentage calculated using the formula: A/B x 100 where:
	(a) A = claims complaints (b) B = claims registered
"claims frequency" means	the number of claims registered divided by the average number of *policies* in force.
"claims pay-out cost" means	the total costs of providing benefits to *policy* beneficiaries in relation to claims accepted during the reporting period including: (a) the total monetary value (£)

	of claim pay-outs; (b) the total cost incurred by the provider *firm* in providing non-monetary benefits; and (c) specific claims costs incurred by the provider *firm* in handling individual claims including claims investigation costs.
"claims registered" means	all claims during the reporting period less the number of: (a) claims walkaways; (b) claims in respect of which the potential beneficiary reports an event or loss giving rise to the claim but does not wish to make a claim; (c) claims rejected for insurance fraud; and (d) claim rejected because the *policy* has been lawfully voided by the *insurer*.
"claims rejected" means	claims by potential beneficiaries of the *policy*, declined or rejected in the reporting period, regardless of: (a) when the claim was registered; (b) whether or not the claim is rejected at the first notification of loss; (c) whether the claim is rejected for breach of a *policy* condition, pursuant to an applicable *policy* exclusion, due to the application of an excess or otherwise,

	but excluding claims rejected for insurance fraud or because the *policy* has been lawfully voided by the *insurer*.
"claims walkaways" means	claims closed during the reporting period due to the potential beneficiary not pursuing the claim.
"distribution arrangement" means	in relation to the relevant product, each distribution arrangement through which the product is sold, as identified by the consumer facing *firm* or brand.
"no claims bonus protection" means	a *contract of insurance* which will, in the event of a claim, within certain limits, protect the purchaser's number of years during which a person is deemed not to have made a claim for the purposes of calculating the no claims bonus discount incorporated by a provider into the price of a motor insurance product.
"*policy* sales" means	*policies* sold in the reporting period, including renewals, and regardless of the period covered by the contracts.
"reporting period" means	(a) the period beginning on 1 January and ending on 31 December; or (b) any shorter period in accordance with SUP 16.27.12 (2).
"stand-alone *policy*" means	a *policy* that is not sold in connection with, or alongside, another product.
"total gross retail premiums (written)" means	the total amount of gross written premium, based on the premiums charged to the end consumer (excluding insurance premium tax) in relation to policies sold during the reporting period.
"value measures data" means	the data required to be included in a value measures report and set out in

	SUP 16.27.10R to 16.27.11R.
"value measures report" means	the report referred to in *SUP* 16.27.7R.

Requirement to submit a value measures report

16.27.7 R Where a *firm* of a type set out in column 1 of the table in *SUP* 16.27.8R has carried on the business in column 2 of the same row in relation to the products set out in *SUP* 16 Annex 48R, it must:

(1) submit to the *FCA* a report containing the value measures data in relation to that business; and

(2) submit the report in accordance with *SUP* 16.27.12R to *SUP* 16.27.17R.

16.27.8 R This is the table referred to in *SUP* 16.27.7R.

(1) Type of firm	(2) Nature of business
An *insurer* other than an *incoming firm*	all *contracts of insurance effected* by the *insurer*.
An *incoming firm*	all *contracts of insurance effected* by the *incoming firm* from an establishment of the *firm* (or its *appointed representative*) in the *UK*.
An *incoming firm*	all *contracts of insurance effected* by the *firm*: (a) on a *cross border services* basis; and (b) which were not *manufactured* by a *firm* operating from an establishment in the *UK*.
A *firm manufacturing* from an *establishment* in the *UK*	all *contracts of insurance effected* by an *incoming firm* on a *cross border services* basis.
A *firm* which, from an *establishment* in the *UK*, either:	all *contracts of insurance effected* by an *incoming firm* on a *cross border*

(1) *manufactures*; or, if not, (2) advises on or proposes *contracts of insurance* which it does not *manufacture*.	*services* basis in respect of that part of its business that was carried on as an *electronic commerce activity* from another *EEA State*.
An *insurance intermediary*	*contracts of insurance* in relation to which: (a) the *insurance intermediary* carried on or was responsible for *insurance distribution activities*; and (b) the provider entering into the contract as principal is not an *authorised person* in relation to that activity. References to *firms* in *SUP* 16 include references to these unauthorised providers, where the context requires.
A *managing agent*	*any contracts of insurance* written at the *Society*.

