

Email: giconsumerduty@fca.org.uk

03 February 2023

Dear CEO/Director,

Implementing the Consumer Duty in the General Insurance and Pure Protection sectors

The Consumer Duty (the Duty) is a significant shift in our expectations of firms. It introduces a more outcomes-focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers.

We are sending this letter to firms in the General Insurance (GI) and Pure Protection (PP) sectors to help them implement and embed the Duty effectively. This letter sets out:

- A reminder of the implementation timeline, key elements of the Duty and how it applies to firms in the GI/PP sectors
- Our expectations for how firms should embed the Duty in the GI and PP sectors, including relevant examples of good and poor practice
- Feedback from our recent review of firms' implementation plans
- Our approach to supervising the Duty in the GI and PP sectors and planned next steps

We expect the Consumer Duty to be a top priority for you personally. We want good outcomes for customers to be at the heart of firms' strategies and business objectives, and leaders have a key role to play here. Firms' boards and senior management should embed the interests of customers into their firms' culture and purpose.

Your timeline for introducing the Duty

In July 2022 we published final rules and guidance for firms, containing the following timeline for them to implement the Duty:

- By the end of October 2022 firms' boards or management bodies should have agreed their plans for implementing the Duty
- By the end of April 2023, manufacturers should have completed all reviews necessary to meet the outcome rules and shared necessary information with their distributors
- The Duty comes into force on 31 July 2023 for new and existing products or services that are open to sale or renewal
- On 31 July 2024 the Duty comes into force for closed products or services

While our work on the Duty pre-dates the cost of living crisis, it is particularly important as consumers face increasing pressures on their household finances. Even before the crisis, consumers were being asked to make an increasing number of complex and important decisions in a faster and increasingly complex environment. But the crisis underlines the need for high standards and strong protections. It is more important than ever that consumers can make informed, effective decisions, act in their interests and pursue their financial objectives.

How the Duty applies to firms in the GI and PP sectors

The Duty applies to products and services offered to retail customers, and to all firms who determine or have a material influence over customer outcomes - not just those with a direct customer relationship.

For the purposes of the Duty, retail customers include some commercial customers to the extent that relevant sectoral rules already apply. This means that, for firms subject to the Insurance Conduct of Business Sourcebook (ICOBS), the scope of the Duty follows the position in this sourcebook. The Duty does not apply to reinsurance, contracts of large risk sold to commercial customers or other contracts of large risk where the risk is located outside the UK. Nor does it apply to activities connected to the distribution of group insurance policies or the extension of these policies to new members.

We've set out some more information and examples about how the Duty applies to firms in these sectors in Annex 1 to this letter.

Overview of the requirements of the Duty

We published [Finalised Guidance](#) in July to provide firms with a full explanation of the requirements of the Duty, including many helpful examples of good and poor practice.

The Duty requires firms to act to deliver good outcomes for retail customers. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives. Firms should consider the diverse needs of their

customers – including those with characteristics of vulnerability (see chapters 4-5 of the Guidance).

The Duty also introduces new rules and guidance to ensure that:

- **Products and services** are designed to meet the needs, characteristics and objectives of a specified target market (chapter 6)
- **Price and value:** Products and services provide fair value with a reasonable relationship between the price consumers pay and the benefit they receive (chapter 7)
- **Consumer understanding:** Firms communicate in a way that supports consumer understanding and equips consumers to make effective, timely and properly informed decisions (chapter 8)
- **Consumer support:** Firms provide support that meets consumers' needs throughout the life of the product or service (chapter 9)

In GI and PP, PROD 4's introduction in October 2018, (further amended in 2021) brought in product governance rules, which have a different scope compared to the Duty. Products and services must provide fair value with a reasonable relationship between the price customers pay, and the benefit they receive. The existing PROD 4 rules, where implemented correctly, will mean firms in these sectors will already be meeting the requirements of the Duty's products and services and price and value outcomes.

A key part of the Duty is that firms are able to define, monitor, evidence and stand behind the outcomes their customers are experiencing (chapter 10). This monitoring must enable firms to identify where customers, or groups of customers, are experiencing poor outcomes, and where this is the case, firms must take appropriate action to rectify the situation.

The Duty does not have a retrospective effect and does not apply to past actions by firms. However, it does apply, on a forward-looking basis, to firms' ongoing work for existing customers (chapter 3).

