

31 October 2018

Dear CEO

FCA expectations of general insurance firms undertaking pricing activities

Today we published our [thematic report](#) on household insurance pricing practices. The report sets out our key findings, our actions and next steps along with our expectations of firms. Alongside this, we have published our terms of reference for the market study into retail home and motor insurance as well as a discussion paper on fair pricing in financial services. General insurance pricing practices remain an FCA priority.

During the review, we identified the following issues regarding firms' pricing practices that could cause significant harm and poor outcomes for consumers.

- i. Firms failing to have appropriate and effective strategies, governance, control and oversight of their pricing practices and activities, such that they are unable to reliably assess and evidence whether they are treating their customers fairly.
- ii. Differential pricing leading to some identifiable groups of consumers paying significantly higher prices than other identifiable groups of consumers with similar risk and cost to serve characteristics.
- iii. The risk of discriminating against consumers through using rating factors in pricing based (directly or indirectly) on data (including third party data) relating to or derived from protected characteristics.

We view pricing by general insurers and relevant intermediaries as a key business activity. There is a significant risk of consumer harm if your firm has not implemented an appropriate pricing strategy with effective governance and controls to determine and monitor your pricing activities and evaluate how your pricing decisions affect consumer outcomes.

I am writing to you to set the clear expectation that your firm should act now to address any issues from the findings in our report which apply to your firm.

The market study and the debate we are facilitating in publishing the discussion paper do not change our existing expectation of firms. All firms are required to assess whether their pricing practices result in their customers being treated fairly. Firms should also be able to demonstrate how they have reached this conclusion. Additionally, it should be clear who within the business is responsible for pricing decisions and therefore responsible for the customer outcomes that result from those decisions.

While our work on general insurance pricing is ongoing, we continue to consider firms' compliance with FCA rules in this area more generally and to assess the need for any further action. As such, we reserve our position in relation to any breach of our rules in connection with general insurance pricing activities. That means that the FCA could consider taking further action where appropriate even if firms address the types of poor practice identified in this letter and our thematic report.

When considering any pricing issues, you should note the new rules that apply from 1 October 2018 due to the implementation of the Insurance Distribution Directive. These include the requirement that firms should act honestly, fairly and professionally in accordance with the best interests of their customers, as well as provisions covering product oversight and governance.

To ensure firms comply with their regulatory obligations to customers, the governance and control structures should be underpinned by clear lines of accountability and responsibility. These are required under the Senior Insurance Managers' and Approved Persons Regimes and, when applicable, the Senior Manager & Certification Regime. This will ensure that it is clear who is responsible for pricing decisions and their impact on customers.

Please read this letter together with our thematic report, paying attention to the expectations set out in more detail within it. We expect you to show how you have considered the issues raised in the report and to be able to explain and evidence any remedial actions you have taken.

We may discuss issues you have identified and the actions undertaken with your board members and senior executive management as part of our ongoing supervisory engagement.

Yours faithfully

Andrew Bailey
Chief Executive