# General Insurance and Pure Protection Products

## Treating Customers Fairly

July 2006

# Contents



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# Introduction (1)

- This report is based on our supervisory work, information from individual firms and trade bodies and customer bodies active in this sector (rather than firm specific visits, surveys or similar). It sets out some of the key issues which retail general insurance (GI) firms need to address in ensuring they treat customers fairly across the product lifecycle.
- As we have always said, Treating Customers Fairly (TCF) is not a 'one-size-fits-all' approach and it is for senior management to decide what TCF means for their particular firm. Generally, the good and bad practice we report here is to help firms and their management make that decision: we think the good practice is likely to help a firm treat its customers fairly and the bad practice is likely to get in the way of a firm doing so. However some of the good or poor practice we report concerns compliance with or breaches of detailed rules which we think have a significant impact on fair outcomes for customers; where this is so, firms must of course comply with those detailed rules.
- Just as in other sectors, we expect the senior management of firms operating in the GI sector to have:
  - considered what TCF means for their business;
  - identified any shortfalls in the way their business is currently organised against this requirement; and
  - come up with a proportionate plan to close those gaps so TCF is effectively embedded into the way their business is organised.

# Introduction (2)

- Our discussions with firms and trade bodies active in the GI sector suggest that some firms have recognised the need for action. A small number of firms have carried out a thorough review of the implications of TCF and are now beginning to implement changes in the way their business is organised as a result. A few firms have been hiring staff into senior management roles to act as representatives of the customer voice within the firm.
- Engaging with and clarifying what TCF means for them is crucial for each firm that has not already done so in the GI sector and we expect to see substantial progress in all firms in the next year.
- We are seeing other encouraging signs. Several firms have participated in syndicated research to evaluate the extent to which customers feel they are being fairly treated. Such a collaborative approach should help firms refine their TCF approach. And the examples of good practice that follow show that some firms are making progress.
- But many other firms have yet to engage actively with this. Some firms have said they rely on the strong price competition in some sectors of the GI market in delivering TCF. Others have told us they measure TCF in terms of customer satisfaction. However, a customer may be happy with the price or service they have received but not have been treated fairly (e.g. if sold a product on which they may be unable to claim). Equally, some customers may not always be satisfied (e.g. if a claim is rejected) but may have been treated fairly. While price competition and customer satisfaction can have some role to play in improving the way customers are treated, they are not sufficient in themselves to achieve TCF.

# TCF in the GI Sector: Product design (1)

- The GI sector covers a wide variety of products. Some are widely purchased and are broadly familiar to customers, many of whom will have had experience of claiming under such policies and shopping around for cover. In cases such as motor policies, legislative requirements which mean policies have to cover a set of basic features may have assisted customer understanding. But, even in widely purchased products, firms can introduce changes in coverage which may be significant to customers or particular groups of customers.
- Other products are much more complex, are purchased much less frequently and customer understanding may often be lower. We have seen a number of protection products aimed at specific risks (e.g. a restricted sets of illnesses). These may be of value to particular customers but it is important that the limitations on their coverage are made fully clear to customers.
- Firms need to bear these considerations in mind when designing products. Specifically firms need to, for example:
  – consider the needs of the group of customers being targeted when designing a new product;
  – consider carefully when designing complex products (such as a number of protection products) the needs of customers and how the coverage of the product (and the associated limitations) can be clearly explained to intermediaries and customers. This is particularly important where customers may have unrealistic expectations about what a product will do or cover them for.

# Our findings: Product design (2)

**Good TCF examples we have seen include …**

1. In markets such as car insurance, customers benefit from a range of coverage available and the ability to add additional coverage in a discrete way (e.g. changing the excess level).
2. Some Pension Term Assurance (PTA) providers are designing products with penalty free switching facilities allowing customers to switch back to ordinary term assurance when PTA is no longer appropriate for them.
3. Products being designed to offer customers a clear choice between coverage and price. For example, in the pet insurance market there is a clear distinction between policies which compete on price and those which compete on the level of cover available. Cheaper policies may only cover a medical condition for one year, regardless of whether the policy is renewed, more expensive policies will cover a medical condition for the life of the animal as long as the policy is renewed each year.