Our expectations for how firms should embed the Duty in the GI and PP sectors

Whilst you should consider all elements of the Duty, this letter sets out below the initial areas where you should particularly focus, considering the potential harms in the sectors. We expect your firm's senior management to carefully consider the contents of this letter and, in light of the issues it sets out, take any necessary steps to ensure that your firm will be compliant with the Duty on 31 July 2023, for new and existing products or services.

- **Effectiveness of product governance arrangements:** Consumers are at risk of purchasing products and/or services that do not put their customers' needs first or that represent poor value, which may be due to the nature of the products themselves and/or the pricing structure. Firms need to review if their products and services are

delivering fair value. Where problems are identified, we expect firms to fix them. We will be paying particular attention to firms' product governance arrangements, including how they evidence that their products offer fair value to retail customers.

- **Effectiveness of communication with consumers:** Firms should ensure that consumers receive timely information, and in a format that will enable them to make informed decisions on whether a product meets their needs. The Duty will require that firms test, monitor and adapt communications to support understanding and good outcomes for customers. Firms should review whether they are applying the same standards, to ensure their communications are delivering good consumer outcomes, as they do to ensure their communications generate sales and revenue.
- **Claims processes and outcomes:** For consumers, the experience of making a claim will generally be when the product's value and service are put to the test. The 'communication to retail customers' section of the Duty is relevant here (PRIN 2A.5) - firms should ensure they support consumer understanding and deliver good outcomes throughout the claim journey, through timely and appropriate communications. We expect firms to ensure customers are at the centre of the claims process, so that unreasonable delays to claims processing are avoided and fair claims settlements are made.

More detail on these issues and how they apply to firms in the GI and PP sectors, grouped by the relevant Consumer Duty outcome, is set out in Annex 2.

Feedback from our review of implementation plans

On 25 January we [published feedback](#) for firms on the implementation plans we reviewed. This feedback contains examples of good practice, and areas for improvement, which will be useful for all firms to review as they implement the Duty.

We are pleased that many of the plans we reviewed showed that firms have understood and embraced the shift to focus on consumer outcomes, established extensive programmes of work to embed the Duty, and are engaging with the substantive requirements.

However, we did also identify plans that suggested some firms may be further behind in their thinking and planning for the Duty. This brings a risk that they may not be ready in time, or they may struggle to embed the Duty effectively throughout their business.

We have identified three key areas where firms should particularly focus their attention during the second half of the implementation period (to 31 July 2023):

- **Effective prioritisation:** We saw some plans where it was not clear what the basis was for prioritising some implementation work ahead of other aspects. Firms should make sure they are prioritising appropriately, focusing on reducing the risk of poor consumer outcomes and assessing where they are likely to be furthest away from the requirements of the Duty.

- **Embedding the substantive requirements:** We saw some plans that suggested firms may have considered the requirements superficially or are over-confident that their existing policies and processes will be adequate. We urge firms to carefully consider the substantive requirements of the Duty, so that when they are reviewing their products and services, communications and customer journeys, they identify and make the changes needed to meet the new standards.
- **Working with other firms:** To implement the Duty on time, many firms need to work and share information with other firms in the distribution chain. However, some firms may need to accelerate their work on this important aspect of implementation. Firms should be considering where and how they work with third parties to deliver products and services to customers and making sure these arrangements will meet expectations under the Duty. This includes other firms in the distribution chain and where firms outsource the delivery of services to other parties. In particular, manufacturers and distributors will need to work together and share information. GI and PP distribution chains can be complex and relationships can be challenging. However, it is also essential for firms to recognise this and to invest the necessary time and commitment to meet the requirements of the Duty.

We recognise that most firms will have significant programmes of work to implement the Duty. Many firms have made good progress and we are encouraged that some firms have already implemented appropriate product governance in line with existing PROD rules. However, our review of the implementation plans from a sample of GI and PP firms found that many of them were high-level in nature and lacked sufficient granularity to demonstrate how firms would embed the Duty by the July 2023 deadline.

As they oversee the implementation of the Duty, firms' boards and management bodies will want to particularly focus and provide challenge in the three areas above, as well as the wider points in the feedback published online. We expect you to contact us as soon as possible if you feel your firm will not be compliant by the July 2023 deadline.

Our supervisory approach and next steps

The Consumer Duty is a cornerstone of the FCA [three-year strategy](#), and a key element of our work to set and test higher standards between now and 2025. It is being prioritised at every level of the FCA, from the board down, and will drive our supervision strategies and prioritisation.

