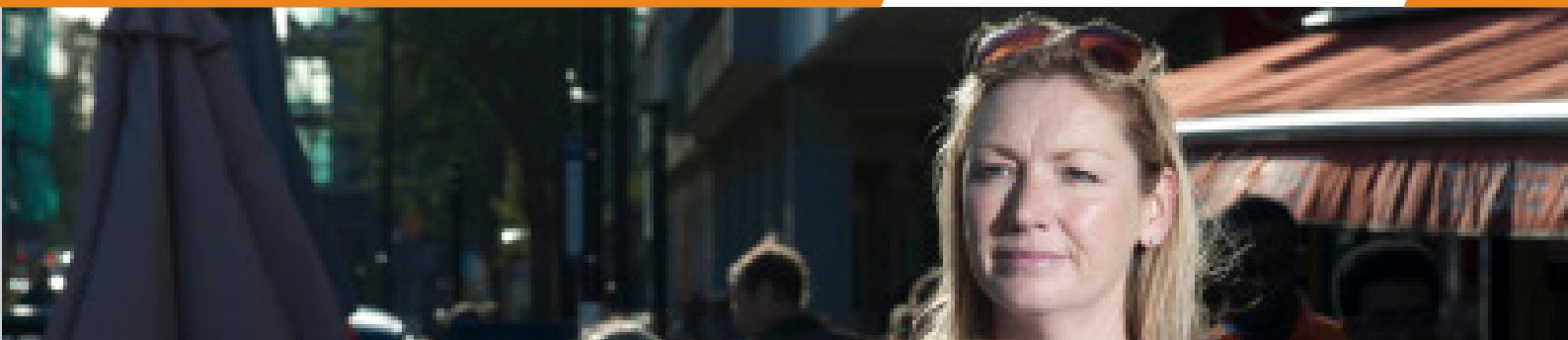


Price comparison websites in the general insurance sector

July 2014



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1. Executive summary

Price comparison websites (PCWs) have rapidly increased in popularity among consumers and are a key distribution channel for retail general insurance (GI) products, especially for private motor insurance. We estimate that one third¹ of the 26.6m² motor policies written in 2013 were sold through PCWs. In line with our objective to protect consumers, we want to ensure that their rapid growth in popularity has not come at the expense of transparency and fairness.

PCWs are generally regarded by consumers, product providers³, trade bodies and other regulators as helping to provide choice for consumers by enabling them to compare products in a simple and accessible way. However, there are risks that PCWs may not provide appropriate information to allow consumers to make informed decisions, and to make clear their role and the nature of the service they provide. There is also a concern that consumers' focus on headline price and brand when using PCWs could distract from crucial product features such as policy coverage and terms.

We wanted to better understand consumers' experience of using PCWs and their understanding of the role played by the PCWs. To do so, we conducted a combination of desk-based reviews and consumer research, and challenged firms to demonstrate that the customer is at the heart of their business model.

The review focused on the intermediation of retail GI products (namely private motor, home and travel insurance) because they are the GI products most commonly purchased through a PCW. We also considered the extent to which PCWs had implemented the guidance issued by the FSA in 2011.⁴

One of our key areas of focus during the review was whether consumers were likely to achieve fair outcomes when buying GI products through a PCW. A fair outcome for a consumer is achieved when they are able to purchase products that are suitable for their individual needs and meet their expectations. Fair outcomes are reliant on all links in the distribution chain and, in our view, this is more likely to happen where consumers:

- are given appropriate information at the right time to enable them to make an informed decision about the purchase of their GI policy
- understand the nature of the service provided to them
- understand the key features, benefits and exclusions of the product(s) they have purchased and
- understand their eligibility to claim

1 Based on information from PCWs and calculated as a % of total motor policies.

2 Total number motor policies written in 2013 were provided by the Association of British Insurers (ABI).

3 Product providers in the context of this report (and referred to hereafter as providers). can be an insurer, intermediary or broker.

4 www.fsa.gov.uk/pubs/guidance/fg11_17.pdf

In these circumstances, any gap between consumer expectations and what is being delivered by the PCW is likely to be reduced.

PCWs carry out insurance intermediation activities and are, therefore, subject to the relevant requirements in the Insurance Conduct of Business sourcebook (ICOBS).⁵ This means that they are responsible for providing consumers with appropriate information at the right time to make informed decisions, and this information goes beyond price to include cover, benefits, exclusions and other relevant items the consumer may require (see ICOBS 6.1.5.R and 6.1.6G and 6.1.7G). In Annex 1, we have set out the relevant sections of the FCA Handbook that are applicable to the findings in this report.

What did we find?

The main findings of the review fall under the following three headings:

i. Appropriate information

PCWs did not present sufficient product information in a clear and consistent way, to ensure consumers were given appropriate information to allow them to make informed decisions, partly due to failure to comply fully with our requirements.

While PCWs provide choice in the number of providers and products available, we found that they had not always taken reasonable steps to ensure consumers had the appropriate information to allow them to make informed choices. This finding applies to both the core policy⁶ and add-on products.⁷ This increases the risk that consumers may not always achieve fair outcomes, as they may buy products without understanding key features such as level of cover, excess levels, main exclusions and limitations.

