Browne Jacobson

Underwriting and policy wordings

13 February 2025

There is no escaping that 2024 was the year of AI, which has impacted and transformed the insurance sector in a number of ways, both good and bad.

AI has rapidly altered the risk landscape, particularly for insurers covering professional services firms, as these businesses increasingly incorporate AI into their models. This shift presents a challenge for underwriters, who must quickly adapt to the new risks arising from AI use by their clients. For some, however, AI presents an opportunity for product innovation. In 2024, we saw a number of new products emerge, specifically targeting businesses that utilise AI in their systems. Insurers have also begun leveraging AI as an underwriting tool, enhancing efficiency in policy administration and even in claims verification. Yet, recent research highlights a rise in the use of AI by fraudsters to make exaggerated or fraudulent insurance claims, often targeting smaller losses where the claims verification process tends to be less stringent. Insurers must strike a balance between ensuring that legitimate claims are paid swiftly and efficiently while reducing the risk of fraudulent claims.

On the regulatory front, insurers continue to navigate the challenges posed by the FCA's Consumer Duty. While much of the focus has rightly been on establishing fair value for products, insurers are now increasingly turning their attention to other aspects of the Consumer Duty, particularly the Consumer Understanding Objective. On this front, the FCA has highlighted good examples of compliance, including customer testing, which has proven to be an invaluable tool for demonstrating that customers understand their insurance products.

Looking ahead, we anticipate more widespread and sophisticated use of AI across all areas of insurance, from underwriting and policy administration to claims verification and, unfortunately, in fraudulent claims as well. We also expect insurers to take further steps to ensure their products are clear, customer-focused, and designed to protect vulnerable customers.

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The Financial Conduct Authority's approach to AI

Author: Joanna Wallens

In April 2024, the Financial Conduct Authority (FCA) published its response to the government's white paper on artificial intelligence (AI).

Background

The government identified five key principles for the regulation of AI in the UK:

1. Safety, security, robustness
2. Appropriate transparency and explainability
3. Fairness
4. Accountability and governance; and
5. Contestability and redress

The FCA Consumer Duty and the FCA Handbook (amongst other laws and regulations) have an impact on how AI technology is applied by insurers. The ABI has produced a useful guide on AI and how the five guiding principles apply in an insurance context.

The Digital Regulation Cooperation Forum (DRCF) has recently been established. It brings together four UK regulators (FCA, Competition and Markets Authority, Information Commissioner's Office (ICO) and the Office of Communications) to deliver a joined-up approach to digital regulation. It aims to resolve potential tensions between regulatory regimes and to collaboratively work together on the challenges posed by the regulation of online platforms.

An AI and digital Hub has been set up between the regulators which allows advice to be obtained on issues that cross more than one DRCF regulator's remits.

The FCA has set up the Regulatory Sandbox, Digital Sandbox, TechSprints and other innovation advisory services. The FCA is also currently involved in diagnostic work on the deployment of AI across UK financial markets. It is also re-running a third edition of the machine learning survey, jointly with the Bank of England, as well as collaborating with the Payment Services Regulator to consider AI across systems areas.

The FCA's response

The FCA's response to the government's white paper on AI outlines its role and objectives, work so far, existing approach and plans for the next 12 months.

The FCA says that the principle of proportionality informs its thinking and approach to AI, as required by the Financial Services and Markets Act 2000. Namely, it must ensure that a burden or restriction imposed on a person or activity is proportionate to the expected benefits.

The FCA refers to the Principles of Business as providing a general statement of the fundamental obligations of firms. Under the Principles, firms must conduct their business with due skill, care, and diligence (Principle 2) and take reasonable care to organise and control their affairs responsibly, effectively and with adequate risk management systems (Principle 3).

Principle 6 concerns treating customers fairly. Under this principle "AI systems should not undermine the legal rights of individuals or organisations, discriminate unfairly against individuals or create unfair market outcomes. Actors involved in all stages of the AI lifecycle should consider descriptions of fairness that are appropriate to a system's use, outcomes and the application of relevant law". The FCA refers to AI fairness as being discussed in the final report of the AI Public Private Forum (AIPPF) and that "whilst the final AIPPF report does not represent the views of the FCA or the Bank of England, it provides a useful summary of considerations relevant to AI fairness". Other Principles for business are also considered relevant.