As part of this work, we are developing a strategy for GI and PP sectors to embed the Duty in our Supervision work and tackle key harms, as well as metrics to measure the impact of the Duty in the sector.

The areas highlighted in this letter are likely to be the primary focus of our future supervisory work. We may ask you for evidence of how you have made the necessary changes to your

business in light of the Duty and this letter, either in the course of our ongoing engagement with your firm, by phone call, or during a visit to your premises. You should expect to see us acting much faster and more assertively where we find firms not meeting the requirements of the Duty.

We will continue our work to support firms' embedding activities in the run-up to the July 2023 implementation deadline. Our programme of communications on the Duty will continue, with further events and updates to our dedicated [webpages](#). We are working with an external research agency that will soon be sending a short survey to a sample of firms. This anonymised survey will help us understand the progress firms are making in implementing the Duty and will inform our ongoing communications to firms.

For more information:

- Read our **Finalised Guidance** [Finalised Guidance \(FG22/5\)](#)
- Consider our [feedback](#) on our **review of implementation plans**
- Visit our **Consumer Duty homepage** www.fca.org.uk/firms/consumer-duty where you will find additional information about the Consumer Duty, on-demand webinars and [podcasts](#), and the option to sign up for email updates

If you have any questions, you can **email us** at giconsumerduty@fca.org.uk.

Yours faithfully

Matt Brewis
Director of Insurance
Supervision, Policy & Competition - Consumers & Competition

Annex 1 – How the Duty applies to GI and PP firms

Vulnerable customers

The Duty builds on our recent work on vulnerability. It requires firms to consider the diverse needs of their customers – including those with characteristics of vulnerability – at every stage of the product or service lifecycle.

From our work to date, we know there is more to be done for firms to evidence they have robust processes for identifying and recording which customers are vulnerable, and what support they need.

Our [Guidance on the fair treatment of vulnerable customers \(FG21/1\)](#) is still relevant as firms should already be meeting the expectations. Failing to do so is likely to breach the requirements set out under the Duty.

Cost of living

The cost of living crisis presents particular difficulties for vulnerable customers. We've set out our expectations of firms in relation to this for all customers, including for those with vulnerable characteristics below.

All firms offering GI products, should refer to our [Dear CEO Letter](#) on cost of living, issued in September 2022. In this letter we set out our expectations in relation to customers who are in financial difficulty. We are consulting on replacing the insurance aspects of our previous guidance for insurance and premium finance for customers in financial difficulty due to coronavirus (Covid-19), with insurance guidance that applies to all customers in financial difficulty ([CP23/1](#)). Our proposed guidance will help firms meet their obligations under our [Customer's Best Interests rule](#) and Principle 12 (good outcomes for customers).

Firms offering GI products with premium finance should also consider whether the level of interest charges for customers who can only afford to pay their insurance premiums monthly, will meet the requirements of the Duty. In particular, firms offering premium finance should be able to evidence that their proposition will meet the requirements of the Duty's price and value outcome.

We expect the price charged for premium finance to be proportionate with the cost of providing the service. As there is very limited credit risk, we would expect to see this reflected in the APR charged to customers.

Appointed Representatives (ARs) regime

We know that many GI and PP firms use ARs and this can bring benefits such as supporting innovation, providing more choice and driving competition in the market. However, we have seen increasing harm from the AR model, as set out on page 4 of our [policy statement](#).

On aggregate, we found that principal firms and their ARs generated up to 400% more supervisory cases and complaints than other directly authorised firms.

In August 2022, we confirmed new rules to make authorised financial firms more responsible for their ARs. Our rules came into force on 8 December 2022, which clarify and strengthen the responsibilities and expectations of principals. We require principals to provide more information on ARs including Introducer Appointed Representatives (IARs).

The changes we are making to the AR regime go hand-in-hand with the Duty. If you are a Principal firm, you should ensure that you have appropriate controls in place to effectively oversee your ARs' activities and ensure that your ARs comply with the Duty. Principals should read our [updated rules](#) and expectations and take necessary steps to comply with the changes.

Annex 2 – Key things for firms to consider

The products and services, and the price and value outcomes

In a similar way to existing rules in PROD 4, the Duty requires that products and services are designed to meet the needs, characteristics and objectives of a specified target market and that they are not sold outside of that target market. These products and services must also be tested and monitored to check they work as expected and that any harms are addressed. Where a firm is subject to PROD 4 for a product, it should continue to comply with those rules.