16.27.9 R *Firms* must comply with the following in relation to the table in *SUP* 16.27.8R:

(1) where different *insurers* underwrite different elements of the cover that form part of the same *policy*, then the *insurer* underwriting the main part of the cover (and in the event of any doubt, the first part of the cover recorded in the *policy*) must report the value measures data for all elements of the cover (including optional extras and cover extensions);

(2) the exception to (1) is in relation to *policies* which include a legal expenses product element (as described in *SUP* 16 Annex 48R), where the *insurer* of the legal expenses element must separately report the value measures data for the legal expenses element; and

(3) references to *manufacturing* are to *manufacturing* in whole or in part. Where there is more than one *firm* referred to in column 1 that *manufactures* a *contract of insurance*, then only one must report the value measures data and each *firm* must agree in writing with the others which *firm* is responsible.

Content of the report and value measures data

16.27.10 R A value measures report must contain value measures data set out in *SUP* 16.27.11R as follows:

(1) the data must be completed in respect of each of the products set out in *SUP* 16 Annex 48R; and

(2) the data must only be included in relation to each product within the scope of *SUP* 16.27 where both of the following criteria have been met in respect of that product in the relevant reporting period:

(a) total gross retail premiums (written) exceed £400,000; and

(b) more than 3,000 *policies* involving the *firm* in the manner set out in column 2 of *SUP* 16.27.8R are in force.

16.27.11 R The value measures data is:

(1) the number of policy sales;

(2) total gross retail premiums (written);

(3) the number of claims registered;

(4) average number of policies in force;

(5) claims frequency;

(6) the number of claims accepted;

(7) the number of claims rejected;

(8) claims acceptance rate;

(9) total claims pay-out cost;

(10) average claims pay-out;

(11) the amount that the top 2% of claim pay-outs are above;

(12) the names of the five largest distribution arrangements;

(13) the number of claims walkaways;

(14) the number of claims complaints; and

(15) claims complaints as a percentage of claims.

Annual submission date and reporting period

16.27.12 R (1) The value measures report must be submitted annually on or before 28 February and contain information in relation to the immediately preceding reporting period.

(2) Where a *firm* carried on business in relation to one or more of the products set out in *SUP* 16 Annex 48R for part of a reporting period, its value measures report should contain value measures data for the part of the reporting period that it operated.

Format and method of submission and format

16.27.13 R A value measures report must be completed using the form and format set out in S*UP* 16 Annex 48AR, using the notes for completion in *SUP* 16 Annex 48BG.

16.27.14 R The report must be submitted online through the appropriate systems accessible from the *FCA's* website.

16.27.15 R A value measures report will not be considered as submitted to the *FCA* unless all the mandatory reporting fields set out in *SUP* 16 Annex 48AR have been completed correctly and the report has been accepted by the relevant *FCA* reporting system.

16.27.16 G If the *FCA's* information technology systems fail and online submission is unavailable for 24 hours or more, the *FCA* will endeavour to publish a notice on its website confirming that online submission is unavailable and that the alternative methods of submission set out in *SUP* 16.3.9R (Method of submission of reports) should be used.

Value measures disclosure

16.27.17 R Any *firm* that submits a value measures report to the *FCA* must include a statement that:

(1) it understands that the *FCA* produces and publishes *guidance* that contains the value measures data that the *firm* submitted to the *FCA*; and/or

(2) it has informed any other *firm* to whom the relevant value measures data relate that the *FCA* publishes the guidance referred to in (1).