The FCA reiterates that the Consumer Duty is relevant to AI. It refers to the requirement for firms to act in good faith, avoid causing foreseeable harm and enable and support retail customers to pursue their financial objectives. It also discussed the requirement for firms to design products and services that meet the needs of their target customers and provide fair value, communicate in a way that meets the information needs of customers and provide support that meets the needs of customers. The FCA says that the discrimination harms that the Consumer Duty addresses are relevant to AI as firms are required to take account of the different needs of their customers, including those with characteristics of vulnerability and those with protected characteristics.

The FCA also refers to the following more specific rules as being of particular relevance to the use of AI by firms:

- Guidance relating to systems and controls under the Senior Management Arrangements, Systems and Controls (SYSC) sourcebook.
- Operational resilience, outsourcing (SYSC 15A (Operational Resilience), SYSC 8 and SYSC 13 on outsourcing, including in relation to operational risk).
- Critical Third Parties
- The FCA's Threshold Conditions, such as those pertaining to a firm's suitability and business model.
- The ICO's guidance on AI and data protection
- The Equality Act 2010.

According to the FCA, while its regulatory framework does not specifically address the transparency or explainability of AI systems, several high-level requirements and principles under its approach to consumer protection are relevant to the information firms provide to consumers and may apply to firms using AI safely.

The FCA requires firms to ensure that complaints are handled fairly and promptly. This includes complaints about AI decisions concerning the provision of, or failure to provide, a financial service; “where appropriate, users, impacted third parties and actors in the AI life cycle should be able to contest an AI decision or outcome that is harmful or creates material risk of harms.” (FCA).

In addition, the FCA has confirmed that it is itself using AI to pursue its objectives. It says that it has already transformed the speed with which it can monitor and tackle scam websites, money laundering and sanctions breaches.

Artificial intelligence putting the ‘actuarial defence’ to the test?

Author: Joanna Wallens

Should someone’s marital status impact their car insurance premium? How about if a company restructures and the policyholder’s employment status changes to unemployed? What about their credit card score? What if they are vulnerable due to having a low income? Age? Race? What about a factor that can have a close correlation to race, such as the area someone lives in?

The public discourse regarding what is and is not fair to use in pricing is gaining increasing momentum. There is a difficult balance between actuarial experience and fairness. The use of some characteristics in pricing decisions can cause unfairness or perceived unfairness. As markets evolve, aided by artificial intelligence (AI), there is a risk that inequalities may be unfairly perpetuated and amplified through underwriting. What rating factors should insurers be restricted from using to discriminate between risks due to social justice considerations? Is it even appropriate to use insurance as a social good to cross-subsidise risks?

What factors can insurers legally use?

Some factors can legally be used for price discrimination, which may not necessarily be perceived as fair. For example, people on lower incomes can in some instances present a higher risk to insurers due to a variety of factors, some of which may be considered outside their control. People on low incomes may also be vulnerable and less able to afford higher insurance premiums. They are also less likely to be financially resilient to specific risks and unexpected shocks, which insurance can provide some protection against. The ‘poverty premium’ is a term often used to describe a situation where those on low incomes pay extra for essential services such as credit, energy and insurance. Research has found that insurance is one of the biggest contributors to the poverty premium in the United Kingdom.

The Equality Act 2010 sets out various protected characteristics such as age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. In general, insurers must not discriminate against a person because of a protected characteristic, including in relation to the premium for the product. However, actuarially justified discrimination based on some protected characteristics is currently lawful where a relationship between the characteristic and loss propensity is established. This is known as the ‘actuarial defence’. For example, age can be used as part of a risk assessment if the information used is relevant and comes from a source on which it is reasonable to rely. Relevance must be actuarially sound. Untested assumptions, stereotypes and generalisations with respect to age are not allowed.

Several rating factors can be linked to economic status and cause a poverty premium such as age, credit score, home address, payment method and employment status. Protected characteristics such as race, sex and disability can also correlate with poverty attributes. Even where certain characteristics are not used, there is a risk of algorithmic proxies to those characteristics still being used in pricing. On the other hand, removing some rating factors from insurance pricing could cause many customers to experience price increases as the cost of higher-risk insureds is spread across all insureds.

