

PS15/22: Our expectations and case studies

In PS15/22¹ we confirmed new rules and guidance to ban opt-out selling and improve the information provided to add-on buyers. This note will help readers understand our expectations about the new rules and guidance.

Terminology

In this note the following terms have these meanings:

- 'Policy' or 'policies' refers to the term defined within the FCA Handbook²
- 'Optional extras' refer to cover options or extensions of cover within a policy e.g. accidental damage, baggage cover, personal possessions cover etc, when they are not separate policies
- 'Add-ons' refers to policies or optional extras sold in connection with, or alongside, a primary product
- 'Optional additional products³' refers to the products covered by the opt-out ban

Background

In PS15/22, we confirmed three initiatives to tackle the issues highlighted by the market study and help customers make more informed decisions:

- *A ban on selling "optional additional products" on an opt-out basis.* This occurs when firms use sales methods such as pre-ticked boxes. The definition of an optional additional product (which includes both separate policies and optional extras) applies only to the ban on opt-out selling and should not be read across to other parts of the Handbook.
- *Handbook Guidance (ICOBS 6.1.6AG).* This clarifies that the existing product information provision rule (ICOBS 6.1.5R) applies to any policy, regardless of whether it is sold on its own or with another policy, or other goods or services.
- *Non-Handbook guidance.* Suggesting ways that firms can support customers' informed decision making, in light of the findings of the market study. The non-Handbook guidance applies to policies and optional extras.

Below we set out some case studies to show how we expect the three initiatives to operate in practice. The note does not consider the application of other parts of the Handbook. Where firms face situations not covered by this note they should consider our findings and aims to decide how best to meet our objectives.

¹ PS15/22: General Insurance Add-Ons Market Study – Remedies: banning opt-out selling across financial services and supporting informed decision-making for add-on buyers, including feedback on CP15/13 and final rules and guidance, <http://www.fca.org.uk/news/ps15-22-general-insurance-add-ons-market-study-remedies>

² "a *contract of insurance*, including one under which an existing liability has already accrued..."

³ E.g. in ICOBS 6A.2.1R(7) - A good, service or right of any description (whether or not financial in nature) that a...customer may obtain (or not, as the case may be) at his or her election in connection with or alongside...[another product/service]

Case studies

Case study 1 (opt-out ban)

Firm A sells home insurance products online.

As part of its online sales journey, before a quote is provided, Firm A asks customers whether they would like to have cover for accidental damage. There is a high level description of what this means. The customer is asked to tick a box to indicate whether they would like to be covered for this.

Firm A's online sales journey introduces accidental damage as part of the assessment of the customer's demands and needs and the customer actively elects to purchase the cover. In this scenario Firm A is unlikely to have breached the ban on opt-out selling.

Case study 2 (opt-out ban, transitional provision)

In July 2016, firm B writes to a customer proposing to renew their buildings and contents insurance policy (which was first taken out in July 2015). The renewal includes a number of optional additional products. Firm B is unsure of whether or not the customer previously opted in to purchase these products, or made an informed decision to buy them.

Firm B sends the customer the necessary renewal documentation, along with a 'Notice to Policyholder'. The Notice informs the customer that the renewal of the optional additional products is optional, that the customer may elect not to renew them and that, if they do decide to cancel these products, the buildings and contents policy itself will be unaffected.

The new rules require firms to get active confirmation (an active election) from their customer to renew optional additional products. However, where these products were originally purchased on or before 31 March 2016, and they are automatically renewed on substantially the same terms, the firm has another option. The firm can instead choose to take reasonable steps to inform the customer that the renewal of the product is optional and that the customer can decide not to renew the product. The customer must also be told of the effect of any non-renewal.

In this example Firm B has sent a Notice to its customer to inform them of the required information. The firm should consider whether this constitutes 'reasonable steps to ensure that the customer is informed'. For example, is the customer used to receiving information about their policy in this way? We want to ensure that customers are able to engage with this process.

Case study 3 (opt-out ban)

Firm C is renewing their customer's motor insurance policy. The policy was sold with a number of optional additional products, including breakdown cover and legal expenses cover. The customer previously elected to purchase these optional additional products. Since the customer's last renewal there have been a number of changes, including:

- The addition of a new country to European coverage on the breakdown policy
- Extension of the legal expenses cover to include contractual disputes
- Change of underwriter for the legal expenses cover to a branch of an EEA based insurer

Firm C sends the customer their renewal documentation, which details the above changes but relies on the customer's previous election as consent to renew all covers.

The rules banning opt-out selling allow firms to automatically renew previously chosen optional additional products, if the terms of the products remain substantially the same. Firm C has not asked the customer to actively elect to purchase these products again.