Publication of value measures data by the FCA

16.27.18 G The *FCA* publishes *guidance* that contains the value measures data for the following purposes:

(1) to promote competition in relation to product value, by creating incentives for *firms* to make improvements to products and address poor product performance; and

(2) to protect consumers by reducing the potential for harm caused by the sale or purchase of poor value products.

16.27.19 G The *FCA* publishes firm-level value measures data in bands. The *FCA* will only publish firm-level value measures data in bands for claims frequency, claims acceptance rate, average claims pay-outs and claims complaints as a percentage of claims where the value measures report shows that, in respect of the relevant product, both of the criteria in *SUP* 16.27.10R(2)(a) and (b) have been met.

Insert the following new annexes SUP 16 Annex 48R, 16 Annex 48AR and 16 Annex 48BG after SUP 16 Annex 47BG (Guidance notes for Directory persons report in SUP 16 Annex 47AR). The text is not underlined.

16 Annex 48R Products covered by the reporting requirement in SUP 16.27.7R

Product	Product definition
Alloy wheel insurance	*contracts of insurance* against the risks of loss in relation to vehicle alloy wheels.
Breakdown insurance	*contracts of insurance* under which benefits are provided in the event of an accident to or breakdown of a vehicle including those where the effecting and carrying out is excluded from article 10(1) or (2) of the *Regulated Activities Order* by article 12(1), but excluding parts and garage cover *contracts of insurance*.
Dental cover	*contracts of insurance* providing benefits in the nature of indemnity, with or without limit, or fixed pecuniary benefits (or a combination of both) against risks of loss to the persons insured attributable to their

	incurring the cost of dental work.
Excess protection (for motor insurance)	*contracts of insurance* to cover the risks of incurring an excess in the event of a motor insurance claim.
Extended warranty – furniture	*contracts of insurance* against the risks of loss attributable to damage to furniture and having the effect as if the manufacturer's or vendor's warranty on the furniture is extended for a period of time or is extended in scope.
Extended warranty – electrical goods	*contracts of insurance* against the risks of loss attributable to failure of an electrical product (excluding motor vehicles and personal gadgets) and having the effect as if the manufacturer's or vendor's warranty on the product is extended for a period of time or is extended in scope.
Extended warranty – motor	*contracts of insurance* against the risks of loss to the persons insured attributable to failure of a motor vehicle and having the effect as if the manufacturer's or vendor's warranty on the motor vehicle is extended for a period of time or is extended in scope.
Gadget (including mobile phone)	*contracts of insurance* against the risks of loss attributable to loss, breakdown or failure of a personal electronic gadget (including mobile phones).
GAP contracts	see *Glossary* definition.
Healthcare cash plan	*contracts of insurance* providing fixed pecuniary benefits against risks of the persons insured requiring health care for sickness, infirmity, dental work or injuries sustained.
Home – buildings	*contracts of insurance* against loss of or damage to the structure of (but not the contents of) domestic properties.
Home – buildings and contents	*contracts of insurance* against loss or damage to either the structure or contents of domestic properties and including cover against risks of incurring liabilities to third parties arising out of injuries sustained within the boundary of a domestic property.
Home – contents	*contracts of insurance* against loss of or damage to the contents of (but not the structure of) domestic properties.
Home emergency	*contracts of insurance* providing assistance in the event of home emergencies.
Identity theft	*contracts of insurance* relating to assistance in the event of identity theft.
Key cover	*contracts of insurance* to cover the risks of loss arising from lost, stolen and/or broken keys.