Consumers with protected characteristics are more likely to experience the poverty premium. Protected characteristics such as race, sex and disability can correlate with poverty attributes and result in different prices for those groups. It is never acceptable for information regarding race to be used in assessing risk. However, Bangladeshi, Pakistani and Black people are disproportionately likely to live in deprived areas, which can impact the cost of insurance premiums. Even when protected characteristics are not used there is a clear risk of algorithmic proxies to those characteristics still being used in pricing. AI may exacerbate this risk, as it may establish previously unknown patterns and increase the complexity of models. Research has found that people from Black, Asian and other ethnic minority households, lone parents, and disabled people were less likely to hold any insurance. Going without is often the alternative to paying the poverty premium and can result in exclusion from the market.

Currently, the default approach is to exclude protected characteristics from model specification, so that the model is unaware of them. However, this can lead to discrimination by proxy when unfair factors correlate with ‘legitimate’ factors, potentially disadvantaging individuals with protected characteristics or vulnerabilities. An alternative approach is explicit equalisation, where all factors – whether fair or not – are included in the model specification. The discriminatory effects are then removed by averaging outcomes across the unfair factors. However, there may also be legal issues with this approach and difficulties in obtaining all the data necessary to make it work. This can also result in uncompetitive pricing.

'Unfair' price discrimination in essential products, such as home insurance and car insurance (where it is a legal requirement), is considered by some as a greater concern than in non-essential products. Where insurance is mandatory or essentially mandatory it can be seen as more of a social good and less of an economic commodity.

People living in high-crime rate areas are likely to be charged higher home insurance premiums because of a greater risk of home burglary. However, they may be less able to reduce their risk due to factors outside their control. For example, because they do not have the financial means to do so. While some may view this as fair, others may disagree, seeing it as unjust but outside the responsibility of the insurance market as just a reflection of wider inequalities in society.

Increasingly individualised risk pricing

AI will increase the importance of issues regarding which characteristics can be used and the identification of indirect indicators for banned characteristics.

AI is accelerating the trend towards more granular, precise pricing based on an individual's specific rating factors. While individualised risk pricing can incentivise positive behaviours that reduce risk and lead to more accurate pricing, it can also create negative outcomes. This can be seen as especially unfair where pricing is based on factors which people have no or little control over. Those with lower risk may enjoy lower premiums, however, higher risks may pay more. Some may not be able to afford essential insurance products at all, leading to serious issues.

"Premiums are being set for smaller and smaller subgroups of the population, and ultimately for individuals. This is resulting in losers as well as winners."

In Canada, two different systems of motor insurance operate. Some provinces allow risk pricing and others have pricing restrictions which mean that everyone pays the same basic insurance premium. In the provinces where risk pricing is allowed, the chance of being involved in a fatal road crash is almost 20% lower than in the more heavily regulated provinces. Risk pricing can have the benefit of leading to safer behaviour.

AI could also open the door to hyper-personalised risk scores. This could allow premiums to be based on people's actual behaviour, such as their exercise regime, and not just the risk profile of a category to which they belong such as their age group or postcode. However, hyper personalisation will not only apply to factors that people can control.

There has been rapid growth in information about genetic links to various health conditions. Insurers have an interest in assessing the level of risk to be covered. How much of this personal information should insurers be allowed access to? Insurers may be concerned about adverse selection – the tendency for individuals with knowledge of their genetically based health risks to buy life or health insurance products. This may expose insurers to a greater than expected probability of claims. Does this make it reasonable for insurers to seek genetic information, something that the individual has no control over, from policyholders?

Some countries allow insurers to ask for disclosure of results of previous genetic tests, to request new tests and to take this information into account in setting premiums. However, others do not allow insurers to do any of these things. In the UK, there is a Code on Genetic Testing and Insurance between the government and the Association of British Insurers, although this is a voluntary agreement. It commits insurers signed up to the code to never require or pressure any applicant to undertake a predictive or diagnostic genetic test. Under the code, insurers may only ask applicants to disclose and consider the result of a predictive genetic test in a small number of situations. Huntington's disease is currently the only condition included, and only in applications for life insurance cover over £500,000.

What does this mean for UK insurers?

The debate over what are 'fair' factors to use in insurance pricing and underwriting may accelerate with the use of AI. AI could put the 'actuarial defence' to the test and cause the relationship between pricing according to risk and discrimination to be re-examined and subject to further regulatory scrutiny.

Insurers must be able to explain how their pricing systems and practices comply with their obligations under the Equality Act 2010. This remains highly relevant when AI is used.

