

Horizon scanner

Insurance – Summer 2019



RISK RATING

Potential impact



Legal issue/risk	When?	What's next?/action required	Supporting information (hyperlinks)
<p>The FCA issued its first "Annual Perimeter Report" setting out its view on where perimeter issues are most likely to cause harm to UK customers and markets</p> <p>The FCA has indicated that this will be an annual report, which sets out the FCA's response to issues which have the greatest capability to cause harm.</p> <p>In the foreword, Andrew Bailey sets out three reasons why perimeter issues are so important in 2019:</p> <ul style="list-style-type: none"> - Firms operating on the edge of the perimeter have recently caused serious harm to customers - Technological advances, with innovative products being able to be launched to large numbers of customers very quickly - Current legislation is based on both UK and EU law and Brexit may present an opportunity to create a simpler approach 	June 2019	<p>Firms will need to monitor any changes to the Perimeter Guidance to ensure that they continue to operate in a compliant manner.</p> <p>Those involved in products which may be classed as insurance should carefully note Annex A, in which the FCA refers to potentially issuing further guidance and sets out concerns around:</p> <ul style="list-style-type: none"> - arrangements where a sum is paid on a discretionary basis, and if this is a true discretion or an unfair contract term; and - the suggestion that some warranties are mainly service contracts providing repair services, when really should properly be characterised as a contract of insurance. 	<p>https://www.fca.org.uk/publication/annual-reports/perimeter-report-2018-19.pdf</p>
<p>The FCA published a "Call for Input" in June 2018, seeking industry views on issues consumers with a history of cancer may have when trying to access travel insurance</p> <p>The FCA published a "Call for Input: Access to insurance", referring to a survey of 2,000 individuals which revealed that 35% of UK adults suffer from a medical condition and 23% of those surveyed experienced difficulty in getting cover</p>	Summer 2019	<p>The Feedback Statement was published on 25 June 2018. The FCA identified three key themes from the responses; namely pricing, signposting and consumer understanding and is taking action on each of these. The FCA is considering how to use its rule making powers to deliver these improvements</p>	<p>Calls for input: Access to insurance</p> <p>Eversheds Sutherland Article</p> <p>Calls for input: Access to insurance</p>



Immediate impact



Short-term impact
(development expected or due to be in force by Autumn 2019)



Medium-term impact
(development expected or due to be in force after Autumn 2019)

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<p>for a pre-existing medical condition within the past three years.</p> <p>Through engaging with industry, trade, consumer and charitable bodies, the FCA has identified several potential options to address the issues faced by customers with pre-existing medical conditions. These include:</p> <ul style="list-style-type: none"> - signposting hosted by a single source - signposting to be hosted by a new single source service and an independent body - a multilateral approach, allowing providers some flexibility to their approach to their signposting arrangements 		<p>to signposting. It plans to consult on its proposals before Summer 2019.</p>	<p>- Feedback Statement</p>



Immediate impact



Short-term impact
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Medium-term impact
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In April 2019, the FCA published its key findings from its thematic work on the general insurance distribution chain, its expectations of firms and next steps

April 2019

Businesses are expected to act immediately on the "Dear CEO" letter to identify and mitigate any shortcomings. The FCA intends to undertake coordinated supervisory work in this area and if potential harm is identified, the FCA has stated it will not hesitate to use its full range of regulatory tools to intervene.

[General insurance distribution chain](#)

In the course of this review, the FCA found examples of possible harm including:

- customers paying potentially excessive prices due to the remuneration arrangements between parties in the chain. This was most prevalent where insurance was linked to another non-financial purchase, such as a car or a holiday
- customers buying potentially unsuitable products, due to issues with either the distribution or sales approaches in place

The FCA identified two potential sources of these harms:

- firms having a purpose and culture with insufficient focus on customers, particularly in relation to value and customer outcomes; and
- poor governance and oversight of product design, manufacture and distribution processes and practices. The FCA has also issued a "Dear CEO" letter setting out its expectations



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TR19/3: Review of the Fair Treatment of With Profits Customers

April 2019

CEO's of all firms which have with profits business have been asked to ensure their firm takes full account of the FCA's findings. Later in 2019 roundtable events are planned for senior managers so the FCA can see what actions firms are taking to address the FCA's findings.

[TR19/3 Review of the fair treatment of with-profits customers](#)

The FCA has published its Thematic Review Report into the fair treatment of with profits customers. It has issued a "Dear CEO" letter alongside its report. The FCA found that:

- most firms assessed were taking reasonable care to manage the risk of customer harm
- with profits funds closed to new business were not always run off in line with FCA rules and guidance and/or the firm's run off plan
- there were weaknesses in assessing and distributing excess surplus
- there were instances of insufficiently robust fund level capital management approaches

These can all cause harm if not corrected, but there was no evidence of actual customer harm. In some instances the poor practices were a result of failure of governance.