Legal expenses	*contracts of insurance* (or cover within a *policy*) against the risks of loss to the persons insured attributable to their incurring legal expenses including costs of litigation.	
Missed Event/Ticket insurance	*contracts of insurance* against the risk of loss of use of the ticket (excludes *travel policies*).	
Mortgage payment protection	*payment protection contracts* enabling a *policyholder* to protect their ability to continue to make payments due to third parties in respect of mortgages.	
Motor	*motor vehicle liability*, where the *vehicle* has more than two wheels and is not a motorcycle with side-car and:	
	(a)	the primary purpose of each *vehicle* insured on the contract is to transport nine or fewer non-fare paying persons and each *vehicle* insured on the contract is individually rated;
	(b)	the primary purpose of each *vehicle* insured on the contracts is to transport nine or fewer non-fare paying persons the persons insured are not a body corporate or partnership, and the number of *vehicles* insured on the contract is three or less; or
	(c)	the primary purpose of each *vehicle* insured on the contracts is to transport ten or more non-fare paying persons, the persons insured are not a body corporate or partnership and each *vehicle* insured on the contract is individually rated.
Motorcycle	*motor vehicle liability* in respect of two-wheeled *vehicles* or motorcycles with a side car.	
Parts and garage cover	*contracts of insurance* to cover the risks of incurring parts and garage repair costs in the event of a motor vehicle breakdown, but excluding breakdown insurance.	
Payment protection (including credit card, store cards and personal loans)	*payment protection contracts* enabling a *policyholder* to protect their ability to continue to make payments due to third parties other than in respect of mortgages.	
Personal accident	*contracts of insurance* providing fixed pecuniary benefits and/or benefits in the nature of indemnity against the risks of a beneficiary:	
	(a)	sustaining injury as a result of an accident; or
	(b)	dying as a result of an accident; or
	(c)	becoming incapacitated in consequence of disease,

	but excluding healthcare cash plans and private medical products.
Pet – accident only policies	*contracts of insurance* against the risk of loss to the person insured attributable to accidents to domestic pets, providing for each accidental injury.
Pet – lifetime policies	*contracts of insurance* against risk of loss to the person insured attributable to new illness or injury to domestic pets, providing a set amount of cover each year the *policy* remains in force.
Pet – maximum benefit policies	*contracts of insurance* against risk of loss to the person insured attributable to sickness of or accidents to domestic pets providing a fixed maximum benefit for each illness or injury.
Pet – time-limited policies	*contracts of insurance* against risk of loss to the person insured attributable to sickness of or accidents to domestic pets to cover the treatment of each illness or injury and a set time period for which treatment of each illness or injury will be covered.
Single trip – travel	*contracts of insurance* against a risk of loss to the persons insured attributable to a travelling on single-trip or to their making of travel arrangements for a single trip.
Travel (annual) – EU	*contracts of insurance* against a risk of loss to the persons insured attributable to their travelling or to their making of travel arrangements, covering the *UK* and/or the *EU* for a year.
Travel (annual) – worldwide	*contracts of insurance* against a risk of loss to the persons insured attributable to their travelling or to their making of travel arrangements, covering worldwide travel (excluding European-only travel insurance) for a year.
Tyre insurance	*contracts of insurance* to cover the risks of loss arising from the need to repair or replace motor vehicle tyres.
Vehicle cosmetic insurance	*contracts of insurance* to cover the risks of loss arising from cosmetic damage to motor vehicles *such as minor scratches and dents*. (excludes motor and motorcycle insurance policies).
Vehicle misfuelling insurance	*contracts of insurance* to cover the risks of loss arising from putting the wrong fuel into motor vehicles.
Vehicle pothole insurance	*contracts of insurance* to cover risks of loss arising from vehicle damage caused by potholes.
Wedding and party insurance	*contracts of insurance* against the risk of loss arising from the cancellation of weddings or private parties.

16 Annex 48AR Value measures report form (REP019)

REP019- Value measures report

1	Reporting period covered by this report	Year ended 31/12/XXXX
2	Is this the first report or restatement?	
3	Reporting Firm	FRN Number
4	Please confirm that the reporting firm understands that the FCA produces and publishes guidance that contains the value measures data information that the firm submitted to the FCA	
5	Please confirm that the reporting firm has informed any other firm to whom the relevant value measures information data relate that the FCA publishes the guidance	