We did find examples of good practice. A few PCWs provided clear and consistent information on the details, features, costs and main exclusions of the core policy and the add-ons through 'the more details' or 'more info' buttons on the PCW itself. In our view, this demonstrated that these PCWs had taken reasonable steps to ensure consumers were given appropriate information to enable more informed decision-making. However, we found that the level of information provided within the PCWs varied significantly, depending on the provider.

ii. Role and services provided

PCWs did not make clear their role in the distribution of the product or the nature of the service they provided, and their business models were not necessarily aligned with the best interest of their customers.

- Some PCWs did not clearly explain the role they were performing when providing insurance quotes. This information was not consistently and/or prominently displayed as part of the quote journey.
- Some PCWs, though having the appropriate permission of a general insurance intermediary⁸, referred to themselves as introducers when explaining the service they provide.

5 <http://fshandbook.info/FS/html/FCA/ICOBS> – Insurance: Conduct of Business Sourcebook

6 The core policy is the main or primary product the consumer is seeking to buy.

7 Add-ons are additional products sold alongside the primary product.

8 Include agreeing to carry on a regulated activity, advising, arranging or bringing about deals, making arrangements with a view to transactions in investments and dealing in investments as agent for non-investment contracts.

- Our customer research also indicated that some consumers believed that the PCW had provided them with advice or guidance. They believed that the PCW had provided them with quotes on the best policy for their needs, had assessed the suitability of the policy for them or gave assurance regarding the security of the provider.
- Some PCWs did not clearly explain how they would use consumers' data or have secure access controls over it.
- Some PCWs that were owned by or owned an insurer/broker had not disclosed their potential conflicts of interest.

iii. Implementation of the 2011 Guidance

In 2010, the FSA conducted a thematic review on PCWs and this resulted in the issuance of the 2011 Guidance. In this, we asked firms to ensure that they were complying with all relevant regulatory requirements.

Our review found that PCWs generally had taken steps to comply with the regulatory obligations in the guidance. However, in some instances, PCWs have failed to fully implement the Guidance. As a result, many PCWs are failing to meet our expectations as supported by our findings.

Expectations and next steps

We have provided individual feedback to the PCWs involved in the review and asked them to take action on specific areas where they were not meeting our requirements. In some cases, they are already making positive changes to their websites.

We also expect all firms (PCWs and providers) to consider the findings detailed in this report and to take appropriate action, where applicable. The findings may also be relevant for PCWs operating in other financial sectors. We have set out our expectations and the actions for firms in section 4, of this report.

Alongside our findings, PCWs should also consider the report issued by EIOPA in January 2014 on good guidance practices on comparison websites.⁹

We intend to follow up with the PCWs in the review by January 2015, to ensure that they have addressed the specific issues identified and we will use the full range of regulatory tools available to us as appropriate.

⁹ https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/Report_on_Good_Practices_on_Comparison_Websites.pdf

2. Our detailed findings

What was the scope of the review?

We set out to assess whether PCWs were complying with our requirements and were providing appropriate information to ensure that consumers can make informed decisions when buying their GI policy. We assessed whether information was being presented in a way that allowed consumers to compare key product features, total costs and main exclusions, and understand the role of the PCWs and the service they provide.

The issues covered in this review were linked to two of the FCA priority risks in the FCA Risk Outlook 2013. These were:

- i. distribution channels do not promote transparency for consumers of financial products and services and
- ii. over-reliance on and inadequate oversight of payment and product technologies

The review involved 14 PCWs (which account for over 90% of retail GI products intermediated through PCWs), included both large and small firms and was focused on three of the main retail GI products - private motor, home and travel. Our review was carried out between December 2013 and April 2014.

How did we carry out the review?

- We requested information from the PCWs involved in the review about their implementation of the 2011 Guidance, conflicts of interest, due diligence procedures, data management and management reports
- We conducted desk-based reviews which involved sampling of quotes on the PCWs and following these through to the providers. This was to gain insight into the consumer journey and included an assessment of the comparability of quotes, whether the information provided enabled consumers to make informed decisions and the way PCWs disclosed key information about their role, services and policies
- We also considered whether the terms and conditions, privacy of data policies and relevant consumer rights (including complaints) were appropriately communicated and whether financial promotions were clear, fair and not misleading
- We carried out two separate pieces of consumer research

- An external research specialist reviewed published sources of consumers' views on PCWs. Extensive research has been carried out in recent years on PCWs and this work made use of publicly available market intelligence and research
- An in-depth piece of proprietary qualitative research to understand consumers' use of, and attitudes to, PCWs and to provide insights surrounding any unanswered questions arising from the research referred to above. This involved 50 in-depth interviews and accompanied shops with participants purchasing retail GI products
- We met with the senior management of all PCWs involved in the review to understand their views of the market and to gain further insight into each firm's business strategy and operations
- We sought the views of senior management of some product providers, trade bodies, and consumer groups, the Financial Ombudsman Service and the Competition and Markets Authority
- During our review, there were certain areas we did not consider
 - 'Most Favoured Nation' (MFN) clauses.¹⁰ The Competition and Markets Authority's (CMA's) review of the private motor insurance market¹¹ includes this and we will consider their findings and proposed remedies when they publish their final report later this year
 - Consideration that some consumers may adjust their risk factors on PCWs in order to achieve a lower premium

Main findings

Appropriate information

We assessed whether PCWs were providing clear and consistent product information and the risks this may present to our objective of consumer protection if they failed to do so. We set out our findings under the following headings:

- core policy
- policy excess
- add-ons and
- pre-existing medical conditions for travel insurance.

