

Insurance brokers



General Insurance Brokers Optional Extras

This factsheet is for:

- Primary insurance brokers who arrange optional extras for retail customers such as legal expenses, mechanical breakdown and personal accident cover, as part of new general insurance contracts.

It explains:

- our research into how small firms offer, explain and confirm optional extras to their customers; what is an advised/non-advised sale; and details of work we will be carrying out in this area in the future.

Introduction

We conducted research into how small firms offered, explained and confirmed optional extras to their customers in documented form where they had been sold further optional insurance in addition to their main policy.

In all cases the optional extras were separate contracts of insurance with a different insurance provider from the main policy.

Our main objective was to establish whether firms' approaches to the sale of optional extras was communicated to customers in a manner which was clear, fair and not misleading, and therefore in line with the principles of treating customers fairly, offering them transparency for their protection and understanding.

This was achieved by examining an individual firm's transaction files and deciding if, on balance, the customer had received information required by the rules and hence sufficient information to make an informed decision on whether to proceed.

Our findings are summarised below, highlighting what you should consider if you deal with optional extras and also demonstrating examples of good and bad practice we found during our research.

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FSA research

We reviewed a total of 201 insurance transactions from 47 firms which included the sale of an optional extra in addition to the main policy. Our objective was to assess the quality of the service in relation to the optional extra provided to individual customers through the initial disclosure

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document or alternative forms of status disclosure, demands and needs statement (DNS), statement of price and policy summary, where provided. You are required to provide these documents to your customer prior to the conclusion of the contract, although some exemptions can apply.

The transactions reviewed included main policies of insurance covering home and car. The optional extras marketed along with these policies were mainly legal expenses, breakdown recovery and general before the event (BTE) motor accident cover.

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What we found

We assessed a sample of firms' records for overall clarity.

In 70% of the records we reviewed, we found information that had been presented to the customer that we felt was unclear and potentially misleading. For example: 'Motor Legal Assistance membership scheme is included in your renewal premium'. This does not make it clear to the customer that an additional amount of premium is included in the overall renewal premium and that it is optional.

In 30% of the records we reviewed, we found information that had been presented to the customer that was potentially

misleading. For example: 'The premium shown also includes £22.05 for legal protection cover.' This does not indicate clearly to the customer that the additional extra is optional.

In cases reviewed firms had not explained what the additional extra would do (or that it was optional), how it matched their customers' demands and needs, and had not properly disclosed the price to the customer.

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What is an advised/non-advised sale?

We found that some firms are unclear about whether they are advising and what constitutes an advised and non-advised sale.

An **advised sale** is where a firm gives advice to a person in his/her capacity as a potential customer, or an agent for a potential customer, on the merits of him/her buying a specific general insurance contract.

A **non-advised** sale involves a firm providing information only to a potential customer, or an agent for a potential customer, leaving him/her to make a choice about how he/she wishes to proceed.

In 73 of the 131 transactions reviewed firms' documentation indicated 'advised sales' where there was no advice or a recommendation from the firm for the additional extra, and in some cases no recommendation for the main policy. Where the customer is given information and left to decide whether the policy suits their needs and no advice or recommendation is

made by a firm, the documentation should indicate that the sale is non-advised.

The confusion and inconsistency regarding whether you are advising or not can often be traced back to your status disclosure, e.g. the initial disclosure document (IDD) or terms of business (TOB).

Firms may like to bear in mind what level of service they have stated they will provide in their IDD/TOB, and whether they have carried that through to the DNS. If your firm's IDD/TOB states you will provide advice or a recommendation, you should consider whether the wording of the DNS you use includes a personal recommendation from your firm.

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Demands and Needs Statement (DNS)

Advised sales

For advised sales, we reviewed whether firms had assessed customers' suitability for, and matched the additional extras to, the customer demands and needs (DNS).

We identified 162 transactions out of the total 201 transactions reviewed where the firms' treatment of the optional extra within the customer's DNS was not detailed adequately. Some firms had not provided a DNS at all, giving a verbal explanation instead. As a result these firms were unable to demonstrate how they had met the ICOB requirements for DNS.

The main reasons for presenting an incomplete DNS in an advised sales process were found to be:

- no identifiable customer demand or need for the additional extra and/or main policy; and
- no information by the firm in relation to the customer's DNS showing why the product recommended met their demands and needs.

Non-advised sales

It was noted that the firms whose documentation indicated that the sale of the optional extra was non-advised were more successful in meeting the requirements of the rules.

The fact that these firms were able to use a generic DNS, often supplied by the insurance provider, meant that it was very easy for them to slot it into their letters to the customer. It also made it clearer to a customer that it was a separate policy of insurance and was an optional extra, not compulsory.

Policy Summaries

In 73% of transactions examined the customer was sent a policy summary at renewal. This provided the customer with information about the cover of the optional extra. The policy summary for the optional extra could also cover the main policy.

In a renewable contract situation a firm may like to consider combining a clear, fair and not misleading explanation of the add-on cover, including the fact that it is optional, with the DNS and explanation of changes that are required for the renewal.

In other cases we saw a clear explanation about the optional cover in other documentation (e.g. explanation of changes).

We did find poor practices in cases where firms were using out of date policy summaries. Firms will want to be mindful of the requirements of Principle 7, communications with clients, and to

consider what steps you may need to take to provide up-to-date literature to your customers.

Statement of Price

We reviewed how the statement of price was communicated to customers.

We identified only 35 transactions out of the total 201 where the price of the optional extra was detailed and disclosed separately.

There were many different ways of presenting the Statement of Price. Only 17% of the transactions examined set out the additional extra in such a way that it could not be interpreted as being anything else other than optional.

The vast majority of firms (77%) included the price of the optional extra in the total premium, a number making it clear that it was optional. However the majority of customers that had been informed that it was an optional extra had to opt out by deducting the amount from their preferred method of payment if they did not want it. This need not be a problem if it is made very clear beforehand that it is indeed an optional extra.

In 6% of the transactions it was not clear how much the customer had been charged for the optional extra.

What you may need to do differently

The DNS for an advised sale should be clear and concise, setting out what you discussed with the customer and what was identified at that discussion as being the customer's demands and needs. It should also confirm whether or not the insurance contract is a personal recommendation from you and, where you make a personal recommendation, explain the reasons why the contract matches the customer's demands and needs. It should also be consistent with the level of service to be provided in your IDD/TOB.

The requirements for the DNS for non-advised sales are less and the DNS may be generic.

Statements should be clear, fair and not misleading which means that they are:

- satisfactory in their purpose;
- in plain English; and
- explain technical terms.

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Continued: Demands and Needs Statement (DNS)

What happens next

Following on from our study of the way in which firms meet the requirements in respect of status disclosure, we will be conducting a further review of disclosure. This will focus

on disclosure documentation, including demands and needs statements, and will inevitably include looking at how firms deal with optional extras. We will take action against firms that deliberately seek to mislead their customers.

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Summary

- Clear and not misleading information should be given to be customer about the optional extra to enable an informed decision without overloading the customer with extra documentation.
- The optional nature of the optional extra should be made clear to the customer.
- The price/premium of the optional extra should be disclosed separately.

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