Product category	Add-on or stand-alone or all	Distribution arrangement	Number of policy sales to UK consumers	Total retail premiums (written)	Number of claims registered	Average number of policies in force	Claims frequency	Number of claims where all or part of the claim has been accepted and a pay-out has been made (and the claim is closed at the year-end)	Number of claims that have been rejected in the year	Claims acceptance rate	Total claims pay-out cost (for claims where all or part of the claim has been accepted and a pay-out has been made and the claim is closed at the year-end)	Average claims pay-out	The amount that the top 2% of claim pay-outs are above	Number of claim walkaways	Number of claims complaints	Claims complaints as a % of claims
			Number	£'000	Number	Number	%	Number	Number	%	£'000	£	£	Number	Number	%
Alloy wheel insurance	Add-on	Names of five largest distribution arrangements														
Alloy wheel insurance	Stand-alone	Names of five largest distribution arrangements														
Dental cover	All	Names of five largest distribution arrangements														
Excess protection (for motor insurance)	Add-on	Names of five largest distribution arrangements														
Excess protection (for motor insurance)	Stand-alone	Names of five largest distribution arrangements														
Extended warranty - electrical goods	Add-on	Names of five largest distribution arrangements														
Extended warranty - electrical goods	Stand-alone	Name of five largest distribution arrangements														
Extended	Add-	Names of five														

warranty - furniture	on	largest distribution arrangements														
Extended warranty - furniture	Stand-alone	Names of five largest distribution arrangements														
Extended warranty - motor	Add-on	Names of five largest distribution arrangements														
Extended warranty - motor	Stand-alone	Names of five largest distribution arrangements														
Gadget (including mobile phone)	Add-on	Names of five largest distribution arrangements														
Gadget (including mobile phone)	Stand-alone	Names of five largest distribution arrangements														
GAP insurance	Add-on	Names of five largest distribution arrangements														
GAP insurance	Stand-alone	Names of five largest distribution arrangements														
Healthcare cash plan	All	Names of five largest distribution arrangements														
Home - buildings only	All	Names of five largest distribution arrangements														
Home - contents only	All	Names of five largest distribution arrangements														
Home (buildings and contents combined)	All	Names of five largest distribution arrangements														
Home emergency	Add-on	Names of five largest distribution arrangements														
Home emergency	Stand-alone	Names of five largest distribution arrangements														
Identity Theft	All	Names of five largest distribution arrangements														
Legal expenses - home	All	Names of five largest distribution arrangements														
Legal expenses - motor	All	Names of five largest distribution arrangements														
Legal expenses - other	All	Names of five largest distribution arrangements														
Missed event/ticket	All	Names of five largest distribution arrangements														
Motor	All	Names of five largest distribution arrangements														
Motor cycle	All	Names of five largest distribution arrangements														
Parts and garage cover	All	Names of five largest distribution arrangements														
Payment protection (credit card, store cards and	All	Names of five largest distribution arrangements														

personal loans)																
Payment protection (mortgage)	All	Names of five largest distribution arrangements														
Personal accident	Add-on	Names of five largest distribution arrangements														
Personal accident	Stand-alone	Names of five largest distribution arrangements														
Pet - accident only	All	Names of five largest distribution arrangements														
Pet - covered for life	All	Names of five largest distribution arrangements														
Pet - Maximum benefit	All	Names of five largest distribution arrangements														
Pet - time limited	All	Names of five largest distribution arrangements														
Ticket cancellation insurance	All	Names of five largest distribution arrangements														
Travel - Annual European	All	Names of five largest distribution arrangements														
Travel - Annual Worldwide	All	Names of five largest distribution arrangements														
Travel - single trip	Add-on	Names of five largest distribution arrangements														
Travel - single trip	Stand-alone	Names of five largest distribution arrangements														
Tyre Cover	Add-on	Names of five largest distribution arrangements														
Tyre Cover	Stand-alone	Names of five largest distribution arrangements														
Vehicle breakdown	Add-on	Names of five largest distribution arrangements														
Vehicle breakdown	Stand-alone	Names of five largest distribution arrangements														
Vehicle cosmetic insurance	Add-on	Names of five largest distribution arrangements														
Vehicle cosmetic insurance	Stand-alone	Names of five largest distribution arrangements														
Vehicle misfuelling insurance	Add-on	Names of five largest distribution arrangements														
Vehicle misfuelling insurance	Stand-alone	Names of five largest distribution arrangements														
Wedding and party insurance	All	Names of five largest distribution arrangements														