Whether or not a change results in an agreement being on substantially the same terms will be very case specific. When thinking about whether an agreement has substantially the same terms a firm may want to consider the effect of the changes on the customer as part of its broader obligations to treat customers fairly (which is not the subject of this note).

For example, in relation to the legal expenses cover, the FCA might be interested to know whether the change of underwriter resulted in the customer being afforded reduced protections e.g. recourse to the Ombudsman and FSCS.

Case study 4 (a) (information provision guidance)

A customer decides to purchase home insurance through Firm D's online sales process. Once the customer has indicated that they are happy with the cover they have selected, they click 'buy now' and are taken through to another page. This second page introduces some add-ons- an optional extra of freezer cover and a legal expenses policy.

Firm D has introduced two add-ons to the customer after they have clicked 'buy now'. The non-Handbook guidance encourages firms to introduce all add-ons, particularly their most common add-ons, to customers early in the sales process. This helps customers make more engaged and informed decisions. It is not clear whether legal expenses and freezer cover form part of the firm's most commonly purchased add-ons, but Firm D has introduced both very late in the customer journey and both will increase the cost to the customer. Firm D should consider how to introduce these add-ons earlier in the sales process.

Case study 4 (b) (ICOBS 6.1.5R, 6.1.6G and information provision guidance)

The customer decides to purchase from Firm D the optional extra of freezer cover and the optional legal expenses policy. The customer is not presented with individual prices for their chosen options but is given a single price for the package of home, freezer and legal expenses cover. The customer purchases the package.

Firm D has only provided the customer with a single package price. While we believe providing a total price can help customers compare packages from different providers, Firm D has not acted in line with the new Guidance.

The cost of policies (home insurance and legal expenses insurance in this example)

Firm D has not provided separate prices for the individual policies in this package. This means that Firm D is likely to be in breach of ICOBS 6.1.5R. The new Handbook Guidance (ICOBS 6.1.6AG) confirms that this rule applies to any policy, whether or not it is sold alone or in connection with another policy.

The cost of optional extras (freezer cover in this example)

The new Handbook Guidance only applies to separate policies. Therefore, there is no change in our rules about product information for optional extras.

Price disclosure for all add-ons, including optional extras, is covered in the new non-Handbook guidance as representing general good practice. We believe that disclosing this information wherever possible can help customers make better informed decisions.

We recognise that customers can be overloaded with information. Through these initiatives we are simply trying to ensure that, where possible, customers are given price information to help them make a decision about whether or not to purchase optional extras.

If it is not possible, or proportionate, for firms to provide separate prices for optional extras they should think about other ways to ensure they give their customers enough information to make an informed decision.

Case study 5 (opt-out ban and information provision guidance)

A customer puts their details into a price comparison website to shop around for motor insurance quotes.

The price comparison website returns a number of quotes from different providers. Some of these quotes are for motor insurance alone and some include optional additional products such as breakdown cover, legal expenses insurance, key cover and hire car cover. These products had not been presented to the customer before the quotes were returned.

The customer selects a provider offering a number of different options, including motor insurance sold alone and motor insurance sold with a number of different optional additional products. The customer selects a quote which contains cover for motor insurance, breakdown cover and legal expenses cover. When they are taken through to the insurer's website the customer is also offered personal accident cover, which they decide not to purchase.

The opt-out ban prevents firms from entering into an agreement for an optional additional product with a customer unless they choose (actively elect) to obtain it. In this scenario, by selecting a quote from a specific insurer on a price comparison website, the customer can be treated as having actively elected to obtain the add-ons of motor, breakdown and legal expenses cover (paragraph 2.18 of PS15/22 also discusses sales through price comparison websites).

The customer was presented with quotes for packages that contained add-ons they may not have wanted or intended to purchase. However, these are just quotes and therefore fall outside of the scope of the opt-out ban. By selecting "buy now" or "get quote", and being redirected to the firm's (insurer's) website, the customer actively elects to obtain all of the optional additional products included in that package – as long as they were clearly displayed and the customer knew what they were agreeing to buy.

In this example the customer was also presented with a personal accident add-on after selecting their quote on the price comparison website. As long as personal accident cover was presented as an option, and the customer was given the choice of whether or not to buy it i.e. it was not automatically included in the customer's package, this would be likely to meet the requirements in the rules.

The non-Handbook guidance encourages firms to introduce the most common add-ons early in the customer journey. In this example add-ons have been introduced very late in the process. To help customers make an informed decision we would prefer these options to be presented to the customer a lot earlier on the price comparison website; so that they can consider their options and make an informed decision about what to buy.