¹⁰ MFN clauses can be included in contracts between PCWs and providers and forbid the provider from quoting a cheaper price on their own website ('narrow MFN') or through any other distributors ('wide MFN')

¹¹ www.gov.uk/cma-cases/private-motor-insurance-market-investigation

Core policy

We found that the PCWs had not always taken reasonable steps to provide sufficient, clear and consistent information on the level of cover, key features, exclusions and limitations to enable consumers to compare the available options and make an informed decision.

This was evidenced in the way information was presented, the limitations of policy summaries and the 'more information' options on most of the PCWs. Instead of providing information, some PCWs would provide prompts such as 'check with insurer' or 'check the policy'. The extent and quality of information provided through policy summaries and 'more information' options also varied widely, both between different PCWs and products on the same PCW.

Areas where some PCWs are not providing sufficient, clear and consistent information include the following:

- the main features of the core product, including level of cover and excesses
- the main exclusions and limitations of the policy
- the different levels of excess across different covers
- the cost of additional fees, e.g., for issuance of the policy or for mid-term adjustments or cancellations and
- a demands and needs statement.

As a result, we found it difficult to compare the level and quality of cover provided by the core policy during our desk-based research, and this finding was substantiated by our consumer research.

Our consumer research also indicated that consumers were price focused when using a PCW and some mistakenly believed that the extent and quality of cover for the core policy were largely the same regardless of price (sometimes believing that only add-ons and/or policy excess¹² amounts signified differences in the level of cover). The overall focus on price was corroborated by PCWs own data on consumers using their services.

We also found that PCWs present the price of the core product more prominently than other information provided. This approach, combined with the shortcomings in information provision, leads to a large number of consumers buying the cheapest product (even where this may not be the most appropriate). The focus on price exacerbates the practice by providers of stripping out features from the core product to be price competitive and to appear at the top of the quote rankings.¹³

Further, in our consumer research, once a preferred policy quote was identified many consumers looked for more information before committing to the next steps. But many were reluctant to click on anything that they felt may commit them to next steps or a purchase at this early stage, for example, 'Proceed', 'Go to site', 'Get insured' and 'Buy now'. It was evident from the way many participants in our consumer research responded that this was not the right label at this stage in the consumer journey and limited their ability to get the information they needed to make an informed decision.

¹² A policy excess is the first amount payable by the policyholder in the event of a loss and, therefore, if the amount of loss is lower than the amount of the excess, the insurer may not have to make any payment to the customer. It is a deductible that is usually borne by the customer when claiming on their own policy.

¹³ The practice of stripping out features and selling as an add-on is not unique to PCWs but rather a trend that we have observed more generally in the GI market. However, the price-driven nature of PCWs and the way results are displayed can exacerbate this practice.

From the examples noted ('Proceed', 'Go to site', 'Get insured' and 'Buy now'), it appeared that some PCWs may be exploiting consumers' behavioural biases to maximise revenues; some consumers may act on these messages and proceed to buy a policy without first assessing its suitability. Alternative labelling on some of the PCWs was considered more effective and appropriate, for example, 'learn more' and 'more info', which invited consumers to look further without the fear they were committing to purchase.

We found that a few PCWs were better than others in providing sufficient information in the quote results to allow informed decision making, but this was not consistent for all their providers. Additionally, some PCWs allowed side-by-side comparison for a small number of selected quotes and/or facilitated re-sorting of quotes based on criteria other than price.

Policy excess

We found that the PCWs had not always taken reasonable steps to provide appropriate information on policy excesses.

During the data entry stage, PCWs required consumers to choose the amount of the voluntary excess but the quote results did not always reflect the amount selected. We found that the amounts quoted by some providers were either higher or lower than the amount selected and, where this occurred, the PCW often gave no explanation for the difference between the two.

In some cases, the excess quoted on the PCW results page was also misleading because it appeared that this was the excess applicable regardless of the type of claim. However, the excess displayed often only applied to certain types of claim. For example, on household policies, the excess for escape of water or subsidence claims was frequently more than the disclosed excess and it was not made clear to the consumer on the PCW that they would have to pay a higher excess in the event of certain types of claim. Similar issues applied to travel insurance and, to a lesser extent, motor insurance.

Our consumer research indicated that some consumers did not understand the terminology used because of the way the policy excess was presented in the search results. For example:

- some mistakenly assumed the 'voluntary' excess was an amount they would receive in event of a claim and
- only a small number of participants realised that the voluntary amount would be added to the compulsory excess in the event of a claim

Some participants in our consumer research appeared to be influenced by the perceived authority of the PCW, believing that the PCWs and insurance providers must know better. For example, when they saw pre-populated excess amounts, consumers assumed these were the right levels for them, or when a filtered search did not deliver the expected results, assumed what they requested did not exist (*please refer to Annex 2 - Consumer research report for more information*).

As a result of the PCWs not providing sufficient information on the policy excesses, consumers may suffer detriment due to a gap in expectations as, when they come to make a claim, the amount they are able to recover may be lower than they had anticipated.

Add-ons

Add-ons are additional products sold alongside the core product which the consumer can opt to include either on the PCW or after they click through to the provider's website. Some types of cover may be sold as a separate add-on for an additional cost by some providers but included as a feature of the core policy within the price quoted by other providers. Common examples of this include legal expenses cover, key cover and courtesy car cover.

