

## Client Briefing: Insurance & the FCA – Recent Developments

28 April 2014

This month marks the one-year anniversary of the FCA.

Against this backdrop, we give an update on the insurance-related FCA initiatives of the last year and forward to what is in store for the coming year.

### FCA INSURANCE INITIATIVES

#### 1. Thematic Review – The Claims Process In The Insurance Market

In May 2013 the FCA launched a thematic review into the claims process in the insurance market, looking at trends across the general insurance market, with a particular focus on household and travel claims.

Earlier this month the FCA published its initial findings. The FCA found that 65% of household insurance customers were satisfied with the way their claim had been handled; and 64% of travel insurance claimants were satisfied.

The FCA recently held an engagement seminar at its London headquarters to seek input from a range of firms, trade bodies and consumer groups.

Based on its work so far, the FCA is not proposing any new requirements or rule changes in this area.

The initial findings are broadly positive and the FCA uncovered no evidence of systematic attempts to deny valid claims, squeeze settlement costs or slow claims down. Nevertheless, the FCA has identified a number of areas where improvements will further increase customer satisfaction. These include:

- how in-bound claims calls are recorded and used;
- the ownership of a claim and communication with clients whilst it is being progressed;
- management of supply chains in household insurance claims;
- how medical conditions are dealt with in travel insurance;
- handling of claims with long chains of delegation; and
- clarity of product documentation.

The FCA's final report is due to be published next month.

#### 2. Thematic Review – How Brokers Manage Conflicts Of Interest

In July 2013 the FCA launched a thematic review into how UK insurance brokers manage conflicts of interest.

Findings and final recommendations were expected by Q4 2013 but are yet to be published.

#### 3. Thematic Review – Complaints Handling

In Autumn 2013 the FCA instigated a thematic review into complaints handling in the financial sector.

The review was expected to focus on 15 firms, including three firms in the insurance sector, and was to be undertaken in two phases.

Phase One, investigating how firms identify, record and report complaints, was due to be completed by the end of 2013. However, the FCA is yet to issue any findings from Phase One.

Phase Two was due to be complete by early this year.

#### 4. Market Study – General Insurance Add-Ons

This competition initiative was launched by the FSA in December 2012 and was subsequently picked up by the FCA.

The market study is designed to test how well the insurance add-on market is functioning.

In connection with this study, the FCA has published an "Occasional Paper" exploring how behavioural economics might inform an assessment of customer behaviour regarding the purchase of add-ons.

This Occasional Paper is the third in a series of such papers published by the FCA exploring the use of behavioural experiments in creating regulatory policy. The paper explains:

*"Behavioural economics tells us that consumers do not always make decisions in the ways that regulators have traditionally assumed. And consumers' reactions to well-intentioned regulations are not always what the regulator expected. These messages need to be taken into account to design regulatory interventions that effectively identify and address the root causes of poor consumer outcomes."*

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The paper describes the results of an experiment examining how consumer behaviour is affected when general insurance is sold as an add-on product to a primary purchase.

The paper concludes that the research shows that the add-on mechanism weakens consumers' ability to discipline firms by shopping around and comparing products effectively. The FCA has suggested this will have implications for possible remedies.

Full findings of the market study are scheduled to be published later this year.

## 5. New Thematic Reviews

In its annual Business Plan published earlier this month the FCA announced four new Thematic Reviews in the insurance sector.

### (a) Thematic Review – Commercial claims

Building on the FCA's recent work on retail claims, this review will consider whether commercial customers' claims expectations are met. The review will look at instances where poor behaviour could have a wider impact on trust in the market, as well as leading to poor customer outcomes.

The review is expected to start in Q3 of this year, with a proposed end date of Q1 2015.

### (b) Thematic Review – Cover holders

This review will examine cover holder arrangements for firms operating in wholesale markets and will look at the impact on retail and small commercial customers.

In its business plan the FCA said:

*"We propose to look into the key risks in complex distribution chains and the mixed responsibilities in them, including the cultural risks relating to product design, sales and post-sales handling. We will also aim to improve the way intermediaries identify and manage conflicts of interest".*

The review is expected to start in Q2 of this year and finish in Q4 2014.

### (c) Thematic Review – Premium finance

This review will examine insurers' and intermediaries' sales practices and disclosures when selling premium finance to consumers alongside general insurance products.

The review is proposed to start and end in Q3 this year.

### (d) Thematic Review – Protection of client money by small firms

The FCA is intending to look at the extent to which firms are currently holding client money without the appropriate permissions and protections.

The review is proposed to start in Q3 2014 and end in Q1 2015.



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## FURTHER INFORMATION & TRAINING

For more information or to enquire about any training requirements that you may have in relation to this subject please contact the person with whom you usually deal or Lydia Savill.

This note contains an overview of a recent development in insurance and it is not intended to be a fully comprehensive report on the development. It is written as a general guide only and should not be relied upon as a substitute for specific legal advice. Its application to specific circumstances will depend on the particular facts. The content of this note is current as at the date of publication. If you would like to discuss any issue arising from this note please contact the person with whom you usually deal or the contact listed.