**Examples of poor practice include…**

1. A firm redesigned the travel insurance cover offered within its premium current account. This restricted the conditions in which the insurance would apply without making the changes clear to customers and considering the ways in which customers were using the policy.
2. Firms that do not consider their distribution channel when designing a product. For example, designing a complex product without considering properly if and how the complexities of the product may be effectively explained using the proposed sales channels (e.g. via a telephone sales channel).
3. Some policies are designed to insure against losses which are already protected under existing industry practice, such as the refund of monies fraudulently taken from an account.

# Our findings: Product design (3)

**Good TCF examples we have seen include …**

4. A firm selling payment protection insurance (PPI) reviewed its lending book. It found that many customers did not keep their loan for the full term and that a significant proportion of its customers paid off their loan at the end of three years. Based on this it decided to no longer sell five year PPI.
5. Firms use several interested parties, including underwriters to review new products and customer literature, to ensure it meets TCF criteria.
6. Some firms are actively redesigning products to take into account such factors as feedback from distributors, high levels of regulated claims etc.
7. One firm used customer focus groups before its regular product review of a home insurance product.

**Examples of poor practice include…**

4. Some PPI products are designed to offer cover in several different circumstances (e.g. life cover, unemployment, hospitalisation) but each section of cover has different age limits. The firm sells the product to customers up to the highest age limit, without considering the need to explain to older customers that they will be paying for some parts of the policy under which they will not be able to claim.

# TCF in the GI Sector: Financial promotions and disclosure (1)

- Financial promotions need to describe the features of the product concerned in a way that is clear, fair and not misleading.  Our work in this area has identified a number of shortcomings.
- Where promotions focus on price, it is important that firms’ advertisements are clear and do not give a misleading impression about the likelihood, or extent of, the savings customers may be able to make.
- Promotions need to give an accurate representation of the cover offered by a policy and not imply that wider coverage will be offered than is likely to be available for most of the target audience for the promotion.
- Firms should avoid using jargon.  Customers are unlikely to fully understand the implications of phrases such as ‘industry standard exclusions apply’.
- Firms selling protection products should be careful not to use a language of fear. Our work on the financial promotion of critical illness sales did not find widespread problems. But areas of concern do arise, especially in the sale of more specialised, illness-specific critical illness products and some payment protection products.

# TCF in the GI Sector: Financial promotions and disclosure (2)

- Firms should consider carefully before using phrases such as ‘rebuild your lifestyle’ or ‘protect your financial future’ to ensure they are not over promising on the cover they can provide.
- Where firms have links with other companies, such as supermarkets or utility companies, they need to make clear to the customer who is providing the insurance. Firms should also make clear to customers that the insurance is not compulsory and not required by the third party, such as the utility company.
- Even with widely purchased less complex products, firms need to ensure they clearly explain the coverage of the policy, including any important exclusions or limits and any change when a policy is renewed.
- With more complex products, product producers need to bear in mind that intermediaries need clear and accurate information about the features of these products.
- Firms need to make clear to the customer the importance of providing accurate disclosure on these issues where particular information concerning the customer is key to the pricing of the policy or willingness of the insurer to take on the risk associated with an individual.

# Our findings: Financial promotions and disclosure (3)

**Good TCF examples we have seen include …**

1. Firms stressing the importance of full disclosure by customers when completing a critical illness application. One firm included a case study for customers explaining the implications of non-disclosure.
2. A firm does full medical underwriting at the time of application to ensure both the firm and the customer are clear about the basis on which the cover is being provided.
3. Many firms offering protection products now make it very clear in their promotions that the plans have no cash-in value and that cover will stop once the premiums are no longer paid.
4. A travel insurer has designed a product which it believes meets the needs of all its customers but then adapts the product literature for different customer groups as certain exclusions are more relevant to some customers than others.

**Examples of poor practice include …**

1. Some firms imply a general promise of protection, for example placing a skier on the front of a travel insurance brochure, when winter sports are not covered or are subject to significant exclusions.
2. Firms which restrict coverage using policy definitions which customers would be unlikely to spot or understand, or use small print to qualify prominent claims made in literature.
3. Firms whose promotions display the lowest possible premium and the most extensive cover although the premium quoted is unlikely to be available to a section of the target audience.
4. Promoters of term assurance that emphasise the cost of their cover but do not make clear that quotations will depend upon individual circumstances.

