PROTECT ASSOCIATION

ARE YOU OF VALUE?

NOVEMBER 2023

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Let’s talk about “Value”


Value for
money

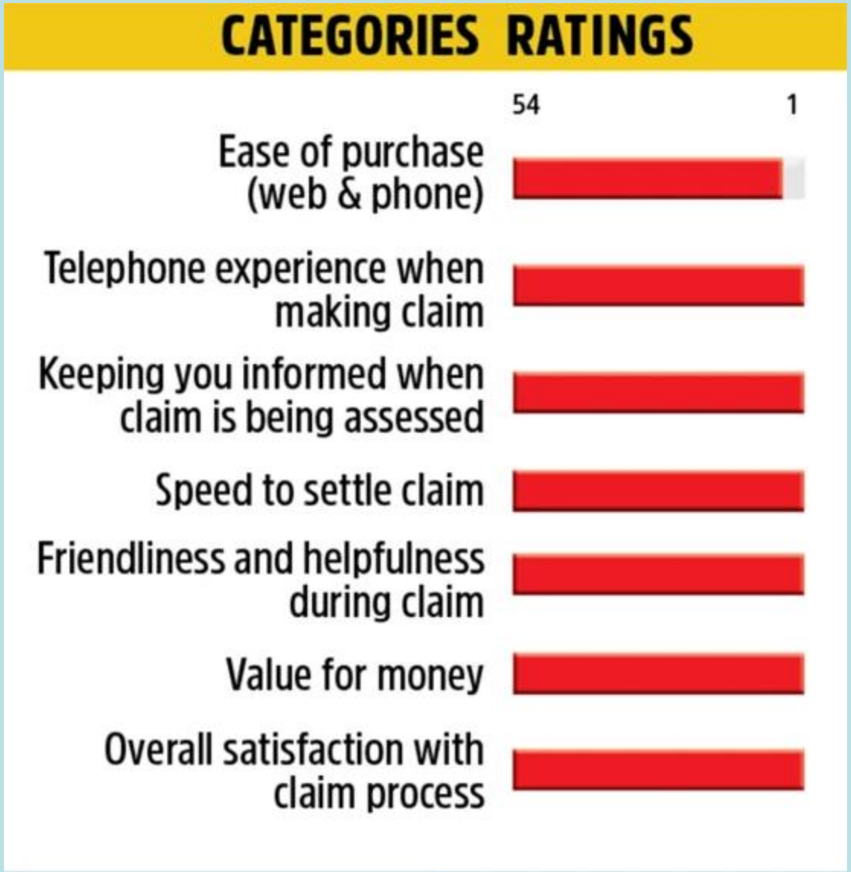

PRiCE
VALUE


BEST VALUE
BEST VALUE
BEST VALUE


COST
VALUE


Good Value

Best value insurance?



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Where is the “value” in a Malcolm Padgett Webinar?

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What on earth is “value”?

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A dictionary definition

the regard that something is held to deserve; the importance, worth, or usefulness of something

Now <u>that's</u> pretty subjective

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Maybe value is <u>all</u> to do with price?

"The monetary worth of something"

Valuation of worth is pretty subjective

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The valuation of worth . . .

Value claret: Top 30 under £20

Decanter's largest ever tasting of this broad category impressed in all aspects, delivering a host of drinkable, ageable, yet affordable red gems from Bordeaux.

Georgie Hindle
October 6, 2022

Aldi and Lidl wine: still unbeatable for great value

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There is no <u>objective</u> definition of “value”

Value, like beauty, is the eye of the beholder

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So – why am I talking to you about value?

Because . . .

The assessment of the "value" of an insurance product is now at the very centre of the FCA's regulatory regime

One of the four Consumer Duty Outcomes

The Products, Services, Price and <u>Value</u> Consumer Outcome"

If you fail to deliver on this outcome . .

