

80% of GAP market pause sales amid Consumer Duty concerns

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Insurer boards must produce an annual assessment of compliance with the Consumer Duty. This must review whether the firm is delivering good outcomes for its customers and should include the results of monitoring whether products and services are delivering such outcomes. Boards must also agree actions required to address any identified risks of poor outcomes and whether any changes to business strategy are required.

This assessment will form part of the evidence the Financial Conduct Authority (FCA) uses to assess a firm's ongoing compliance with the Consumer Duty. Firms will need to be able to provide it, and the management information that sits behind it, on request.

The FCA has not taken a prescriptive approach to what information is required. However, it is clear that it expects firms to have thought seriously about what information they need to really understand consumer outcomes.

In the past, the FCA has highlighted examples of "superficial efforts" where a board only asked one question before approving a consumer duty plan and another where board minutes showed that a plan was approved without discussion. A no less rigorous approach will be taken to firm's annual assessments of compliance with the Consumer Duty. The FCA will scrutinise firm's assessments of compliance with the Consumer Duty where it considers governance to be patchy or where sufficient information has not been obtained.

“Poor Products”

In recent months the FCA has labelled premium finance a “poor product” calling it a “tax on being poor” where those who pay “monthly are subsidising those who can afford to pay annually”.

On 9 February 2023 the FCA announced that multiple insurance firms have agreed to pause sales of Guaranteed Asset Protection insurance (“GAP”), at its request. The firms which have agreed to this action account for 80% of the GAP market. The FCA has said it will continue to engage with the rest of the GAP market, to improve the value of value of the product and that these firms have agreed not to use new distributors of GAP in the interim.

This follows a warning by the FCA to GAP insurers regarding failures to provide fair value towards the end of 2023.

The FCA expects firms to:

“be able to map the customer journey, spot possible problems in advance and communicate with clarity to make sure [firms and their] customers are getting the best out of each other.” - Sheldon Mills, FCA.

The FCA's latest Financial Lives survey found that adults with one or more characteristic of vulnerability were more likely to report that customer support services did not help them at all. 20% of those with low financial resilience and 20% of those with low capability reported that communications did not help at all, compared with 12% of those with no characteristics of vulnerability

Only 41% of adults had confidence in the UK financial services industry. The Consumer Duty remains a top priority for the FCA, with the FCA stating that “consumers need and deserve better”.

How can we assist?

Contact our team about how we can assist your firm with the Consumer Duty, including:

- Insurance policy wording and associated document health checks – including advice as to any legal or regulatory issues or areas where the document has an increased risk of uncertainty.
- Readability analysis – assessment of the reading age of the wording, together with a word frequency analysis (identifying words which readers are unlikely to encounter in their everyday lives and which are shown to hinder understanding).
- Consumer testing – identifying key customer outcome measures for customer-facing documents, improving clarity and testing with large numbers of customers to establish levels of understanding.

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