

FINANCIAL PROMOTIONS MORTGAGE & GENERAL INSURANCE BULLETIN

AUGUST, 2005



Welcome to the third of our industry bulletins aimed at mortgage and general insurance firms; we hope you are finding them useful. This bulletin looks, in particular, at our work on the promotions for general and pure protection insurance.

You will find more on these and other subjects by looking at our website: www.fsa.gov.uk/Pages/Doing/Regulated/Promo/mgi/index.shtml. Please let us know what you think about these bulletins and our website by emailing us at finpromcst@fsa.gov.uk.

General insurance and pure protection promotions

We have carried out some work to assess the relative risk to consumers of the promotional activity for general insurance products and pure protection products. As part of this work we have considered, for example, the complexity of the product, the risks insured, the market size, and whether policies are directed at vulnerable customers. We are focusing on higher-risk categories – which we identified as products such as critical illness insurance – and we are continuing to monitor promotions for other general insurance products. In this bulletin we set out our initial findings which we would like to draw firms' attention to.

What does ICOB 3 require?

The Insurance Conduct of Business sourcebook, chapter 3 (ICOB 3) applies to the promotions for most insurance products and services. Some financial promotions that relate to non-investment insurance contracts are exempt from ICOB 3 requirements and these include promotions to commercial customers, one-off promotions, brief factual promotions and promotions containing certain information, as set out in the sourcebook. Even where such financial promotions are exempt from the requirements of ICOB 3, they will be subject to the general clear, fair and not misleading requirement under Principle 7 and ICOB 2.2.3R. Below we outline some, but not all, of the requirements under ICOB.

Product features

Promotions should be clear, fair and not misleading (Principle 7 and ICOB 3.8.1R(1)). An evidential provision, ICOB 3.8.2E, sets out the steps which should be taken to ensure that a promotion complies with that requirement. For example, the firm must be able to substantiate the accuracy of all material statements of fact (ICOB 3.8.2E(1)(i)). Also, the promotion must not omit any matter which would cause the promotion not to be clear, fair and not misleading (ICOB 3.8.2E(h)).

Guidance provision ICOB 3.8.3G assists in the interpretation of clear, fair and not misleading.

Premiums

Any premium referred to in a financial promotion must be representative of the premium that would be charged to consumers likely to respond to the promotion (ICOB 3.8.3G(4)).

Where a promotion indicates or implies that a firm can reduce the premium, provide the cheapest premium or reduce a retail customer's costs (e.g. 'savings', 'lower premiums', 'big savings' and 'enjoy up to x% off') it should include a prominent statement of the basis on which the reduction is to be achieved (ICOB 3.8.3G(6)). This includes making clear what the saving relates to. Any significant limitations on any savings (e.g. the need to meet specific criteria) must also be displayed with equal prominence to the claimed savings in the promotion and not in small print (ICOB 3.8.3G(7)). Price information and comparisons must be current.

Promotions displaying the lowest possible premium but also showing the highest possible cover are likely to mislead. (For example, 'an offer of up to £10,000 of cover from as little as £x per month' will be misleading if £10,000 is not available for £x per month for a section of the target audience.)

Where the premium quoted is not available to all members of the target audience, it must be accompanied by a prominent statement making clear that it is an estimate only and the actual premium will depend on individual circumstances (ICOB 3.8.3G(5)).

We will assess prominence in the context of the non-investment financial promotion as a whole. Factors such as the position of text, background and text colour and type size can mean information is not included prominently. Firms should avoid using small print to qualify prominent claims (ICOB 3.8.3G(3)).

Systems and controls

Below we set out a few examples of common concerns regarding firms' systems and controls surrounding financial promotions. These concerns are not limited to promotions for general insurance but apply equally to them.

Some firms do not have robust procedures outlining how they ensure their financial promotions comply with FSA requirements. Where firms do have good procedures, sometimes in practice these procedures are not followed by staff.

Some senior management ask for little or the wrong kind of management information about financial promotions. In line with the SYSC (Senior management arrangements, Systems and Controls) section in the Handbook, we expect senior management to have a good understanding of the types of risks that can arise from the failures in systems and controls over financial promotions and how these can occur. We would expect senior management to be proactive in this area and ensure that procedures are adequate and effective and their staff adhere to them. We also expect them to have appropriate mitigation policies and processes – including how they can factor back into the financial promotion design process any information they receive from complaints about their financial promotions.

Some firms do not have good audit trails of how financial promotions are approved. The faults range from a lack of clarity on who approved the promotion, when it was approved, what corrections were to be done – to whether they were done at all and whether what is recorded on the file is the final document used.

In addition, where a financial promotion includes comparison tables or quoted data from a particular day, sometimes there is no – or little – good evidence on file supporting the accuracy of the data.

Issues arising from GI promotions

We are currently actively monitoring a wide range of general insurance promotions as part of our work, including promotions for travel insurance, accident and sickness cover, disability insurance and private medical insurance. We also consider reports of misleading promotions reported to us through our Hotline and web form, and these may result in us contacting the firm in question. Between 14 May and 31 July 2005 we considered over 300 promotions and have taken up a number of concerns directly with the firms.