We found that the PCWs had not always taken reasonable steps to provide appropriate information about add-on policies, including the main features of the product, the price of the cover, the level of cover, and the main exclusions and limitations.

Some PCWs used 'green ticks' and 'red crosses' to indicate whether a particular feature or cover was included or not included. We found evidence of 'green ticks' in the quote results indicating that an add-on/feature was included as part of the core policy. However, when the 'more info' button was clicked (or on clicking through to the provider website), there was an additional cost attached or, in some instances, the cover was not included. This can mislead consumers into making inappropriate decisions.

Some participants in our consumer research assumed the level of cover for add-ons to be largely the same across providers. Where consumers sought more information to enable them to make a true comparison or a better informed decision, this information was not easy to find. Also, the costs of add-ons were not always provided, instead a prompt to 'check with insurer' was displayed.

In line with the expectations set out in our market study provisional findings report on general insurance add-ons (GIAO)¹⁴, firms selling general insurance products that fall within the scope of our regulation must do so in line with our requirements, whether these products are core products sold as stand-alone or are add-ons. This means that the requirements in ICOBS around the provision of information apply to add-on products in the same way as they do to the core products (see ICOBS 6.1.5R, 6.1.6G and 6.1.7G).

Pre-existing medical conditions for travel insurance

We found that some PCWs did not take reasonable steps to make it clear to consumers that they had a different quote system for consumers with pre-existing medical conditions.

In other examples, we found that the notification to disclose pre-existing medical conditions came quite late in the quote journey; only after all questions were answered and quotes requested, would the consumer be informed that the quote was provided on the basis that there were no pre-existing medical conditions. In such cases, the consumer may be re-directed to a different quote system or asked to contact a specialist provider if they needed cover for pre-existing medical conditions.

Our consumer research indicated that some consumers assumed that, since no medical questions were asked, there was no need to declare pre-existing conditions. Alternatively, we found the questions to be too vague, for example, 'do you have any pre-existing medical conditions?' without any explanation of what constituted a pre-existing medical condition.

Many participants in our consumer research were aware that pre-existing medical conditions could be a factor, but those with such conditions were surprised that they were not always asked about them in the data entry process on PCWs. This left some people with pre-existing medical conditions wondering if the quotes could be relied upon or if they would be covered.

¹⁴ www.fca.org.uk/your-fca/documents/market-studies/ms14-01

This exposes consumers to a risk that they may buy a product under which they would be ineligible to make a claim.¹⁵ This is not in line with our expectations, as set out in Principle 6 and ICOBS 5.1.4G of the FCA Handbook (see Annex 1).

Conclusion on appropriate information

We found that the level of product information provided and the way that it is presented can be a barrier to informed decision-making by consumers. This is not consistent with our requirements under ICOBS 6.1.5R and the guidance in ICOBS 6.1.6G and 6.1.7G.

As a result, there is an increased risk that consumers may not be achieving fair outcomes when purchasing their GI policy through the use of PCWs. Fair outcomes for consumers are reliant on all links in the distribution chain and below are some examples of how consumers may not be achieving fair outcomes:

- consumers may buy products that may not meet their needs and could potentially buy too much or too little cover
- consumers could end up with a policy under which they may be ineligible to make a claim
- consumers may end up paying more for their cover than they need to, as a result of PCWs failing to disclose all information/costs on the comparison site or through upselling when the customer clicks through to the provider's website
- a consumer may incur higher costs than intended through lack of understanding on the following:
 - the levels of cover for both the core policy and the add-on products
 - the different level of excesses that may apply for different types of claims and
 - the costs applicable for mid-term adjustments and cancellations.

We committed in our 2014/15 Business Plan¹⁶ to work with firms to explore whether disclosures can be made simpler and work better for consumers. We know there can be limits to the amount of information that consumers are able to absorb and understand, but based on examples we have seen, we are of the view that PCWs can provide appropriate information in line with our requirements, in a way that is consumer focused and increases consumers' engagement with information.

The issues identified regarding add-ons are consistent with the findings of the market study on GIAO as well as the CMA's findings in respect of add-ons sold alongside private motor insurance on PCWS. These issues are being considered as part of the remedy design work that is currently being undertaken as a result of the market study on GIAO.

¹⁵ We recently concluded a thematic review of insurers' claim management for household and retail travel insurance. This review included findings relating to the extent to which consumers (who were all claimants) understood the need to disclose information about medical conditions. The findings report from this review can be found at www.fca.org.uk/your-fca/documents/thematic-reviews/tr14-08

¹⁶ www.fca.org.uk/static/documents/corporate/business-plan-2014-2015.pdf

We will shortly publish our report on the final findings of the GIAO market study. We will then consult on the proposed remedies later in the year, giving stakeholders an opportunity for detailed comment on the design of individual remedies, including those relating to how add-ons are offered via PCWs.

PCWs' role and business models

We assessed whether the role of PCWs and the nature of the service they provide in the distribution of GI products were clear to consumers and whether their business models were aligned to delivering fair outcomes for consumers. We provide our findings under the following headings:

- role of the PCWs and the basis on which they provide their service
- PCW remuneration
- conflicts of interest
- due diligence on providers and
- data security

Role of the PCWs and the basis on which they provide their service

From our desk-based research, we found that the PCWs often did not make clear what role they were performing when providing quotes for insurance products or the nature of their service. This was because this information was rarely provided at an appropriate time or formed part of the quote journey, but was instead found in other locations on their website (such as within terms and conditions or other generic firm information).