If value is so subjective

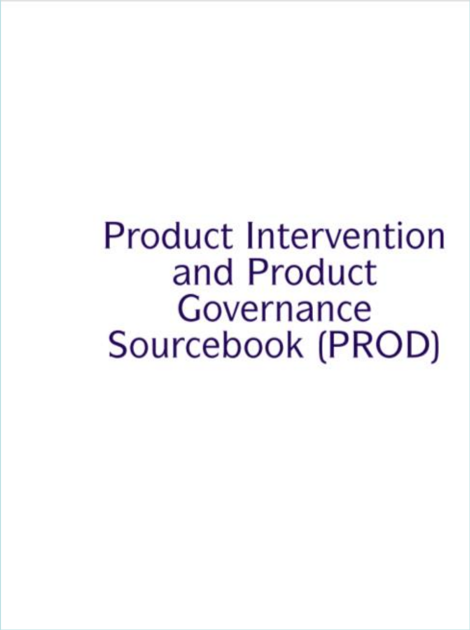
How can you <u>show</u> the FCA that your product offers “value” sufficient to meet the Consumer Duty Outcome?

By meeting . . .

The requirements of Chapter 4 of the Product Intervention and Product Governance Sourcebook (PROD)

"A firm which conducts business in relation to products subject to PROD 4 will meet the Products, Services, Price and Value Consumer Outcomes - provided it is meeting the requirements of PROD 4"

PROD 4



- Centered on firms having in place and undertaking product approval processes focused on ensuring “fair value” to consumers
- What is “fair value”? Is it defined?
- No! It is a phrase used 69 times in PROD – but not defined
- So - is the word “value” defined by the FCA?

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NO!

- But the FCA has stated that it regards “value” to be:-

  “the relationship between the overall price to the customer and the quality of the service or benefit provided”.

- That relationship, the FCA says, should be “fair”

So which of these is “fair value”?

“the relationship between the overall price to the customer and the quality of the service or benefit provided”

Differing views on price/benefit provided

YAPP BROTHERS
Since 1969

LAITHWAITES

THE
WINE
SOCIETY
1874

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The FCA understands this . . .

"Many factors potentially contribute to the value profile of a General Insurance product – and it is important to consider all these factors rather than single metrics in isolation"

Good – that's a bit clearer . . .

- We can consider other "factors"

- If your target market for wine is people whose <u>values</u> are <u>not</u> predominated by price, then you can recommend top clarets under £20

- If your target market for wine is people whose values <u>are</u> predominated by price, then you can recommend Aldi/Lidl wine (at, maybe £7- £9)

- These product choices are both "fair value" because it is generally accepted that the <u>quality</u> of wine varies significantly - and that price is usually a fair reflection of the variance in that quality. . . . . In the eye of the beholder!

- Therefore, target markets in the wine trade are almost entirely focused the price which a customer <u>in that target market</u> would be happy to pay – and a range of quality is offered around that price

And the FCA regime <u>is</u> reflective of this . .

- PROD 4.2.14A R is the core rule on for delivering "fair value" in a GI product:-
  - *"a firm must ensure that the product approval process identifies whether the product provides fair value to customers <u>in the target market</u>"*
- So, when the FCA says that:-

  "many factors potentially contribute to the value profile of a General Insurance product – and it is important to consider all these factors, rather than single metrics in isolation" . . .

- Which factors (metrics) is it referring to?
- Does it see a differentiation in target markets based on the price the customer is willing to pay?

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PROD
The basic rule on assessment of value

When assessing value, a firm must use all necessary and appropriate data and information available to it, including but not limited to . . .

Assessing value from Information available internally . . .

- **Customer research;**
- **Claims information**, such as handling times, frequency, severity of claims costs (including total costs and average per claim), claims ratios, rates of, and reasons, for claim acceptance/declinature, both expected for the product and/or any actual information from a comparable product; and
- **Complaints data** (including root cause analysis and handling times), both expected for the product itself and/or any actual information from a comparable product

Assessing value from Public and external information

A firm must use public information, or information obtainable by the firm from external sources, including analysis of similar insurance products available from other firms **and, where relevant, data published as part of the FCA's work on value measures in the general insurance market**

Which brings us to . . .

General insurance value measures data 2022

Data | **Published:** 20/09/2023 | **Last updated:** 20/09/2023

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We provide our first full year of general insurance value measures data, for January to December 2022. This follows our previous publication of value measures data (for July to December 2021) in November 2022.

General insurance is an important product for consumers and provides essential protection to consumers. Our latest data and our ongoing interactions with firms, shows that some general insurance firms may be failing to comply with our rules around offering fair value as required by PROD4 and delivering good outcomes for their consumers under the Consumer Duty.