Estimated premiums

We saw examples where the estimated premiums were either no longer available or out of date. We also saw examples where the estimated premium was not representative. This was made particularly obvious in one case where the direct mail promotion for car insurance was targeted at specific London postcodes. The small print revealed that the quoted premium was based on a particular property located in a town in the North of England, where the premiums are likely to be significantly cheaper. The estimated premiums need to be representative of the premium that would be charged for a person in a similar position to the retail customer (ICOB 3.8.3G(4)) at whom the promotion is targeted and any promotion containing an estimated premium ought to be accompanied by a prominent statement, as prescribed, saying the actual premium will depend on individual circumstances (ICOB 3.8.3G(5)).

Prominent claims

With this in mind, firms should avoid using small print to qualify prominent claims (ICOB 3.8.3G(3)). We saw examples that used headlines such as '50% of each bill reimbursed' but the small print revealed that there was a cap on the amount that could be claimed. Another promotion offered best prices to loyal customers but the premium quoted was only available to new customers.

Claims of savings

We also saw promotions that claimed to 'beat any other quote' and be the 'cheapest premium'. These claims were not accompanied by a prominent statement of the basis on which the claim was made (ICOB 3.8.3G(6)).

Clarity

We were also concerned about the lack of clarity in some of the promotions we saw. This included the use of jargon which may mean little to the audience: 'standard industry exclusions apply', 'mortgage insurance' and 'savings remain with the customer'. Also, the full extent of the cover available with the product was often unclear.

Focus on...critical illness cover

Critical illness insurance products (CI) are considered higher risk owing to the complexity of the product, the scale of the likely financial benefit (i.e. the sum assured can be large in comparison with other general insurance products) and the vulnerability of the customers (i.e. if a customer finds out they are not covered at the time they try to make a claim, they may well not be in a fit position to pursue the issue or deal with the consequences). We are also aware of concern in the press that consumers may misunderstand the nature and scope of CI.

In this work we looked at promotions from a total of 25 firms. Below we set out some of the issues we found with these promotions. There is some crossover with the issues we found for the wide range of general insurance promotions, which we discussed before.

- Use of 'scaremongering' – particularly where not all forms of the disease in question will be covered by the policy even though they are included in the statistics: for example, '100,000 cases of cancer each year'.
- Unsubstantiated claims made, for example about price, uniqueness and coverage: for example, comments such as 'Peace of mind at the lowest price' and 'unique'.
- The overall impression the direct offer material conveyed was that CI is simple, with references to, for example, 'Just one phone call for quick and simple cover'. Policy definitions and exclusions mean that CI products are rarely simple.
- The implication that CI is equivalent to income protection with inclusion of sentences such as 'What will you do if you are unable to work because of an illness?'. This is not generally true as CI on its own usually just provides a lump sum and is not a replacement for regular income.
- Promotions that give the impression that the payout will cover all expenses related to a critical illness even if the policy does not extend to this (a lump sum may not replace income, or cover medical care and house alterations, for example). There were references to, for example, 'Rebuild your lifestyle', 'financial security', 'rely on us' which concerned us.
- Key terms and conditions (or exclusions) not prominent enough in brochures – such as reviewable premiums, benefits payable once, the exclusion of pre-existing conditions, premiums payable throughout the claims process, non-disclosure of material facts, own-fault and survival periods.

Next steps

We are writing to firms which we found, during our work, to be producing non-compliant promotions. In the future, we will be monitoring CI promotions alongside other general insurance promotions as part of our routine monitoring work. If we see persistent non-compliance from a specific firm, we will consider other regulatory tools – including a visit to look at the firm's systems and controls surrounding their financial promotions or referral to Enforcement for further investigation.

Our focus on financial promotions is just one aspect of the ongoing work that the FSA is undertaking in

relation to CI. Other initiatives include reviewing product disclosure documentation to establish the level of adherence to the disclosure requirements relating to policy summaries and key features documents under ICOB. And there is work under way to look at the way in which critical illness and payment protection products are sold during the mortgage sale process as part of thematic work on payment protection insurance. Once this other work is completed, any further findings or plans for further work will be communicated.

Communications

Our website provides more information on our financial promotions regime: find it at www.fsa.gov.uk/financialpromotions. As a department, we attend many conferences around the country to speak about current issues in financial promotions. We also run industry training for firms. You can check forthcoming events at www.fsa.gov.uk/Pages/Doing/Events/index.shtml.

Hotline - 08457 300 168

If you see a promotion – for a general insurance product, or any other regulated product or service – that you think is misleading, you can report it to us using our Hotline number or web reporting form (www.fsa.gov.uk/pages/Doing/Regulated/Promo/Report/form.shtml).

For more information, please see 'Reporting a misleading promotion' page on our website www.fsa.gov.uk/financialpromotions.