Additionally, some PCWs, though having the appropriate permissions of a general insurance intermediary, referred to themselves as introducers when explaining the service they provide.

Our consumer research also indicated a lack of understanding of the role of PCWs by consumers and suggested that the 'less sophisticated' insurance buyers generally misunderstood the role played by PCWs. They mistakenly believed that they had received advice or guidance in the course of arranging their insurance. The research indicated that this may be less likely to occur if the PCWs clearly stated the basis on which they were providing their service and did so as part of the quote journey, rather than relying on consumers finding this information elsewhere on the site.

In our 2011 Guidance, we provided a number of indicators of where a PCW may contain advice for the purposes of the Regulated Activities Order 2001. Though PCWs had generally taken steps to comply with the Guidance, we found some instances where PCWs, either through representations or the way information was presented, could be considered to be providing recommendations or advice or otherwise misrepresenting the service they provided.

An example of how consumers may misunderstand the service provided was where some PCWs gave the option for the consumer to be contacted by the 'top provider/s'. In such an instance, the top provider/s could be construed as being the most appropriate and, therefore, this could be considered advice or recommendation. In reality, the 'top provider' was simply the cheapest.

Our consumer research further indicated that some participants did not feel the need to interrogate the quote results in any depth, due to PCWs appearing to reduce complexity by presenting simplified results with the main differential being on price. Some mistakenly believed that the PCWs had delivered tailored quotes unique to their individual circumstances, due to the personal questions asked.

As a result of all of the above, there is an increased risk that consumers may end up with a policy that is unsuitable for their needs due to the expectation gap between their perception and the actual service provided by the PCW.

PCW remuneration

PCWs are remunerated primarily from fees they charge providers when a consumer buys a policy after getting a quote on the PCW. They may also earn income from providing data intelligence services or by selling consumers' data to third parties. PCWs generally did provide information on the basis on which they were paid but it was not always easy to find, as the information was provided separately from the quote process, in disclosures found elsewhere on the website.

In explanations to consumers regarding how the PCWs were remunerated, some PCWs made statements such as 'it costs you nothing to use our service'. Such statements could be misleading. While it is true from a direct cost perspective, there is an indirect cost to the consumer, as providers may include the fee they paid the PCW in determining the ultimate price of their product.

Conflicts of interest

A number of PCWs in our sample were part of a wider group that included brokers and/or insurers. Our review considered potential conflicts of interest in this regard only. At the time of our review, not all of these PCWs that were part of a larger group, and/or had significant controlled/controlling interests in an insurer and/or broker had disclosed this on their website. While we found no evidence that this led firms to use this to their commercial advantage, this is not consistent with ICOBS 4.1.2R (see Annex 1).

As part of our consumer research, we sought participants' reactions to the statement 'the price comparison website may be owned by or is part of the same company as the insurance provider'. The statement was a cause for concern among many respondents. Few were sure if the statement was true but many expressed concern that it may potentially bias results and undermine the assumed and expected impartiality of the PCWs and the search results they provide.

An example of good practice which we found is where a PCW that was part of a wider group (including brokers and insurers), had clearly disclosed the names of the affiliated/sister companies on the comparison websites and had controls in place to manage their conflicts.¹⁷ They also provided a contractual option to providers to audit their conflict of interest controls, should they have concerns.

Due diligence on providers

As stated in the 2011 Guidance, firms should ensure that they only enter into contracts with firms holding the appropriate authorisation and permissions to conduct that regulated activity, and the appropriate controls for the countering the risk of furthering financial crime.

¹⁷ We recently concluded a thematic review of conflicts of interest for commercial insurance intermediaries and the report on the findings of this review can be found at www.fca.org.uk/your-fca/documents/thematic-reviews/tr14-09 While this review focused on larger firms, all intermediaries should take note of the findings and ensure any conflicts are appropriately managed and ensure that they had appropriate controls in line with ICOBS 4.1.2R and other relevant sections of the FCA Handbook.

We found that all the PCWs involved in the review carried out due diligence on the insurers, brokers and intermediaries with whom they have contracted directly to appear on their websites.

Though PCWs carried out due diligence, some PCWs only undertook this when the provider initially joined their panel and did not assess periodically if the providers continued to hold the appropriate permissions. As a result, a provider's permission may change or be withdrawn and the PCW may continue to have contractual arrangement with that provider.

Some PCWs carried out only very basic checks, such as ensuring that providers were on the Financial Services Register with the appropriate permissions and the due diligence sometimes included measures to counter the risks of furtherance of financial crime. Some PCWs went further and also carried out credit checks on the providers and background checks on their key personnel, along with an assessment of the financial viability of the firm.

Only one PCW carried out due diligence checks on providers higher up in the distribution chain, for example, where the provider on the PCW was a broker and had its own panel of providers. Firms may want to consider whether this is appropriate to their business.

Many participants in our consumer research described a level of trust and confidence in the 'well known' PCWs at the outset, derived from experience of using them in the past and/or from their media presence through advertising. This translated into a belief that the PCWs had a reputation to protect and must go through some kind of vetting process to ensure that providers on their sites were reputable and trustworthy.