# TCF in the GI Sector: At the point of sale (1)

- It is important that customers are clear about the product they are being offered and what coverage it will offer.
- Customers need to provide accurate information when applying for policies. Firms need to ensure they explain clearly what information they require and the potential consequences if customers provide inaccurate or incomplete information.
- Our work on disclosure in the GI sector showed that too many firms were failing to provide clear, concise information about the products they offered.
- Firms do not always make significant and unusual exclusions clear to the customers, but at times overwhelm them with information so they are unable to pick out the key messages.
- Buying policies over the phone can offer a number of advantages to customers but this method of distribution can make it more difficult for customers to appreciate important aspects of the transaction they are undertaking. Some firms have addressed this through highlighting key issues during the sales process or sending additional written material to customers subsequently and asking customers to confirm their understanding of the information provided and cover offered.
- In our work on PPI we have found examples of customers being sold products they were unlikely to be able to claim against.
- Our work on critical illness (CI) suggested several areas where the quality of advice provided by firms needed to be improved. These included encouraging customers to disclose relevant medical information, explaining CI better, making the documentation clearer and justifying sales and advice.

# Our findings: At the point of sale (2)

**Good TCF examples we have seen include …**

1. An insurance broker rates the insurer whose products it offers using specified criteria, such as customer service, service to the intermediary, price competition, policy exclusions and coverage, application process and financial strength of the insurer. This list is given to all customers when recommending a policy.
2. One firm uses bold, coloured text boxes in renewal notices when making a change to coverage to draw the changes to policyholders' attention.
3. Some firms produce policy documents which have a running commentary in plain language on the terms and conditions to help people understand the technical terms.
4. For their private medical insurance policies some firms produce tables summarising what is and is not covered, helping product comparison.

**Examples of poor practice include …**

1. In some cases, the full policy wording and terms and conditions are not available to the customer on request either at the point of sale or afterwards..
2. A firm discovered a customer had been mis-sold private medical insurance by a competitor, under which the customer would never be able to claim due to a pre-existing medical condition. The firm then sold the customer the same policy, but for a cheaper price, despite the policy still being unsuitable. The firm incorrectly believed this to be an example of the fair treatment of customers.
3. If a customer does not meet the requirements of a firm's underwriters, possibly due to age or claims history, the firm will pass them through to a third party, without explaining to the customer they are being transferred and why.

# Our findings: At the point of sale (3)

**Good TCF examples we have seen include …**

5. A mortgage firm that does not sell any protection products, aside from CI and term assurance, does a full assessment of the customer's protection needs as part of the advice process. If the firm concludes that income protection rather than CI is more appropriate for the customer, it will refer the customer to a specialist protection adviser.
6. A website selling non-advised PPI gives descriptions of all the types of cover available to the customer, such as income protection and term assurance, even though the website only sells PPI.
7. A firm selling legal expenses cover with home insurance includes a prominent notice in the policy summary explaining that the customer is free to get legal expenses cover elsewhere and should check if they already have any kind of cover in place.

**Examples of poor practice include …**

4. In face-to-face sales some firms simply hand over the policy summary without drawing the customer's attention to the importance of reading it.
5. Firms who are not explaining the reasons for advice they are giving. In some firms the statement of demands and needs for advised sales consists of a tick box list which is unlikely to reflect the discussions with the customers or details of the customer's circumstances.
6. Terms within a contract are not always made clear and their interpretation can vary between firms. For example, different firms use different definitions of 'unoccupied' and do not explain their particular definition to the customer. Customers often find it difficult to get clarification on these terms from the insurer.

# Our findings: At the point of sale (4)

**Good TCF examples we have seen include …**

8. One firm's website selling insurance asks eligibility questions that would normally elicit a variety of yes and no answers, rather than a series of no's. This encourages the customer to read all questions carefully.
9. One broker now provides all customers with a printed note which explains, in very few words, the importance of being truthful when applying for insurance. This firm has since seen its claims rejection rate fall.
10. One firm selling insurance products on a non-advised basis makes clear to all its customers the implications of buying without advice.
11. One home insurer makes it very clear to customers, in its covering letter, exactly what is expected of customers under the policy if they have a burglar alarm or other home security device.

