SFS INSURANCE FOR INDEPENDENT SCHOOLS

FCA, Consumer Contract Regulations (CCR) and pupil insurance schemes

On 28 September 2015, the Financial Conduct Authority (FCA) published a policy statement (PS15/22) following its consultation, in March 2015, on whether the competition in add-on markets was effective and whether this impacted on consumer outcomes.

Background

The FCA's consultation proposed a shake-up of the general insurance add-on market where the FCA's Christopher Woolard, director of policy, risk and research at the FCA, said: "There's a clear case for us to intervene. Competition in this market is not working well and many consumers are simply not getting value for money. Firms must start putting consumers first and stop seeing them as pound signs. We believe our proposals will address these issues and prevent consumers paying for poor-value insurance products that they may not need or use."

Policy Statement

Following on from the consultation, the policy statement noted that the competition for add-ons was not effective which in turn has had a negative impact on consumer outcomes. PS15/22 confirms the final rules and guidance relating to general insurance add-ons and improving the information that is provided to customers.
Implementation is from 1 April 2016 but firms are expected to have made the necessary changes to their sales journey by 30 September 2016.

Findings

- Insufficient information provided about the cover and/or price which affects the customer's ability to assess the options and to choose the right product for their needs

- The timing of when add-ons are introduced in the sales journey has a profound effect on consumer decision-making

- Information is not provided in a way that enables the customer to easily compare packages i.e. the primary product and any add-ons

- The way the price is 'framed' e.g. only monthly prices displayed, can result in consumers not understanding the 'real' price of the add-ons, or the overall package

Firms should:

1. Provide appropriate and timely information to customers so they can make an informed decision when purchasing the product.

2. Provide information about the most common add-ons when required and to monitor these accordingly.

3. Demonstrating good practice in helping customers compare packages of primary product and add-ons, and to make comparisons of packages easier, with a clear price for the whole package given.

4. Displaying the annual price of add-ons (as well as monthly) to ensure the customer can adequately understand the overall price of the add-ons.

5. Ensure pertinent information on the features, benefits, exclusions, terms and price is provided as required.

Opt-out Selling

The rules regarding the ban of opt-out selling are applicable to **all general insurance and add-on insurance products,** not just those featured in the FCA market study. The ban on opt-out selling also applies to all financial service sectors, not just insurance. Firms and their representatives selling all types of add-ons to r**egulated** primary products will therefore be affected by the rules.
The ban on opt-out selling is designed to improve competition in the market around add-on sales and prevent the exploitation of customer biases, which can lead to customers purchasing products they do not need and overpaying for those products.

Renewal

For ALL customers who have been sold a product on an opt-out basis before these rules are implemented, the FCA will require the customer either:

- to actively elect to have the add-on product at renewal, or to be contacted at renewal to inform them of their add-on products and let them know these are optional

- For customers who have actively elected to buy an add-on, active election for an add-on at renewal will not be required as long as: the customer has already actively elected to buy that add-on AND the add-on is offered on substantially the same terms as when the customer opted in

Exemptions

The ban on opt-out sales does not apply to:

- Products that are offered to the customer at no extra charge (genuinely free products). But if the product does become chargeable then the ban would apply and the customer would need to be informed at renewal and must elect to opt in

- Unbreakable bundles - because there is no optionality. The customer either agrees to purchase all of the products, or not. However the ban on opt-out sales will apply to breakable bundles where the customer has some choice on their add-on purchases. If an unbreakable bundle is sold as an optional product to another financial product, then the ban would apply

- Options selected on a price comparison website, the option to auto-renew or overdrafts

- Optional additional products sold along with unregulated credit union loans

Supporting informed decision-making for add-on buyers

The Guidance on information provision is designed to ensure that customers are provided with adequate and timely information about individual add-ons and allow them to make informed decisions.

The Consumer Contract (Information, Cancellation and Additional charges) Regulations 2013

These regulations replace the previous Consumer Protection (Distance Selling) Regulations 2000 and apply to sales of insurance policies to schools in the following manner:

1. Under section 6.(1) Limits of Application it says 'These Regulations do not apply to a contract to the extent that it is for services of a banking, credit, **insurance**, personal pension, investment or payment nature'. However this exemption does **not** apply where the insurance is an additional item linked to the main contract (school fees) and it is sold as a negative option. E.g the parent has to opt out. So where the school is the Principal and it is marketing an insurance contract to a consumer and receiving commission on the sale (e.g the Marsh Option) they would fall within the regulations.

2. When the school is purchasing the insurance the school is not regarded as a consumer because it is dealing wholly in the course of its normal business activity and the regulations do not apply. Equally most schools have a corporate structure and the regulations **only** apply to natural persons.

There are therefore three options available to schools:

1. Purchase the insurance from the supplier and either bear the cost themselves or pass on the cost to parents in the school fee eg. Personal Accident Insurance.

2. Operate a mechanism where, although the premium is added to the bill the parent has to opt in by completing an application form and direct debit and the school is the beneficiary eg. School Fees Trust Scheme.

3. Draw insurance to the attention of parents and direct them to a supplier website for a purchase should they so wish.

References/Further Reading

FCA (PS15/22)
www.gov.uk/consumer-contracts-information
Peter Manford, Knights 1759
www.businesscompanion.info