Where PCWs are not carrying out adequate due diligence on providers, it exposes consumers to the risk that they may enter into an insurance contract with or through an unauthorised entity under which there may be no regulatory protection and may not be covered by the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong. It also exposes PCWs to the risk of reputational damage. The link below is an example of where this has occurred. www.fca.org.uk/news/warnings/pacific-blu-lp

As set out in the 2011 Guidance, we expect firms to ensure that:

- i. they only entered into contracts with firms holding the appropriate authorisation and permissions to conduct that regulated activity (or who were exempt)
- ii. they withdraw their assistance from third parties if they were in breach of the general prohibition and
- iii. they have adequate policies and procedures for countering the risk of furthering financial crime.

Data security

We found that a small number of PCWs did not have secure access controls to customers' accounts. The only requirement was a combination of two or three pieces of information, such as quote reference, date of birth, surname, and postcode to access a customer account, and this information was readily available on the printed quote.

This lack of access controls exposes the consumers to the risk of sensitive information being inappropriately disclosed and the PCWs to the risk of reputational damage if things go wrong.

3. Other findings

In our desk-based review, we found a number of other areas where PCWs are not meeting our expectations and which could also result in unfair outcomes to consumers.

These areas are:

- i. terms and conditions (T&Cs) and other general disclosures
- ii. use of customers' data
- iii. data accuracy
- iv. complaints
- v. appropriate permissions and
- vi. financial promotions

Terms and conditions (T&Cs) and other general disclosures

Many participants in our consumer research recognised that T&Cs contain important information but did not read them before accepting them on the PCWs. Further, the research participants considered T&Cs of limited relevance or importance at the PCW data entry stage, assuming they were just a formality with no risk from ticking and moving on. The clarity and length of T&Cs varied across PCWs. Some T&Cs were not easy to read and digest and extended to numerous pages, while others were written in large text and were more concise.

We found that the majority of PCWs did not regularly review their websites to ensure that their disclosures on their practices, procedures and regulatory status were up to date and were compliant with regulatory requirements. We found out of date and conflicting disclosures and statements within the T&Cs, privacy of data policies and other disclosures on the websites.

We acknowledge that consumers not reading T&Cs and other important disclosure is a much wider issue generally and is not restricted to PCWs. As stated previously, we have committed in our 2014/15 business plan to work with firms to explore whether disclosures can be made simpler and work better for consumers.

Use of customers' data

We found that some PCWs did not explain clearly to the customer how they would use their data and many participants in our consumer research felt the PCWs were not transparent about this. In addition, some privacy of data policies stated that they would share customers' personal data with third parties. This conflicted with actual practice, as many PCWs did not share or sell customers' personal data.

A number of PCWs had tick boxes for agreeing to the T&Cs and privacy of data policy, without providing the option for the customer to opt in/out for the use of their personal data for marketing purposes. In such a case, the consumer may not know how to opt out of being contacted for marketing, as the process for doing so was difficult to find and/or was unclear or misleading.

Further, the framing of certain questions which offered the customer the option of opting in or out could be confusing. For example, some PCWs required customers to opt out for two different types of contact before providing the quote results. The first question related to whether they would like to be contacted by the two cheapest providers and the second question was whether they would like to be contacted for marketing purposes. To opt out, the customer would have to un-tick a box for the first question but tick one for the second.

Some participants in our consumer research thought they had opted out for contact for marketing purposes when they had actually opted in.

Data accuracy

We found all PCWs had processes in place to ensure the accuracy of data being transferred between the PCWs and the providers. In some PCWs, this process was performed regularly on an ongoing basis, whereas others only tested this on an event-driven basis, such as when changes were made to questions on the PCWs.

During our testing, we found instances of where the data entered on the PCW was not transferred correctly from the comparison site to the provider. For example, a question for household insurance asked whether the property was located within 400 metres from a river and was answered 'Yes'. When transferred over to the provider's website the question changed to within 200 metres of a river and the answer defaulted to 'No'. As a consequence, the consumer may end up with a policy that was unsuitable for their needs.

For travel insurance, we found instances where the information on date of birth of additional insured persons and the date of travel did not transfer across accurately to the provider's website.

Complaints

Volumes of complaints against PCWs appeared low and related mainly to inaccurate transfer of data from the PCWs to the providers' websites. If a complaint related to the product itself it would be handled by the provider. It was difficult to ascertain the true picture of complaints, as it was most likely to be reported to the product provider.

Guidance to consumers on how to make a complaint was not always easy to find and some PCWs had published out-of-date two-step complaint processes, which was not in compliance with Chapter 1.2 of the Dispute Resolution: Complaints manual (DISP 1.2).

The FCA is currently conducting a cross-sector thematic review on complaints handling and the report on this review will be published this year. PCWs should take note of the findings of that review when the report is published and ensure that they are handling complaints from their customers appropriately.

Appropriate permissions

We also found a small number of 'white labelled' PCWs did not have appropriate permissions. White labelled firms are defined in the 2011 Guidance and are firms which host and prominently brand under their own name a price comparison tool provided by a third-party comparison website. In the examples we found, the host firm had introducer-appointed representative permission only, as they considered that they were doing no more than introducing the consumer to the third-party comparison website.

However, the entire quote journey was prominently branded with the host firm's logo and as such, the consumer may be led to believe they were arranging their insurance policy with the host firm using the third-party comparison tool. If the host firm was only introducing then, by prominently branding the entire quote journey with its own name, the host firm could be considered to be in breach of Principle 7 and ICOBS 2.2.2R.