16 Annex 48BG **Notes on completing the value measures report form (REP019)**

Proforma column	Proforma	Guidance
B	Add-on policies and stand-alone policies sales	Where cover is included within the main *policy* or sold as an optional extra or a cover extension of the *policy* (A) and not a separate *policy* then that cover should be reported as part of the reporting for *policy* (A). The only exception to this approach is the reporting of legal expenses cover which should be reported separately in any event.
F	Number of claims registered	Examples of how the number of claims registered should be reported are set out below: Scenarios Where an event covers multiple claim components this should be reported as a single claim. This could include multiple treatments for a single condition for pet insurance, which would be treated as a single claim. Where a person contacts the *firm* to report an event as required under their insurance *policy* but does not wish to make a claim, this should not be reported as a claim registered. Where a customer initially calls, or contacts the *firm*, to make a claim and is advised at that time that the loss is not covered or the claim is below the *policy* excess and decides not to pursue a potential claim further then this should be reported as a claim registered and a rejected claim. Where a person rings the *firm* to ask a general or hypothetical question about their *policy* or the cover, or checks their *policy* coverage online then this should not be reported as a claim registered. Where a claim is registered but not subsequently pursued (including where the customer does not contact the *firm* again) and the *firm* closes the claim within a reasonable period then the claim should be removed from claims registered (in the period that the claim is closed) and treated as a claims walkaway in that period.

I	Number of claims accepted	Examples of how the number of claims accepted should be reported are set out below: Scenarios If a *firm* pays out on one element of a claim, but is still investigating another element of the claim at the end of the relevant reporting period (i.e. the claim is still open) then this claim should only be reported as a claim accepted in the reporting period in which: (a) the final pay-out has been made; or (b) the claim is otherwise closed. If a *firm* pays out on one or more elements of a claim, but rejects other elements of the claim (and the claim is now closed by the end of the reporting period) then this claim acceptance should be reported in this data field. If a *firm* pays out on one or more elements of a claim and there are no outstanding elements of the claim at the year end and it is closed, these claims should be included. If in the subsequent period, the claim is reopened then this subsequent element of the claim should not be included in this data field.
J	Claims rejected	For the purposes of the report *firms* may use the description of insurance fraud in the Insurance Fraud Register (see http://www.theifr.org.uk/en/faqs/#1175). An example of a claim rejected because of breach of condition of the *policy* is where a claimant failed to notify the provider within an appropriate time period after an event that was likely to result in a claim. An example of a claim rejected because there is no cover is where the claim falls within an exclusion under the terms and conditions. *Firms* should include claims rejected at the first notification of loss. *Firms* should include claims whether or not they were registered in the same reporting period as they were rejected. Examples of how *firms* should report rejected claims are set out below: Scenarios

		Where a *firm* rejects one element of the claim but other element(s) of the claim are still being investigated and are outstanding then this partial rejection should not be included in this data field for this reporting period. However, if in the following period the remaining elements of the claim are rejected then the claim rejection should then be included in this data field for that later reporting period. Where a *firm* accepts one element of the claim but rejects another element of the claim, this should not be treated as a rejected claim. Where a claim has been rejected because the *policy* has been voided, this should not be treated as a rejected claim. Where a customer has contacted the wrong *insurer* or provider to make a claim – this should not be included in the registered and rejected claims data. Where a person contacts the *firm* to enquire whether they are covered for a claim (relating to an event that has taken place or loss that has occurred) and are informed that they are not covered, then this should be included in both claims rejected and claims registered. Where an *insurer* or provider is part of a panel and the panel provider may not record which *insurer*/providers on the panel rejected the claim – *firms* may estimate their number of rejected claims by calculating a proportion of rejected claims in line with the *insurer*/provider's share of the business. Where a claim is closed and the only cost incurred is an investigation fee or cost (e.g. a call-out charge) and the claim is rejected then this should be treated as a rejected claim. However, if following the investigation the customer walks away from the claim then the claim should not be treated as a rejected claim. Where a claim is registered and some elements of the claim have been rejected, but the customer has walked away from the remaining elements of the claim then this should be treated as a rejected claim.
L	Total claims pay-out cost	These costs could include both internal and external outsourced costs, where relevant. For example, loss assessment activities performed in-house could be included, including both the direct cost and an appropriate apportionment of overheads.