**Examples of poor practice include …**

7. Firms which provide a long list of significant exclusions in policy summaries and key features documents that are not easy for a customer to read.
8. Credit companies sometimes use couriers to deliver documents to a customer when customers are looking to receive the money for a loan quickly. The courier waits for the customer to sign the documentation and will then exchange it for the loan cheque. If the customer is taking out PPI as well, this may not give them adequate time to review the policy documentation.
9. Firms which do not make clear limits on the value of items covered in particular circumstances such as items away from the home, single item limits and items stolen from motor vehicles.

# Our findings: At the point of sale (5)

**Good TCF examples we have seen include …**

12. One firm responded to a high level of rejected claims by carrying out a sales and claims review. This led to improved sales and claims training and processes. The level of rejected claims subsequently fell sharply.
13. Some firms give the customer a hard copy of the protection application form at the end of the interview to take away and check, to give them a chance to add or amend information.

**Examples of poor practice include …**

10. Certain GI firms are relying on customers reading policy documents and cancelling during the cancellation period if it is not found to be suitable, rather than explaining the policy at the point of sale.
11. Some policy wordings do not make it clear the extent to which particular activities are covered (e.g. driving a vehicle abroad).
12. Some documentation does not make sufficiently clear that underwriting depends on any existing conditions a customer has.
13. One firm's sales scripts tell a customer the broker is independent when in fact it only offers insurance from a panel of insurers and its internal processes mean that business is generally directed to a sister company.

# TCF in the GI Sector : After the point of sale, claims handling and renewals (1)

- The recent FSA work on claims handling found that firms have been able to implement, without undue difficulty, the claims-handling requirements in our rules. There were positive signs that firms are starting to implement TCF initiatives into their processes and procedures; however, there is still room to improve good practice within the industry to ensure customers are treated fairly.
- Firms should ensure:
  - they handle claims fairly and settle them promptly;
  - they provide customers with sufficient information about the claims-handling process; and
  - that insurance intermediaries disclose and manage any conflict of interest arising from claims-handling arrangements.
- Outsourcing of claims handling is on the increase. Firms should ensure their outsourcers are aware of the firm's TCF obligations and regularly monitor the outsourcer to ensure they are treating the firm's customers fairly.
- When a customer makes a claim, a firm should consider the burden of proof placed on the customer to ensure it does not act as a deterrent to genuine claims.
- Firms should ensure that other processes such as cancellations and complaints handling, are organised in a way that ensures the customer is treated fairly.
- Customers should be treated fairly at renewal and need to be made aware of any significant changes and new exclusions to their policy. This includes any 'extras' such as legal cover or courtesy car hire, which may be included free in the first year, but will be charged for in subsequent years.
- Firms are reminded of the requirement to hold client money in line with our rules, which are designed to protect customers if a firm fails while it is holding client money or if it is unable to transfer premiums to insurers or claim money or refunds to customers.

# Our findings: After the point of sale, claims handling and renewals (2)

**Good TCF examples we have seen include …**

1. When a claim is made some firms send customers a guide to explain the claim process and the likely timescale they can expect their claim to be dealt within. Some name the person who will be dealing with their claim.
2. If there are widespread claims, such as severe adverse weather conditions, some firms are aware they may not be able to deal with all claims in a timely manner. So they leave a recorded message on their call centre number explaining that for urgent repairs customers can get somebody to repair the damage immediately and the firm will then deal with their claim.
3. Some firms are limiting the amount of promotional material that is placed in renewal packs to more clearly draw the customer's attention to the renewal information.

**Examples of poor practice include …**

1. Some firms should do more to communicate effectively significant or unusual exclusions or conditions at renewal.
2. Several firms need to be clearer about the cost of cancelling a GI policy during the cancellation period. We have seen firms referring to an administration charge, with no mention of the likely cost.
3. Some firms are poor in handling cancellation requests and customers need to contact the firm several times before a cancellation is actioned.
4. Some PPI firms are asking customers that are claiming under their policy to provide a new doctor's certificate with excessive frequency at the expense of the customer. This may discourage them from making a genuine claim.