PRA Stress Testing

June 2019

The PRA has launched its biennial insurance stress test and is asking the largest regulated general and life insurers to provide information about the impact of a range of stress tests on their business. The PRA will publish a summary of results but no individual firm results will be made public.

[Insurance Stress Test 2019](#)

The deadline for submission is:

- Sections A and B: 17:00, Monday 30 September 2019
- Section C: 17:00, Thursday 31 October 2019



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(development expected or due to be in force by Autumn 2019)Medium-term impact
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Legal issue/risk	When?	What's next?/action required	Supporting information (hyperlinks)
<p>The FCA has set out its views in draft guidance of how firms should consider value when complying with regulations on the manufacture and distribution of insurance products</p> <p>The FCA identified a number of areas of potential harm to customers resulting from not receiving value from their insurance products. This arises from:</p> <ul style="list-style-type: none"> – failures in product design – lack of robust oversight in the distribution chain – poorly designed products and distribution strategies – conflicts of interest caused by remuneration structures <p>Key points made in the guidance are:</p> <ul style="list-style-type: none"> – firms should always comply with the “customers best interests” rule – value is an important consideration for firms when designing products, deciding distribution strategies and setting remuneration structures – manufacturers need to consider the cost of the product to the customer and oversee the impact on value from the chain – SM&CR will mean that there should be clear lines of individual accountability for each of the expectations and activities detailed in the guidance 	9 July 2019	The FCA issued this draft guidance at the same time as publishing its thematic review report. Comments on the closed on 9 July 2019 with a response from the FCA on the feedback received expected in Autumn 2019.	General insurance distribution chain: proposed guidance for insurance product manufacturers and distributors



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<p>The FCA published the terms of reference for a market study into retail, home and motor insurance pricing practices in October 2018. It is intended to deepen the FCA's understanding of consumer outcomes from pricing practices and what drives this, fairness of pricing practices and the impact of pricing practices on competition</p> <p>The market study will look at three key areas:</p> <ul style="list-style-type: none"> – harm from pricing practices and what drives this – fairness of pricing practices – impact of pricing practices on competition <p>If the market study identifies that consumers are being harmed through pricing practices, the FCA is likely to consider proportionate remedies which may include:</p> <ul style="list-style-type: none"> – changes to how firms price insurance – contractual changes e.g. limiting auto-renewal – limiting differences in prices between different groups of consumers <p>This is part of a series of reviews into different aspects of pricing which includes a Thematic review report (TR18/4) published by the FCA at the same time setting out the FCA's key findings on the pricing practices of household insurance firms.</p>	<p>Summer 2019</p>	<p>An interim market study report is expected to be published in Summer 2019, with the final market study report (and consultation on any proposal remedies) published by the end of 2019.</p>	<p>General Insurance Pricing Practices</p>



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The FCA issued a consultation paper (CP19/4) on some changes identified when consulting on the proposed SM&CR rules for insurers

The FCA is consulting on some minor changes to its regulatory forms for consistency with its rules, along with a proposal to exclude the legal function from the application of SM&CR.

Autumn 2019

The consultation closed on 23/04/2019 with the policy statement being published in Autumn 2019.

[Consultation paper](#)



The FCA published a consultation paper (CP19/8) in January 2019 setting out proposed rules relating to the reporting of value measures data, and changes to firm's responsibilities under the product oversight and governance rules

Having concluded a successful pilot in reporting value measures data, the FCA is consulting on extending the reporting requirements to all GI products except no claims protection, packaged bank accounts and commercial products. Reporting requirements will also cover the largest five distribution arrangements for each insurer, separately from the rest of the business. Data are to be reported annually by calendar year and are to include claims complaints. In addition, insurers will be required to take value measures into account when considering whether their products offer value to their customers.

Summer 2019

The FCA plans to publish a policy statement in Summer 2019, meaning that regular reporting and publication of value measures data would begin in 2021 for data covering the year ending December 2020.

[CP19/8 - General Insurance Value Measures reporting](#)



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The FCA's GI Renewals Evaluation

The FCA has stated (in its 2019/2020 Business Plan) that it is evaluating the impact of its 2017 rule changes on renewals which were designed to increase transparency and consumer engagement by encouraging consumers to shop around for the best deals at renewal.

Summer 2019

The FCA expects to publish the evaluation in the Summer 2019 and expects this exercise will help the FCA to understand if the intervention has worked and inform its consideration of potential remedies in the general insurance market study

[FCA Business Plan 2019/20](#)



In March 2019 the FCA published its final rules establishing the directory of individuals in key roles who will not be included in the FCA's register as senior managers as part of SM&CR (PS19/7)

The aim of the system is to make it more difficult for individuals to operate where they might engage in misconduct. Senior managers responsible for certifying staff will have to submit timely and accurate information and if no changes have been made in 12 months, they will need to inform the FCA that there have been no changes.