The Duty and PROD 4 also require firms to have in place product oversight and governance to evidence that products sold to retail customers represent fair value. Firms subject to the value rules in PROD 4 for non-investment insurance should continue to comply with those rules rather than the price and value outcome under the Duty. Conformance with PROD 4 is not merely a matter of having appropriate product governance arrangements in place, it is also about how retail customers are treated. We question the extent to which firms are complying with these rules as we are not currently aware of any products being taken off the market due to fair value concerns. We will be publishing further analysis around this area in the coming months as part of our multi-firm review work.

In November 2022, we published our findings on [General Insurance Value Measures Data](#). If you provide products and services within the scope of the data, we expect you to review this data and consider whether the products you offer represent fair value to retail customers. We will also be looking closely at product oversight and governance arrangements, including fair value assessments ahead of the Duty coming into force.

Our review of the [General Insurance Value Measures Data](#) found that:

- Claims costs as a proportion of premium ranged from 5.21% for GAP insurance as an add-on to 65.95% for motorcycle insurance.
- For some products, add-ons have on average lower claim costs as a proportion of premiums, compared to the corresponding standalone product.
- We note that products with the lowest percentage of premiums paid out in claims included GAP insurance (add-on and standalone), travel insurance (various), excess protection insurance (add-on) and personal accident insurance (add-on).

Fair value assessments

We have seen some firms take a tick-box approach to fair value assessments. We question whether this represents an appropriate assessment of whether a product will deliver fair value to customers. We expect firms to consider a diverse range of factors when assessing fair value. For example, a product may be sold as an add-on to a credit product (payment protection insurance), or as an add-on (such as legal expenses cover) to another insurance product. These types of products may produce low claims frequencies and claims ratios. We

would expect fair value assessments to include an analysis of data that results in considered commentary and a conclusion as to whether the product provides fair value. The mere restatement of data such as loss ratios, claims frequencies, specified target markets and distribution methods without analysis, context and a conclusion, would not, in our view, be sufficient to deliver an adequate assessment that a product provides fair value.

Metrics such as price and loss ratios are not the only factors that can be considered in a fair value assessment. A product may contain a service that is of benefit to customers, the cost of which may also be factored into the fair value assessment. For example, a provider of private medical insurance (PMI) carried out research which found that approximately 50% of people with health insurance said they wouldn't know how to find the right consultant if they needed treatment, and 90% wanted their health insurer to assist.

The PMI provider introduced a new category of medical consultant to support customers in making informed choices about their healthcare. The consultants were rated 'good' or 'excellent' by over 95% of the PMI provider's patients. Claims information demonstrated that customers treated by these consultants had shorter hospital stays on average than those treated by other consultants. Customers also needed fewer consultations and were also less likely to have a procedure, which meant that unnecessary procedures may have been avoided. The costs of providing this service and any savings in claims that could be shown to be directly attributable to the service that are passed on to the customer, may be factored into the product's fair value assessment.

We expect that robust fair value assessments will deliver real change in the value of products provided to customers which in some cases will be evidenced by, for example, reductions in commission levels for products and in others by the product being withdrawn from the market.

The consumer understanding outcome

The Duty also sets expectations that firms will communicate in a way that supports consumer understanding (the Guidance, chapter 8). This means equipping consumers to make effective, timely and properly informed decisions. You must tailor communications to meet the needs of the customers for whom they are intended and test and monitor that they are doing so.

We provide below some key points from the Guidance which provides a framework which firms should find useful in assessing their communications, documentation and support to achieve good outcomes. Firms should refer to the Guidance for a fuller treatment of the requirements.

Customers should be given the information they need at the right time and in a way they can understand. This is a key factor in enabling customers to pursue their financial objectives.

The consumer understanding outcome rules retain the obligation for firms to communicate information in a way which is clear, fair and not misleading, but they also will require firms to:

- support their customers' understanding by ensuring that their communications meet the information needs of customers, are likely to be understood by customers intended to

receive the communication, and equip them to make decisions that are effective, timely and properly informed.

- tailor communications by considering the characteristics of the customers intended to receive the communication – including any characteristics of vulnerability, the complexity of products, the communication channel used, and the role of the firm.
- when interacting directly with a customer on a one-to-one basis, tailor communications where appropriate to meet the information needs of the customer and ask them if they understand the information and have any further questions.
- test, monitor and adapt communications to support understanding and good outcomes for customers.