Financial promotions

Alongside the thematic review, we also carried out a review of financial promotions made by PCWs. We found that many PCWs in the review had misleading financial promotions which were in breach of ICOBS 2.2.2R and Principle 7.

All PCWs reacted promptly to withdraw and/or amend their advertising when we notified them of the breaches.

4. Our expectations

We expect PCWs to take actions on the specific areas we have identified where they are not meeting our expectations identified in this report and as provided in their individual feedback.

In summary, we want PCWs to commit to the following actions.

1. Take reasonable steps to ensure that consumers are provided with appropriate information to make an informed decision. This information is expected to go beyond price to include level of cover, key features, benefits, exclusions, limitations and other relevant information the consumer may require.
2. Provide a consistent level of information for different providers to allow consumers to easily compare products and make an informed choice.
3. Make clear their role in the distribution of the product and the nature of the service they are providing.
4. Ensure that they are complying fully with other relevant regulatory and legal obligations, including those around complaints, data management, financial promotions, due diligence and conflicts of interest.
5. Ensure that the interests of their customers are genuinely at the heart of how they run their businesses. The way firms treat their customers is central to our expectations of their conduct.

We have considered whether we should be prescriptive in telling PCWs what information and the level of details they must provide in the quote results but believe this may not be appropriate as it could stifle innovation. However, when considering our findings, PCWs should also consider how they can make their disclosures smarter i.e. simpler and more engaging so that they work better for consumers.

Achieving fair outcomes for consumers is reliant on all links in the distribution chain. We expect product providers to consider the findings of this report in the context of their regulatory obligations under ICOBS 6.1.1R as well as their product governance responsibilities, and to work with PCWs to address any issues identified.

PCWs should also note when considering our findings, the report issued by the European Insurance and Occupational Pensions Authority (EIOPA) in January 2014 on good guidance practices on comparison websites.¹⁸ The purpose of EIOPA's report is to promote transparency,

¹⁸ https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/Report_on_Good_Practices_on_Comparison_Websites.pdf

simplicity and fairness for internet users in the market for online comparisons of insurance products. EIOPA expects that the good practices put forward in its report will be adopted by the relevant market players on a voluntary basis.

For PCWs in other financial sectors

The findings of this review have relevance beyond just general insurance products. PCWs that provide a comparison service for financial products other than general insurance should consider the findings, particularly those that impact on consumers' ability to make well-informed decisions. They should also consider whether they are meeting the information needs of their customers to ensure that they achieve fair outcomes when buying or researching financial products on their comparison site.

PCWs in other financial sectors should also consider the adoption of EIOPA good practice guidance. Additionally, in February 2014, we issued guidance consultation on Annuity comparison websites.¹⁹

For consumers

In our view, consumer awareness could be improved and we intend to engage with consumers groups on this. For example, some consumers were not aware that all products are not the same and that the cheapest product may not always equal the best for their needs.

We intend to engage with consumer groups to increase awareness among consumers when they are researching and buying their general insurance policy. Consumers need to understand what cover is and is not included, the amount the policy will pay out in the event of a claim, whether they would be expected to make any financial contributions towards the loss (such as the excess amounts) and what costs, if any, they may incur should they cancel or amend their policy.

This awareness should extend to the fact that some core products may offer reduced levels of cover and different amount of excesses, with features stripped out, to offer cheaper prices. Also, the levels of cover and the amount of excess may vary by insurer for a particular add-on.

Further, there is wealth of public information that provides guidance to consumers on buying their general insurance policies. We encourage consumers to make use of such resources to ensure that they achieve fair outcomes when researching and buying their insurance cover, whether through a PCW, a broker/intermediary or directly with an insurer.

¹⁹ www.fca.org.uk/news/guidance-consultations/gc14-01

5. Actions and next steps

We are taking the following actions as a result of our findings.

- Providing individual feedback to PCWs involved in the review and asking them to take action on specific areas where they are failing to meet our expectations.
- Supervisory engagement with PCWs to ensure that they address the specific issues identified during our review, using the full range of regulatory tools available to us, as appropriate.
- Providing feedback and engaging with the wider industry on our findings, rules and expectations.
- Some of the issues identified in this report are consistent with the findings of the market study on GIAO as well as the CMA's findings in respect of add-ons sold alongside private motor insurance on PCWs. These issues are being considered as part of the remedy design work that is currently being undertaken as part of the GIAO market study.
- We intend to engage with consumer groups to support efforts to increase consumers' awareness, as our consumer research has indicated that consumers have misconceptions about general insurance.

Annex 1

Existing guidance and rules for PCWs

PCWs are reminded that regardless of their size, they have a duty to comply with all obligatory legal and regulatory requirements, except where there are exemptions.

These requirements include the following sections of the FCA handbook

- the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)
- Principles for businesses (PRIN)
- General Provisions sourcebook (GEN)
- Insurance: Conduct of Business sourcebook (ICOBS)
- Dispute Resolutions: Complaints sourcebook (DISP)

and applicable legislation

- the general prohibitions under sections 19, 20 and 21 of Financial Services Markets Act 2000 (FSMA)
- articles 25(1) and (2) of The Regulated Activities Order (2001)
- Unfair Terms in Consumer Contracts Regulations 1999
- Data Protection Act 1998

Below, we have set out the relevant sections of the FCA Handbook and guidance that are applicable to the findings in this report. These rules and guidance referred to in this annex are not intended to be an exhaustive list of regulatory obligations and other regulatory and legal provisions may also be relevant depending on the circumstances.