# Our findings: After the point of sale, claims handling and renewals (3)

**Good TCF examples we have seen include …**

4. One firm has set up a team that reviews every complaint that goes to the Financial Ombudsman Service (FOS) to understand the lessons from each case and sends out the main messages in a TCF bulletin to its complaints-handling team.
5. Where a firm offers cash back on its single premium PPI during and at the end of the policy, it has made the cash-back process automatic so the customer does not need to remember to apply for it.
6. One firm has retrained its claims-handling staff to focus on customer service and, in particular, the sensitivities surrounding a claim from a protection policy.
7. Some firms are seeking feedback from those who have made claims or complaints to see if any improvements could be made.

**Examples of poor practice include …**

5. Some insurers refuse claims for unconnected breaches (e.g.. not paying out on a claim related to an escape of water due to an alarm breach).
6. Some firms are not meeting their obligation to explain in writing why they are rejecting a claim.
7. Some firms offering contents insurance are forcing customers to use a preferred supplier, even though that supplier does not stock the type or make of products to be replaced. And they are offering a lower cash value than the cost of a replacement product when the customer chooses not to use that supplier.
8. Firms which rely on the findings of a FOS case decided in their favour to act in the same way on subsequent customer complaints, even through the facts and issues of the FOS case and the subsequent complaint are different.

# TCF in the GI Sector: Remuneration and training (1)

- Since the introduction of regulation we have seen some evidence of a change in the remuneration strategies for GI sales people, with less emphasis on commission-only strategies and a shift to more realistic basic salaries.
- To ensure TCF needs are being met, firms should consider whether their remuneration strategies and related staff-management processes ensure the customer will be treated fairly. Firms with remuneration strategies which rely heavily on commission need to ensure they have appropriate controls in place so that customers are given clear unbiased information and appropriate advice where that is provided. A number of the better-prepared firms are incorporating TCF data such as cancellations and complaints into their remuneration strategies.
- We expect firms to take a critical view of how conflicts of interest may affect the fair treatment of customers and to respond accordingly. For example, senior management should engage in conflicts identification and management; and review controls to mitigate conflicts on a regular basis and there should be MI to support this process.
- Firms should ensure that all staff are aware of their obligations under TCF, although this does not necessarily need to be branded as TCF, staff need to be given appropriate training and support accordingly.
- TCF is not only a consideration for sales staff, but also for those dealing with claims, complaints and ongoing customer support.
- Our recent supervision work has suggested the quality of monitoring of sales staff in some firms varies. Firms need to monitor the effectiveness of their sales process to ensure that sales staff are not, for example, giving advice during non-advised sales. Monitoring of sales managers should also be robust to ensure they are not putting undue pressure on staff to meet or exceed targets.
- Firms should consider the training they provide to intermediaries to ensure intermediaries understand the importance and relevance of the questions they need to ask customers in the protection underwriting process.

# Our findings: Remuneration and training (2)

**Good TCF examples we have seen include …**

1. Some firms use complaints and compliance records of sales staff, as well as sales records, when determining bonus payments.
2. A number of product providers provide training for intermediaries selling their complex or niche products.
3. Some firms are putting in place strong sales guidelines and carrying out regular sales monitoring, especially when outsourcing sales to third parties.
4. One firm puts all new sales staff through an established training programme that does not just include sales skills, but goes into detail on product features and raises TCF awareness.
5. Some firms reward traditionally ‘back-office’ departments, such as claims handling, in a way that is aligned with TCF requirements, looking at both their efficiency in dealing with customers and the number of complaints following a claim.

**Examples of poor practice include …**

1. Some firms use disciplinary action against sales staff who are not meeting sales targets, without ensuring these targets make sufficient allowance for TCF. We have seen a number of examples where the sales pressure is coming from middle management rather than senior management, but there is limited monitoring of how middle managers are achieving their sales results.
2. Certain firms are failing to ensure their staff have met the minimum standards in terms of training and competence. This is especially common for those who offer GI as a secondary product, such as motor dealers and electrical retailers.
3. Firms who provide little training to their distributors in issues such as application forms where technical medical questions can be asked and where the consequences of non-disclosure can be significant.

