

Client Update

UK FCA Spotlights Key Improvements for Insurers and Insurance Intermediaries

LONDON

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The UK Financial Conduct Authority (“FCA”) recently carried out three thematic reviews of different aspects of the UK general insurance market. The reports on the thematic reviews highlight significant areas for improvement in the way insurers and insurance intermediaries handle delegated authority, claims by SMEs, and insurance premium financing. With the transition to Solvency II compliance rapidly approaching, insurers and insurance intermediaries in the UK need to ensure that their systems and processes address the issues raised and that the FCA’s expectations are fully met.

DELEGATED AUTHORITY (PUBLISHED 1 JUNE 2015)

Insurance firms and intermediaries regularly outsource certain functions to third parties, including underwriting, claims handling and product design. In its thematic review, the FCA looked at these arrangements of delegated authority in the UK general insurance marketplace. It focused on 12 insurers’ outsourcing arrangements and 19 firms that held delegated authority from those insurers.

The FCA found that many insurers and intermediaries had not adequately considered their regulatory obligations in relation to outsourcing arrangements and how these might impact the interests of customers.

In particular, the thematic review revealed that:

- insurers do not always treat delegated arrangements for underwriting and claims handling to third parties as outsourcing;
- some insurers do not conduct focused due diligence when selecting third parties;

- some insurers and intermediaries have a lack of appropriate oversight and monitoring over the delivery and performance of the products they provide; and
- there was sometimes no clear allocation of responsibilities between insurers and intermediaries and third parties.

In light of these shortcomings, the FCA recommends that firms improve their due diligence before selecting third parties. Insurers and intermediaries should consider whether they have effective and risk-based controls in place when outsourcing to third parties, and have appropriate ongoing oversight and monitoring in place across all their delegated activities.

HANDLING OF INSURANCE CLAIMS FOR SMES (PUBLISHED 22 MAY 2015)

This thematic review conducted on five insurers, ten insurance intermediaries and ten loss assessing firms showed considerable dissatisfaction in the way insurance claims for small and medium-sized enterprises (“SMEs”) were handled.

The FCA found that, unlike retail claims customers, SMEs had an overall poor perception of the claims experience. This was driven by a lack of clarity over the responsibilities of parties and poor communication between different parties handling the claims. SME’s claims were not managed effectively and in several cases, the FCA found that the sums insured were inadequate to cover the loss incurred.

The FCA has called on intermediaries and insurers to assess their claims-handling approach to ensure that claims are handled promptly and fairly for all customers. If any delays occur in the handling of claims, firms are expected to clearly communicate the reasons for delays. In addition, the FCA will consider any further action that may be required to ensure that customers have adequate sums insured. In this connection, the FCA understands that BIBA (the British Insurance Brokers’ Association) will shortly be publishing technical guidance dealing with this issue.

PROVISION OF PREMIUM FINANCE (PUBLISHED 11 MAY 2015)

The FCA also conducted a thematic review of the provision of insurance premium finance to retail general insurance customers. This revealed that many firms were not meeting the FCA’s expectations in this area. In particular, insurers and intermediaries did not always provide clear and appropriate information at the outset that would allow customers to make informed decisions on the products offered and the payment methods available.

The FCA found that customers were given inadequate information about whether the product on offer met their financial needs, the payment options available to them and the associated costs. In many cases, customers failed to understand the financial differences between paying the premium in monthly instalments and paying upfront. The shortcomings highlighted the fact that customers struggled to compare pricing and often entered into premium finance arrangements without understanding the key features, terms and risks.

To tackle these issues, the FCA wants intermediaries and insurers to provide customers with sufficient information at appropriate stages so that customers can compare the cost of paying the premium upfront and the cost of paying in instalments, and can clearly understand the implications of credit agreements.

NEXT STEPS

Although the FCA reports highlight the gaps and shortcomings, the reports also provide examples of good practice which firms can implement. Insurers are invited by the FCA to consider the findings of the thematic reviews and analyse the changes that need to be made.

The FCA intends to continue to engage with firms, senior management and trade bodies to address the issues identified in the reviews and ensure that firms take appropriate steps to address the concerns raised.

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Please do not hesitate to contact us with any questions.