‘Price and value’ is one of the four outcomes that firms need to assess under the Consumer Duty. Differential pricing for different groups of consumers creates considerations for firms’ fair value assessments, which are required by the FCA. There are several ways to segment customers, examine different outcomes for consumers, and customise analysis. Firms must also have regard for consumers with characteristics of vulnerability and consider and facilitate acceptable outcomes for vulnerable customers. The FCA says:

“Our price and value outcome rules do not require firms to charge all customers the same amount, or to make the same level of profit from all customers.”

That said, providing fair value to different groups of customers is central to the FCA’s rules. Firms need to demonstrate how each group of customers receives fair value, even though they can be differentially priced.

The Institute and Faculty of Actuaries has recommended that the government determines an appropriate minimum level of insurance protection needed by all, including low-income families, to enable financial resilience to specific risks and unexpected shocks. It acknowledges that as insurers are commercial organisations, they need to manage their business by reflecting risk in pricing. It therefore sees the government as having a key role in identifying and protecting vulnerable groups.

There is a trade-off between risk pooling with uniform pricing at one extreme, and cross subsidisation and individualisation at the other. Hyper individualised risk pricing can lead to higher prices for some customers, who are often the most vulnerable and low income. Some contend that consumers should not be penalised for factors that are outside their control, however, there are differing views on what is outside a person’s control. AI adds a further dimension to this debate.

Parametric flood policies: Insurers no longer in uncharted waters?

Author: Tim Johnson

During the 2023/24 season, the UK experienced 12 named storms, the second highest figure since storm naming began in 2015/16. These storms caused significant flooding across the country.

Classed as a secondary peril, flooding is expected to generate small to mid-sized losses, following other extreme ‘primary’ weather events. However, recent flooding has seen towns submerged under water, travel disrupted and homes and businesses ruined. Further, up to 80% of the world’s catastrophic flood losses are uninsured and the lack of local measurements for flood data is increasing the protection gap for countries without access to the technology. (introduction)

How can parametric policies insure flood-associated risks?

Parametric policies can provide coverage for flood-associated risks as they can automatically pay out upon the occurrence of certain events, such as when a flood reaches a specified level. For further insight into the background of parametric policies, please see our previous article on this topic.

FloodFlash, a parametric insurance specialist for commercial flood insurance, was founded following the difficulties in renewing flood cover after Hurricane Sandy in 2012.

Data is key to these policies, with FloodFlash using sensors at the insured’s property to measure and receive depth data. The sensors are low in cost, meaning they can often be installed at an insured’s property within the costs of the policy. Using the local measurements provided by the sensor, the risk can be measured without having to rely on other general measures alone, such as satellite data. The risk can also be measured in real time.

Speaking on the increase in use of airborne sensors in addition to previously used terrain data, Ian Bartholomew, Chief Underwriting Officer at FloodFlash said:

“*Having that data available is vastly improving the quality of the flood maps that we have access to,” “and computational power has reached a point where you can make use of that data. It’s why we’re seeing pretty rapid improvements in the quality of flood models*.”

Parametric policies may also provide lower premiums and coverage for risks that are traditionally excluded, as the sensor data can be utilised to provide certainty around the risks, rather than areas to exclude. Through prior agreed claims payment figures and pre-defined depth measured by the sensor, the policies allow for quicker, automated claims payments to be made and claims professionals to be removed from the process. FloodFlash’s fastest claim is reported to have been paid 3 hours and 50 minutes after the water reached trigger depth at the insured's property. Looking to the future, FloodFlash are looking to expand their scope beyond traditional property sections to meet client needs.

"We're championing the use of low-cost sensors to enable fast insurance payments. We're pushing the application of national scale flood models to underwrite parametric flood policies wherever it is possible. And we're using cloud platforms to effectively create a turnkey solution that partners can feed into" - Ian Bartholomew, Chief Underwriting Officer at FloodFlash

Further flood prediction developments

Other organisations have been using AI to predict flooding, protect individuals and assist businesses. 7Analytics use software that considers the geography of the land and rivers, how built up an area is and its drainage capacity, alongside the weather, to provide real-time predictions. While Neara creates digital flood simulations to allow the electricity infrastructure industry to prepare for and minimise damage caused by flooding. Google has also created a Flood Hub that uses satellite imagery and AI to simulate when rivers may flood following heavy rainfall. However, AI's ability to predict flooding has its limitations. In areas with limited flood data, such as regions that rarely experience flooding, the accuracy of predictions can be compromised.