		Excluded costs are: • expenses including costs associated with the general handling of claims; • other non-claims costs; and • costs of providing a regular service element such as a helpline or a boiler service for home emergency. Scenarios Where part of the claim was paid-out in the previous reporting period and part in the current reporting period, then the claim pay-out that took place in the previous period should be included in the calculation for the total pay-out in the current reporting period. Where a claim has been closed/settled in the previous period but the claim has been reopened in the current reporting period, any additional claim pay-out should be included in this field. Where *firms* subsequently receive recoveries from other *firms* these recoveries should be netted off against the relevant claim pay-outs. Where a claim is settled, but the settlement includes a regular payment element then the settlement value as it is reported on the *firm's* system should be included in the cost.
N	Top 2% of claims	*Firms* should report the amount that the top 2% of claim pay-outs are above in the reporting period. For example, if you have 100 claims then the 2% column would be the total claim pay-out cost for the claim accepted with the 2nd highest claim.
Q	Claims complaints as a % of claims	This may be calculated as the number of claims complaints divided by the number claims registered.

Amend the following as shown.

TP 1 Transitional provisions

…

TP 1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
19	…				
20	*SUP* 16.27	R	This section applies to any activities upon which the value measures data in *SUP* 16.27.11R is based and which are carried out after 1 July 2021, regardless of the effective date of any particular *general insurance contract*.	From 1 July 2021	1 July 2021
21	*SUP* 16.27.12	R	The first value measures report to be provided on 28 February 2022 will have a reporting period of 1 July 2021 – 31 December 2021 and references to "reporting period" should be read accordingly.	From 1 July 2021 to 1 March 2022	1 July 2021

…

Annex C

Amendments to the Product Intervention and Product Governance sourcebook (PROD)

This Annex comes into force on 1 January 2021.

In this Annex, underlining indicates new text, unless otherwise stated.

1 Product Intervention and Product Governance Sourcebook (PROD)

…

1.4 Application of PROD 4

…

1.4.1A R *PROD* 4.5 (Additional expectations for manufacturers and distributors in relation to value measures data) applies regardless of when the product was first manufactured.

Insert the following new section PROD 4.5 (Additional expectations for manufacturers and distributors in relation to value measures data), after PROD 4.4 (Additional expectations for manufacturers and distributors of insurance products). The text is not underlined.

4.5 Additional expectations for manufacturers and distributors in relation to value measures data

Application and definitions

4.5.1 R *PROD* 4.5 applies to a *firm* which *manufactures* or *distributes* a *general insurance contract* product which is the subject of a reporting requirement within *SUP* 16.27 (General insurance value measures reporting).

4.5.2 R In this section:

"value measures product" means	a product which is the subject of a reporting requirement within *SUP* 16.27, regardless of when that product was first *manufactured*.
"value measures information" means	both the individual value measures data reported to the *FCA* by a *firm* as well as the value measures data relating to other *firms* published by the *FCA*, including that based on value measures data reported to it under *SUP* 16.27.

Manufacturers of value measures products

4.5.3 R A *firm* which *manufactures* (in whole or in part) a value measures product must comply with the requirements in *PROD* 4.5.4R.