This outcome applies at every stage of the product or service lifecycle, from marketing, to sale, and post-sale service, including claims. It also applies to all communications, whether verbal, visual or in writing.

Firms should review whether they are applying the same standards to ensure their communications are delivering good consumer outcomes as they do to ensure their communications generate sales and revenue.

For example:

- communications advising customers on how to cancel their policy or complain should be at least as clear as those used to sell the policy.
- where firms conduct consumer testing of communications to maximise sales, they should use equivalent testing capabilities to assess the other aspects of consumer understanding to ensure good customer outcomes are achieved.
- Any cancellation fees, administration fees or other charges should be clearly signposted. This information should not be spread out across different webpages and policy documents, summaries and covering letters.

The consumer support outcome

Firms must also provide support that meets the needs of consumers, throughout the life of the product or service (the Guidance, chapter 9). It should be at least as easy to switch or cancel products, leave a service or make changes, as it is to buy the product or service in the first place. In addition, the quality of customer support post-sale should be as good as it was pre-sale.

The consumer support outcome requires firms to ensure their customers are adequately supported – at every stage of the lifecycle of the product or service – whether the customer makes an enquiry, claim, complaint, or switch provider. Firms should also ensure they have processes in place to avoid causing foreseeable harm.

Point 9.5 of the Guidance notes that the consumer support outcome applies based on what is reasonable. This depends on the nature of the product, the characteristics of the customers, the role of the firm (including in a distribution chain), and its capabilities, depending on its size and complexity. However, firms need to ask themselves whether they are applying the same resourcing to supporting their customers and delivering good outcomes, as they do for generating sales.

Point 9.10 of the Guidance provides some examples of poor practice that can lead to consumer harm. All firms should monitor customer outcomes and act where they identify poor or deteriorating outcomes, for example unacceptably high call abandonment rates on a claims or complaints helpline. We also provide an example of poor practice in claim handling in the same chapter of the Guidance.

Some claims may take longer to settle than others, however firms should ensure they manage customers' expectations throughout the claim journey by providing timely and appropriate communications. This is not a new concept, but some firms struggle to strike a balance due to issues with resourcing and inadequate monitoring. Under the Duty, firms should be both proactive and reactive in identifying issues which are leading to poor outcomes and should address them to avoid customer harm.

In December 2022 we issued a [Press Release](#) where we cautioned insurance providers against undervaluing cars or other insured items when settling claims. Conduct such as offering a claims settlement amount lower than fair market value is not allowed under our rules. We will act to stop firms acting in such a way and to prevent harm to consumers where we see it. Where firms choose to provide cash settlements, they also need to consider whether this will achieve good outcomes for their customers. Under the Duty, firms should avoid causing foreseeable harm – for example, includes where claim handling processes cause unreasonable delays, and staff incentives that may lead to harmful claims settlement practices.

You should also consider the findings of our [review of business interruption insurance claims handling](#). The review found that some firms did not:

- Produce clear and robust conduct management information, which affected their ability to identify and address delays in the claims process.
- Have records of policy wordings that were easily accessible for claims handlers, which resulted in delays for customers.
- Adequately identify vulnerable customers or took an inconsistent approach in dealing with the needs of vulnerable customers.
- Tailor customer communications to the recipient.

In addition, quality assurance reviews were too focused on the financial outcome of the claim rather than the full customer experience and failed to identify where customers experienced unreasonable delays.

Under the Duty, we expect senior managers to ensure customers are at the centre of the claims process and we encourage firms to review their procedures to make sure they mitigate the risk of poor practice and customer harm.

We will not regard firms as acting in good faith under the Duty, where poor practice like those listed above are not adequately addressed. This is especially important where firms identify customer vulnerability, as they should tailor customer communications where specific requests are made, or where it becomes apparent to the firm that it is appropriate to do so.

Our [Guidance on the fair treatment of vulnerable customers](#) provides examples of how different vulnerabilities can make certain channels of support unsuitable. So, firms should be flexible in meeting the needs of their customers who are vulnerable and use different channels of communication to support them.

The Duty requires that firms define, monitor, evidence and justify the outcomes their customers' experience. This monitoring must enable firms to identify where customers are experiencing poor outcomes. This can include learnings from complaint outcomes, including those decided by the Financial Ombudsman Service. Where poor outcomes are detected, firms must take appropriate action to rectify the situation.