September 2019

Insurers can start submitting data on Directory individuals using the FCA's online system Connect or the multi-entry facility from around September 2019 ready for the start of the certification regime for insurers which comes into effect in December 2019. Firms need to take all necessary action to gather the required information and ensure its accuracy prior to submission.

[PS19/7 The Directory](#)



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Building the UK Financial Sector's Operational Resilience (Joint FCA and PRA discussion paper (DP18/4))

Autumn 2019

The FCA is in the process of evaluating responses to its joint discussion paper. It will then (with the PRA) develop policy proposals and consult later in 2019. The PRA will work with the FCA to review outsourcing arrangements and will continue to assess use of cloud infrastructure by PRA regulated firms. The PRA will also focus on improved response capabilities following the 2018 market wide cyber incident exercise.

[DP18/9 Fair Pricing in Financial Services](#)

This discussion paper reminds firms of existing risk management and business continuity requirements and introduces new ideas:

- planning for disruptive events as well as seeking to prevent them
- focusing on the wider impact of disruptive events, not just on restoring systems and processes
- mapping products and services to underlying systems and processes
- identifying the likely impact on customers and market participants and on the firm's own viability
- developing a more standardised and consistent approach to setting tolerance levels for disruption to key products and services (impact tolerance)



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Insuring Driverless Vehicles - The Automated and Electric Vehicles Act received Royal Assent on 19 July 2018

The Bill advocates a single insurer model, whereby the same insurance policy would cover accidents caused by the driver's operation of a vehicle and the automated operation of the vehicle. This model is designed to avoid confusion on the part of the victim over who it should pursue for its losses, bearing in mind that there are arguments in favour of imposing liability on the manufacturer, owner and even highway authority depending on the circumstances.

Not yet known

The Bill received Royal Assent on 19 July 2018. Most sections will need to be enacted by the Secretary of State via regulations. It is not known when the provisions will come into force. Part One of the Act enables motor insurers to begin to develop new products in readiness for automated vehicles coming to market. It is anticipated that the Government will expect insurers to work with manufacturers to form bi-lateral arrangements to bring innovative new products to market.

- [Automated and Electric Vehicles Act](#)
- [Queen's Speech 2017 Background notes](#)
- [Automated and Electric Vehicles Bill 2017-19](#)



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The FCA published a discussion paper on the fairness of certain pricing in financial services in October 2018. The FCA wants to take into account stakeholder views on its approach to deciding whether and how to act in the markets it regulates

The FCA launched a public debate on the fairness of certain pricing practices in financial services in October 2018. It is focusing debate on two key areas:

- firms charging different prices to different consumers based solely on consumers' price sensitivity; and
- firms charging existing customers higher prices than new customers

The paper also includes commentary on remedies the FCA might introduce if they consider it is appropriate to take action in the market. The FCA is also clear that it will take action against any firm operating unfair pricing practices.

Not yet known

Comments and any accompanying evidence was to be provided to the FCA by 31 January 2019 for any organisation which wishes to participate. This will be considered and a Feedback Statement published. No date has been given yet for the publication of the Feedback Statement.

[Fair pricing in Financial Services DP 18/9](#)



Solvency II Risk Margin Requirements

Ongoing from April 2019

These will be a focus for the PRA in the coming year since the PRA considers them to be too large in the current interest rate environment, especially for long dated annuity business. The PRA will also be watching the current trend of reinsuring longevity exposures offshore.

[PRA Business Plan 2019/20](#)



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Life Insurance Asset Reviews

Ongoing

During the 2019/2020 year the PRA will be continuing its programme of asset reviews focusing on the adequacy of life insurance reserving.

[PRA Business Plan 2019/20](#)

GI Insurers with poor recent underwriting results

Ongoing from April 2019

GI insurers with poor recent underwriting results are likely to be asked by the PRA for a copy of their 2019 Business Plan and justification as to why the plans are appropriate. The PRA's scrutiny of these businesses will extend to exposure management, claims functions and the effectiveness of their reinsurance arrangements.

[PRA Business Plan 2019/20](#)

Prudent Person Principle

Ongoing from April 2019

In 2019 the PRA will consult on a supervisory statement on its expectations of firm's implementation of the Prudent Person Principle, which is an important safeguard against concentration risk.

[PRA Business Plan 2019/20](#)



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Liquidity Risk

In the course of the year the PRA also plans to issue a supervisory statement on good practice in identifying, monitoring and managing liquidity risks. This follows a consultation published by the PRA in March 2019.

[PRA Business Plan 2019/20](#)



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