



Introduction

The latest FCA review of General Insurance was specifically designed to ensure customers receive fair value from their insurance providers. The review looked at how firms designed, sold and reviewed their products to ensure they met the needs of their customers.

The review found weaknesses including:

- Insufficient focus on customers, outcomes and product value
- Shortcomings in governance and oversight of products.

As an example, it was not always clear firms have adequate processes in place to assess whether intermediary remuneration (such as how much a park or a broker is paid) bears reasonable relationship to the costs or workload in distributing the product.

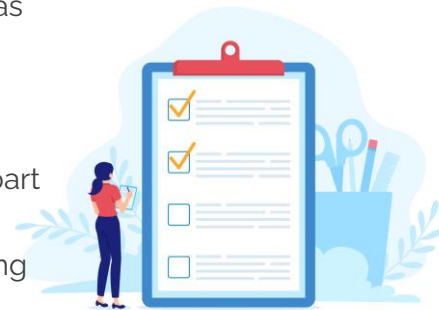
Enhanced product governance rules were introduced following this review which found home and motor insurance markets were not working well for consumers, particularly loyal customers.

In this update, we'll explore the enhanced rules and what they mean for you and your owners.

Overview of the new rules

The new legislation comes into effect in October 2021 and includes a number of requirements for insurers and distributors alike:

- A ban on price walking for Home and Motor insurance customers requiring that their renewal premium is the same as they would be charged as a new business customer.
- Making it easier for customers to cancel auto renewing contracts and policies.
- Assessment of distributor commission and remuneration as part of the fairness of the price the customer pays.
- New governance and management guidelines when assessing the value of the product to the customer and a list of factors that must be considered as part of that assessment.
- Strict reporting metrics and data for firms to submit to the regulator.



While the main part of the legislation concerning price walking only applies to Home and Motor customers right now, the rest of the changes apply across all general insurance contracts. .

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But what does this mean in real terms?

We've broken each of the points down into what they mean in practice below.

Price walking ban – this means that a Home or Motor insurance customer must be charged the same premium at renewal as they would if they were a new business customer. Different premiums based on distribution channels (online or telephone) or based on the type of distribution (broker or AR versus direct) are OK.

Auto renewing policies – insurers and distributors are expected to make it easier for customers to cancel policies that automatically renew each year and remove any barriers to doing so.

Distributor commission – the FCA are focussing again on high levels of commission paid to distributors (Brokers, ARs and IARs) and requiring that these are representative of the work undertaken by the business receiving the remuneration.

Product governance – insurers are expected to review the value that products provide to customers and how they perform against needs and expectations on a regular basis. In reality this means making sure that the cover provided, premium paid and performance of the products gives the customer value for money. This doesn't mean that products must be cheap or premiums should be low.

Product reporting – insurers will have to include new measures in their regular submissions to the FCA new measures including complaints, cancellations and premiums.



What about those firms that disregard the rules?

Sheldon Mills, Executive Director for Supervision, Policy and Competition at the FCA, issued a press released 20/8/21 stating:

'We know some firms are doing the right thing but with the deadline for implementing our enhanced rules approaching, it's worrying that some firms may not be ready.'

'Where firms are not consistently meeting existing requirements and expectations, it risks harm through poor value products or products being sold to the wrong customers. These firms have significant work to do urgently to be able to comply with the enhanced product governance rules. Firms that fail to do that work risk regulatory action.'

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So what are we doing about the changes?

The good news for all Compass ARs and IARs is that we had already started to address some of the issues highlighted in the report as part of our transfer of the scheme, in particular the historic pricing issues experienced by some customers.

As our Residential Park Home customers fall into the scope of the review (Home and Motor) we are transferring all customers onto our brand-new Residential product as they fall due for renewal. Any new customers would purchase the same policy at the same rates as existing customers.

Although Holiday Caravan and Lodge customers fall outside the scope of the pricing changes, we have already started to move customers onto our new rating structure and ensure that the premiums they pay at renewal more closely reflect one they would pay as new customers. We wrote to our Introducers back in October 2020 on this subject and started the migration in the summer of this year.

We also already have in place detailed product governance and reporting across all of our products and so the changes the FCA require have already been incorporated

All of our products are reviewed every 3 months where we look at the cover we offer, benchmark our premiums against other providers, assess claims and complaints data, renewal and new business metrics and consider the changing needs and wants of the customers and industry we insure. A good example of this is the introduction of automatic increases to the structure sums insured on our direct book to cater for the increasing costs of replacing units on a new for old basis.

How does this effect you?

We're already on top of the recommendations and were addressing some of the historic pricing issues even before this review was announced. Therefore in the main, you should not experience much change, if any.

For Appointed Representatives - As an AR we'll discuss any specific aspects of rating or commission with you as part of your next renewal and any changes that may be needed, however given we took steps to address fairness in pricing and commission when we took over the scheme, we don't anticipate there being many.

For Introducers - As we've previously communicated, some of your customers may see changes to their renewal premiums as we bring them in line with new business rating however these will be minimised where we can by applying a 10% cap to any changes.

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