In our previous publication we said we were concerned that the data showed individual firms, or products, were not providing fair value. Despite this, the new data suggests that there are still several examples where individual firms, or products do not appear to be providing fair value. So, we have written to GAP insurers informing them that we do not think they are likely to be meeting our PROD rules or providing fair value to customers. We have given these firms a month to propose how they will address the position. Where firms are not able to demonstrate that they are in compliance with our rules, we will consider using our regulatory powers. Our concerns are set out in the section below, and as well as applying to GAP insurance, may have relevance to other Value Measures products.

Whilst this action is on GAP insurance, many of the concerns we see are potentially related to wider issues and so firms' Boards should take note of this action and make sure they are meeting their product governance requirements across all retail products. We have emphasised this further in our recent portfolio letters to insurance firms.

Chapters

More on GI values

- General insurance value measures
- PS20/9: General Insurance Value Measures

Value Measures Data?

- Data published annually by the FCA which is intended to inform firms about the performance of competitors across a series of metrics

- The Data:-

  Specific information on **claims frequencies**, **claims acceptance rates**, **average claims pay-outs** and **claims complaints as a proportion of claims**, for a wide range of retail GI products

- Plus **"Contextual Information"**:-

  "We have included additional contextual information at an aggregate product level to help readers interpret the data. ***For example, we have calculated the proportion of money raised in premiums that insurers paid out in claims****"*

The Headline from 2022 Value Measures

The FCA also identified further evidence that some Guaranteed Asset Protection (GAP) products may be failing to provide fair value to customers.

This comes as the FCA publishes its latest insurance Value Measures Data (Jan-Dec 2022), which revealed potential concerns over the value of GAP products to customers.

GAP insurance is an add-on to motor insurance. It covers the difference between a vehicle's purchase price and its current market value.

According to FCA data, for GAP insurance only 6% of the amount customers pay in premiums is paid out in claims. The FCA has seen examples of some firms paying out up to 70% of the value of insurance premiums in commission to parties in the distribution chain, such as motor dealerships.

The FCA has told firms manufacturing GAP insurance products they must take immediate action to prove customers are getting a fair deal, or it will intervene – giving firms a three-month ultimatum.

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The suspected "poor value" from GAP . . .

- "only 6% of the amount customers pay in premiums is paid out in claims".

- This is not a metric from any of the the four value measures - **claims frequencies**, **claims acceptance rates**, **average claims pay-outs** or **claims complaints as a proportion of claims,**

- This "poor value" is based on the "*additional contextual information at an aggregate product level*" which the FCA included to help "*interpret the data*"

- The FCA have calculated the proportion of money raised in premiums that GAP insurers have paid out in claims - and concluded that this indicates poor value

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And my point is . . .

- The FCA headline metric used to publicly announce the FCA's concern as to "fair value" in the GAP market is by reference <u>not</u> to a "value measure" at all, but "contextual information" (albeit derived from value measures)

- So, the FCA is highlighting a <u>selected</u> contextual factor as the headline basis for the FCA's negative view of the "value profile" of GAP - rather than simply presenting the value measures data

Is the FCA therefore wrong about GAP?

- Almost certainly not – but its approach to proposed supervisory action against the GAP market, based on "contextual information" has serious implications for the wider market – and particularly the add-on market

- The FCA knows as well as we do that "value" and "fair value" are subjective concepts (per the wine trade) which is why it (correctly) says that no single metric should judge value

- But, why has the FCA jumped upon a single metric within "additional contextual information" to launch its attack on GAP insurance rather than letting the data speak for itself?

Outliers

- The reason is that value measures are nothing other than a comparative tool

- Product "A" displays less/more/bigger/fewer than Product "B"

- The FCA can never adjudge "value" – but it can hunt down firms which seem particularly out of line with the mainstream in order to investigate their wider regulatory compliance

- We all do this, with any data set – we look for the exceptions, we look for the outliers . . .

What the FCA is saying . . .