# Our findings: Remuneration and training (3)

**Good TCF examples we have seen include …**

6. In the sale of protection products, a number of firms put their staff through a structured induction programme which gives them full knowledge of the product and how to explain it.
7. One firm is getting its appointed representatives to assess where they are on TCF, and will be using this to guide training needs.
8. Some firms get their advisers to complete regular advice standards and product knowledge tests.

**Examples of poor practice include …**

4. A small number of firms have no formal training programme in place for the sale of protection products. Some firms are using more experienced staff to support new employees, but the experienced staff themselves have not received any formal training.
5. The training programmes of firms which focus on sales skills at the expense of technical and product training and how to establish suitability.
6. Firms who do not have the systems and controls to ensure that no advice is being given where sales are made on a non-advised basis. Sales staff must be aware of the difference between advised and non-advised sales.

# TCF in the GI Sector: Systems and controls (1)

- In ensuring they are delivering TCF, firms should have good management information on their claims handling, number of complaints and persistency data and have arrangements in place to feedback lessons into product design, sales process and disclosure.

- While many sales of GI products are still made through advisers, over the past ten years, there has been a significant increase in the volume of direct sales, and sales through retail partners (such as supermarkets). Banks and buildings societies are continuing to build a strong presence in the home insurance market. Most of these policies are sold on a non-advisory basis. A firm should have sufficient systems and controls in place to ensure that where it is selling insurance on a non-advised basis, it is certain that no advice is being given to customers, either by itself, or by others selling its products.

- Where products are sold at the same time, but not as a bundle, it should be completely clear to the customer that some insurances do not have to be bought with others (e.g. legal expenses cover should be clearly marked as optional if it is not included in the main premium price).

- TCF is essential when considering areas such as the use of outsourcers. Firms must ensure they have appropriate systems and controls to monitor the service standards of their outsourcing contractors.

# Our findings: Systems and controls (2)

**Good TCF examples we have seen include …**

1. Some firms now have senior management TCF committees which review all the CI claims they reject. They also write to the customer explaining the reason for the rejection and asking the customer to challenge the firm if they believe the decision is incorrect.
2. Some firms stress test their claims centre to check how customers would be treated in an event such as a major storm covering a significant part of the country.
3. Some firms have constructed systems and controls to ensure that management information feedback relevant to TCF is used to inform policy design.

**Examples of poor practice include …**

1. Firms offering buildings and home repair insurance are not monitoring the quality of work done by their contractors. They are also reluctant to remedy defective work which may be of poor quality or has even made the situation worse.
2. Some firms, particularly those for whom GI is a secondary or tertiary product (insurance is sold after the sale of the main item such as a car or TV and the sale of financing) do not have robust MI on the number of policies sold, value of premium or whether the policy has been put on risk.
3. A few firms failed to have a proper range of controls in place over their Appointed Representatives in the area of financial promotions.

# Conclusions (1)

1. The requirement to treat customers fairly applies for all GI products and to all firms who provide or distribute GI products. The way in which TCF applies will differ for each firm. But all GI firms should by now have started their gap analysis and be moving on to making the necessary changes (implementing) and embedding TCF in their firms. The examples of good practice in this paper show that progress is being made; however, the examples of poor practice show that much progress remains to be made by a number of GI firms.

2. Establishing what TCF means for each firm is key to this process. Over the coming year we expect the key areas the industry need to focus on will include:

   - Product design – Firms need to design GI products that fit the needs of their target audience. When designing products firms also need to consider marketing and distribution and ensure that the product is developed with all of this clearly in mind.

   - Clarity of disclosure – this is key both for financial promotions and for information provided to customers at the point of sale. The distribution method for each product is relevant and firms must carefully consider how to get the key information across to customers. Providing customers with a means and opportunity to discuss queries should aid customer understanding, particularly of complex products.

   - Claims handling – building on the largely positive findings of our thematic work earlier this year, firms should continue to ensure that customers have sufficient information about the claims handling process when they submit a claim. Using outsourcers for claims handling puts greater emphasis on the need for firms to ensure their approach to claims handling does treat customers fairly.

   - Systems and controls – GI firms should ensure they collect MI from all areas of their business and that this information is reviewed by senior management, and used by firms throughout the product life cycle. It should also be considered when developing remuneration and training.