4.5.4 R The requirements on *manufacturers* referred to in *PROD* 4.5.3R are:

(1) that in relation to existing value measures products the *firm* has effective procedures in place to ensure that, on a continuing basis, the product offers fair value to *customers* in the target market, taking into account, among other things:

(a) the needs of the target market;

(b) the *firm's* reasonable assessment of the value expectations of *customers* in the target market;

(c) the value measures information, within a reasonable period;

(d) any particular features of the product or the terms and conditions that may give rise to concerns about poor value;

(e) appropriate product testing including scenario analysis and testing on *consumers*; and

(f) the charging structure of the product including examination of whether the costs and charges are compatible with how useful the product is to *consumers* and the transparency of costs and charges.

[**Note:** The requirement in *PROD* 4.5.4R(1)(c) applies from 1 July 2021, when *SUP* 16.2 will be in force.]

(2) that in relation to new products and significant adaptations to existing products, the *firm's* product approval process in *PROD* 4.2.1R, product testing in *PROD* 4.2.22EU including considerations in *PROD* 4.2.25R and the review of products in *PROD* 4.234R also incorporate the procedures and considerations in (1) above.

(3) *manufacturers* that identify any aspects of a product that may mean the product does not offer fair value, must:

(a) take appropriate action to mitigate the situation and/or prevent further occurrences of any possible detriment to customers;

(b) inform any relevant distributors promptly about remedial action being taken; and

(c) where relevant, not bring new products to market or make any proposed changes.

(4) *manufacturers* must regularly review the products it offers or markets to ensure they continue to offer fair value taking into account any event that could materially affect whether this remains the case.

(5) where the *firm* is required to submit a value measures report by *SUP* 16.27.7R, that the *firm* takes all reasonable steps to set up arrangements with *firms* entering into *contracts of insurance* as principal in relation to those products, to enable it to obtain the value measures data required to be included in the value measures report.

(6) where there is more than one *manufacturer* they must all outline in writing their mutual responsibilities arising under *PROD* 4.5.3R and 4.5.4R.

4.5.5 G *PROD* 4.5.4R(1)(f) does not affect the *manufacturers'* freedom to set premiums.

Distributors of value measures products

4.5.6 R Where a *firm distributes* a value measures product that it does not *manufacture* it must comply with the requirements in *PROD* 4.5.7R.

4.5.7 R The requirements on *distributors* referred to in *PROD* 4.5.6R are:

(1) that in relation to existing products it distributes, and any new products it proposes to distribute, the *firm* has procedures in place to consider, on a continuing basis, whether the product offers fair value to *customers* in the target market, taking into account the factors in *PROD* 4.5.4R(1)(a) to (f);

(2) where the *firm* is required to submit a value measures report by *SUP* 16.27.7R, that the *firm* takes all reasonable steps to have arrangements with the *manufacturer* of the value measures products and/or *firms* or persons entering into *contracts of insurance* as principal in relation to those products, to enable it to obtain the value measures data required to be included in the value measures report;

(3) *distributors* that identify any aspects of a product that may mean the product does not offer fair value, must:

(a) take appropriate action to mitigate the situation and/or prevent further occurrences of any possible detriment to *customers*, including, where appropriate, amending their distribution strategy for that product; and

(b) inform any relevant *manufacturers* promptly about any concerns they have and any action the *distributor* is taking.

Insert the following new Transitional Provisions, PROD TP 1, after PROD 5 (Extended warranties sold with rent-to-own agreements: customer information and deferred opt-in). The text is not underlined.

TP 1 Transitional Provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.1	*PROD* 4.5R (in particular, *PROD* 4.5.1R, *PROD* 4.5.2R, *PROD* 4.5.4R(5) and *PROD* 4.5.7R(2)).	R	For the purposes of giving effect to the *rules* in *PROD* 4.5R only, any reference to being subject to a reporting requirement within *SUP* 16.27R must be read as if *SUP* 16.27R came into force on 1 January 2021.	From 1 January 2021 to 1 July 2021	1 January 2021

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