Therefore, with flood predictions developing and "several risks on the horizon that lend themselves to parametric placements", we may continue to see an increase in parametric policies providing quick and efficient coverage to risks that were once uncertain.

The European Accessibility Act: Inclusive products and services

Author: Joanna Wallens

The European Accessibility Act (EAA) took effect in April 2019 and intends to increase the accessibility for, and independence of, disabled persons in relation to specific products and services.

It addresses the high prices and limited competition in accessible products and services and assistive technologies. The Directive provides that the elderly, pregnant women and persons travelling with luggage will also benefit from the provisions.

Paragraph 2, DIRECTIVE (EU) 2019/882

"An environment where products and services are more accessible allows for a more inclusive society and facilitates independent living for persons with disabilities."

The EAA applies to all businesses operating in the EU, except microenterprises providing services. It covers a wide range of goods and services, including smartphones, tablets, ATMs, ticketing and check-in machines, transport service information, e-commerce, websites, and consumer banking services.

The requirements are due to come into force on 28 June 2025. However, those that have placed products on the market or agreed service contracts before this date will have until the end of an additional five year transition period until the accessibility requirements apply, provided that they do not replace the product in this time. Self-service terminals have up to 20 years from the date of application.

Products

Businesses must ensure that the relevant products are designed and manufactured to maximise their foreseeable use by persons with disabilities. This includes creating the relevant technical documentation in accordance with the Directive and ensuring that products are accompanied with clear and understandable instructions and safety information in language that can be understood by the consumer. Where a product is not compliant, it must immediately be rectified or withdrawn from the market, with the relevant authority notified. The EAA also applies to importers, who must ensure that the manufacturer has completed the adequate assessment, and to distributors who must act with due care to ensure that the product bears the CE marking and has the relevant documentation.

Service providers

Service providers are required to design and provide services to maximise their foreseeable use by persons with disabilities and prepare publicly available information explaining how the services are compliant. As with products, where a service is not compliant the provider must rectify this or remove the service from the market. Specified services such as consumer banking and e-commerce have specific requirements to maximise use.

The duties under the Directive are not reduced where a service is subcontracted, with service providers still needing to ensure compliance. Service providers are required to train their staff so that they are knowledgeable about the use of accessible products and services.

Subject to member state discretion, the requirements can also extend to the built environments where the services are provided specifying that persons with disabilities can access aspects of the environment in an independent manner, such as outdoor facilities, toilets, emergency exits and the service equipment.

How can businesses comply?

Information about products, accompanying materials, and the functioning of a service must be accessible through multiple sensory channels and presented in a clear, understandable format. It should be perceivable by users and displayed in a font that is of adequate size and shape. This requirement also applies to products used in services. The EAA provides examples of how businesses can meet these requirements, including the following:

- Providing information in a visual, tactile and auditory format to assist blind and deaf persons;
- Using the same words consistently and in clear and logical structures to assist understanding for those with intellectual disabilities and using diagrams alongside text;
- Equipping interfaces with the ability to enlarge, zoom or increase contrast for those who are visually impaired or have low vision and avoiding flickering images for those who experience seizures;
- Instead of using colour-specific buttons e.g., red or green, provide written information on the buttons detailing what they are, for those with colour blindness;
- Increasing the size of touch screen buttons and the space in between them and reducing the force needed to press the buttons to assist those with tremors or motor impairments;
- Ensuring software reacts in a predictable manner, providing enough time to enter passwords;
- Noting on packaging that the phone contains accessibility features;
- Printing in braille and providing subtitles on video instructions.

The accessibility requirements only apply where compliance does not significantly change the product or service to fundamentally alter its basic nature and does not impose a disproportionate burden on the economic operator. This disproportionate burden can be assessed based on factors such as the costs of hiring accessibility experts, providing accessibility training, developing new processes for integrating accessibility into product development or service provision, understanding the legislation, and creating or maintaining relevant documentation.

As the EAA has been transposed into national law by the member states, some exceptions may apply and the penalties for non-compliance can vary at a national level.

Thematic review of product oversight and governance: Key considerations for general insurance

Author: Tim Johnson

The rules in chapter 4 of The Product Intervention and Product Governance Sourcebook (PROD 4) pre-date and apply to the insurance market independently of the Consumer Duty (CD).