- 2011 Guidance on the selling of General Insurance policies through price comparison websites.
- Principle 3, '*[A] firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems*'.
- Principle 6, '*[A] firm must pay due regard to the interest of its customers and treat them fairly*'.
- Principle 7, '*[A] firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading*'.
- Principle 8, '*[A] firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client*'.

- GEN 4.5.3R, '*[A] firm must not indicate or imply that it is authorised by the FCA in respect of business for which it is not so authorised*'.
- GEN 4.5.4R, '*[A] firm must not indicate or imply that it is regulated or otherwise supervised by the FCA in respect of business for which it is not regulated by the FCA*'.
- ICOBS 2.2.2R, '*[W]hen a firm communicates information, including a financial promotion, to a customer or other policyholder, it must take reasonable steps to communicate it in a way that is clear, fair and not misleading*'.
- ICOBS 2.5.1R, '*[A] firm must not seek to exclude or restrict, or rely on any exclusion or restriction of, any duty or liability it may have to a customer or other policyholder unless it is reasonable for it to do so and the duty or liability arises other than under the regulatory system*'.
- ICOBS 4.1.2R, '*[P]rior to the conclusion of an initial contract of insurance and, if necessary, on its amendment or renewal, a firm must provide the customer with at least:*
 - (1) *its name and address;*
 - (2) *the fact that it is included in the Financial Services Register and the means for verifying this;*
 - (3) *whether it has a direct or indirect holding representing more than 10% of the voting rights or capital in a given insurance undertaking (that is not a pure reinsurer);*
 - (4) *whether a given insurance undertaking (that is not a pure reinsurer) or its parent undertaking has a direct or indirect holding representing more than 10% of the voting rights or capital in the firm; and*
 - (5) *the procedures allowing customers and other interested parties to register complaints about the firm with the firm and the Financial Ombudsman Service or, if the Financial Ombudsman Service does not apply, information about the out-of-court complaint and redress procedures available for the settlement of disputes between the firm and its customers*'.
- ICOBS 4.1.6R (1), '*[P]rior to the conclusion of an initial contract of insurance (other than a connected travel insurance contract) and, if necessary, on its amendment or renewal, a firm must tell the customer whether:*
 - (a) *it gives advice on the basis of a fair analysis of the market; or*
 - (b) *it is under a contractual obligation to conduct insurance mediation business exclusively with one or more insurance undertakings; or*
 - (c) *it is not under a contractual obligation to conduct insurance mediation business exclusively with one or more insurance undertakings and does not give advice on the basis of a fair analysis of the market.*
- ICOBS 5.1.1G,
 - (1) *In line with Principle 6, a firm should take reasonable steps to ensure that a customer only buys a policy under which he is eligible to claim benefits.*

(2) *If, at any time while arranging a policy, a firm finds that parts of the cover apply, but others do not, it should inform the customer so he can take an informed decision on whether to buy the policy'.*

- *ICOBS 5.1.4 G, 'a firm should bear in mind the restriction on rejecting claims (ICOBS 8.1.1R (3)). Ways of ensuring a customer knows what he must disclose include:*

.....

(3) *explaining to the customer the responsibility of consumers to take reasonable care not to make a misrepresentation and the possible consequences if a consumer is careless in answering the insurer's questions, or if a consumer recklessly or deliberately makes a misrepresentation; and*

(4) *asking the customer clear and specific questions about the information relevant to the policy being arranged or varied'.*

- *ICOBS 5.2.2R(1), 'prior to the conclusion of a contract, a firm must specify, in particular on the basis of information provided by the customer, the demands and the needs of that customer as well as the underlying reasons for any advice given to the customer on that policy'.*

- *ICOBS 6.1.1R, '[A]n insurer is responsible for producing, and an insurance intermediary for providing to a customer, the information required by this chapter and by the distance communication rules (see ICOBS 3.1). However, an insurer is responsible for providing information required on mid-term changes, and an insurance intermediary is responsible for producing price information if it agrees this with an insurer'.*

- *ICOBS 6.1.5R, '[A] firm must take reasonable steps to ensure a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed'.*

- *ICOBS 6.1.6G, '[T]he appropriate information rule applies pre-conclusion and post-conclusion, and so includes matters such as mid-term changes and renewals. It also applies to the price of the policy'.*

- *ICOBS 6.1.7G which states '[T]he level of information required will vary according to matters such as:*

(1) *the knowledge, experience and ability of a typical customer for the policy;*

(2) *the policy terms, including its main benefits, exclusions, limitations, conditions and its duration;*

(3) *the policy's overall complexity;*

(4) *whether the policy is bought in connection with other goods and services;*

(5) *distance communication information requirements (for example, under the distance communication rules less information can be given during certain telephone sales than in a sale made purely by written correspondence (see ICOBS 3.1.14R)); and*

(6) *whether the same information has been provided to the customer previously and, if so, when'.*

Annex 2

Consumer research report

Atticus Research Limited was commissioned to undertake qualitative research to inform the Financial Conduct Authority's (FCA) thematic review on price comparison websites (PCWs). This research sought to understand consumers' use and attitudes to PCWs. The report can be found at: www.fca.org.uk/your-fca/documents/research/price-comparison-website-consumer-market-research.

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