- In identifying the GAP market as an outlier (from the contextual data), the FCA is not (yet) saying that GAP insurance <u>is</u> poor value – it just strongly <u>suspects</u> this – saying that GAP Insurers:-

  "are [not] likely to be meeting our PROD rules <u>or</u> providing fair value to customers"

- If this proposition stopped before the word "or" - then I could leave you <u>now</u> with a very clear regulatory understanding regarding the FCA approach to assessing "fair value"

- That would be that:-

  - your firm's rigorous compliance with PROD oversight and governance processes and outcomes (<u>including</u> due reference to the value measures data) is <u>crucial</u> to control your regulatory risk and your position with a potentially hostile regulator, regarding the value of your products

  - the absence of process, proof of your process or failure to react to indicators of poor outcomes from your PROD process will be <u>fatal</u> in any challenge from the FCA regarding poor value

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But I can’t leave it there

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That word "or"

- The FCA have concluded that GAP insurers :-

  "are [not] likely to be meeting our PROD rules <u>or</u> providing fair value to customers"

- The word "or" in the FCA Statement indicates that the FCA believe that a firm which <u>fully</u> meets the PROD rules may <u>still</u> not (in its view) be providing fair value to customers!

- So – the FCA relies on that "contextual information" . . .

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What is going on?

- The GAP market has been in the FCA's sights for a long time now
- ICOBS 6A.1 was added to address concerns in 2015
- Those rules were designed to ensure additional clarity in the sales process for GAP and a <u>particular</u> opportunity for customers to test the value of the GAP proposition before committing to a purchase
- Is the FCA implying that <u>these</u> rules do not guide customers to the value of the proposition – or is it saying that firms are failing to comply with them?
- Is the FCA saying that compliance with the PROD rules does not result in delivery of a proposition of value to potential GAP customers?

This is what the FCA said . . .

[What we have already seen]:-

> *“We have written to GAP insurers informing them that we do not think they are likely to be meeting our PROD rules or providing fair value to customers”*

What the FCA went on to say:-

> *“We have given these firms a month to propose how they will address the position. Where firms are not able to demonstrate that **<u>they are in compliance with our rules</u>**, we will consider using our regulatory powers”*

My concerns

- I am by no means seeking to particularly "defend" GAP insurance - the extent of the outlying GAP metrics may, indeed, indicate that something is very different about the outcomes which customers may experience when purchasing GAP

- But my concern is the clarity by the FCA as to whether this is an issue about "value" – or an issue of compliance?

- If the FCA is - as it says that it is – requiring demonstration that GAP insurers are in compliance with its rules, then the two key questions are . . . .

The questions

- Have the GAP insurers:-
  - complied with the PROD Rules – Yes or No?
  - complied with the ICOBS Rules – Yes or No?
- If the answer to either of those questions is NO – then we have an objective basis for enforcement that we can all clearly see and (if necessary) learn from

But what if the answers are “yes”?

- If GAP insurers <u>have</u>:-

    - complied with the PROD Rules
    - complied with the ICOBS Rules

- We then have a GAP product which is considered to be a value measures data outlier - but which <u>has</u> been properly assessed and has been sold compliantly

- If all the GAP insurers and distributors are non-compliant then God help them, but what if some <u>are</u> compliant?

- Where does the FCA want to go on this?

- Down the road of regulating by outlying metrics (and product bans) or by examining whether firms are, or are not compliant with the its rules, guidance and principles <u>even</u> if that gives rise to data outliers?

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My message to all firms

- Be warned
- What is happening to GAP today may happen to your market tomorrow
- Within your firm, of course ensure ICOBS and PROD compliance – but think further on the extent to which value measurers data may contextually identify your products as outliers to the FCA
- Why and how can you persuade the FCA of the factors which validly contribute to your assessment of value?

Consider . . .

- If you are in a market which may attract FCA concern as to "value" whether you should be more proactive

- Should you be now working as a firm, and within your sector, to generate contextual information and data which identifies all the <u>many</u> factors which contribute to the value profile of your product – some of which may give data outliers

- Be ready – so that <u>before</u> the FCA "express concerns as to value" based on the data it collects, the FCA can be presented with all the contextual data that impacts on <u>your</u> customers appreciation of the value of <u>your</u> products

- Is your target market distinct, is it preoccupied by price, what do your customers value, are they Decanter readers or Aldi shoppers!

Questions and Discussion

For more information contact

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