Different aspects of PROD 4 apply respectively to:

- Manufacturers: Firms that ‘create, develop, design and/or underwrite’ a policy; in short, insurers – but potentially also underwriting agents / managing general agents (MGAs) and brokers.
- Distributors: Firms that are not manufacturers but advise insureds on, or propose insureds enter policies. These could be brokers or even MGAs.

The Financial Conduct Authority (FCA) report TR24/2: General insurance and pure protection product governance thematic review (the Report) sets out findings on insurance market compliance with PROD 4, and warns that the FCA is “very disappointed to see many firms

… failing to meet their regulatory obligations…despite our extensive previous work and the clear expectations we have set".

The FCA's approach

The Report states that PROD 4 rules "are designed to ensure that firms consistently deliver fair value to customers." Similar to the CD, the customers in question could be any policyholders, with the exception of 'contracts of large risks'. These include commercial, freight, and professional risks (e.g., aircraft, rail, ships, and credit), as well as risks that apply more generally (e.g., liability and property damage), but not where the business has one or more of the following attributes: over 250 employees, a balance sheet value of over EUR 12.8m, or a turnover (net of tax and rebates) exceeding EUR 6.2m.

As with the CD, PROD 4 has the potential to establish obligations to firms in respect of consumers and a potentially significant number of substantial commercial undertakings.

The Report states that non-compliance creates "the real risk of … harm to customers", particularly in cases where policies:

- Relate to loss events that rarely occur
- Cover general loss events but:
- Do not respond in the particular circumstances where customers actually suffer loss, or
- Would respond but for customers' own particular attributes or circumstances;

Policies with such attributes are evidenced by low levels of claim frequency and claims ratio (which can be an indicator of mis-selling).

Additionally, the Report highlights policies where there is a disproportionate relationship within the premium levels paid by policyholders in respect of the following components:

- The insurer's realistic exposure to claims in respect of risks covered by the policies (the "risk price or underwriting cost" component)
- The costs of operating or dealing in the market for – and thereby being able to insure – such risks (the "distribution component")

With the latter being unduly high compared to the former (which can drive mis-selling), the Report provides an example of such disproportion potentially arising when "benchmarking against the price of other providers" is given undue weight in setting premiums.

The review

The FCA obtained evidence from 22 manufacturer firms in the retail insurance and London market sub-sectors, including MGAs and brokers. These firms accounted for £23bn of Gross Written Premium and 107m policy products. There was a particular focus on home, motor, travel, pet, health cash plans and private medical markets, with the sample group representing over 50% of home, motor, pet and travel products in the UK.

The Report highlighted that, to maintain the fair value of a product, key processes for complying with PROD include governance and risk management, particularly through the use of effective management information (MI) within manufacturers. This process ensures the approval and ongoing review of a product's formulation, functionality, and performance, as well as the design, operation, and consequences of the factors making up the distribution component.

Manufacturers must also assess whether the product provides fair value to its intended purchasers. Furthermore, manufacturers are required to provide their information and analysis to distributors regarding the outcomes of these value assessments. Distributors are responsible for assessing and reviewing the product's performance, with particular attention to how the distribution component impacts its value.

Lastly, effective coordination of information, analysis, and actions between distributors and manufacturers is essential to ensure product performance, including making changes to the product itself or the distribution component where necessary.

The findings

Many product manufacturers could not support their position that their products offered fair value and gave customers good outcomes. There were key shortcomings in relation to:

- Robust challenge, judgments and evidence (by way of MI) when considering product performance; and
- Proactively identifying products with issues as to their performance and addressing these effectively.

The shortfalls in evidence and MI were especially apparent in relation to the assessment and review of a product's total price, including the impact of distribution component factors (especially distributor remuneration) on the overall value of the product over time.

Additionally, there was a lack of a sophisticated and thorough understanding of product purchaser cohorts, including those intended to **make up** the target market for a product, vulnerable customers specifically (who may or may not be within the target market), and those outside the primary target market. There was also insufficient analysis of the different levels of value each cohort is receiving from the product, as well as the respective responsibilities of the various parties involved in product manufacture and distribution.

Next steps

The Report contains many practical examples of how the insurance market can improve its compliance and customer treatment. Otherwise, the FCA says it is or will be:

“Requiring firms to take remedial actions supported by attestations from senior management and using … skilled person review[s] …

Where we have more material concerns about product value, we are [requiring] firms to withdraw products from the market … and [ensuring] that firms and their senior managers are held accountable … including [via] customer redress …”

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