

30 April 2024

Final report by the Complaints Commissioner**Complaint number 202300597***The complaint*

1. On 17th November 2023, you submitted a complaint about the FCA to my office.

Your complaint to the FCA

2. On 14 November 2023 the FCA issued a decision letter (DL) and described your complaint as follows:

“On 24 August 2023 you made contact with the FCA’s Supervision Hub with regards to increases in your home and vehicle insurance premiums. You explained the contact you had had with each of your insurance firms to try and get explanations for the premium increases but had not received this.

You feel the FCA needs to make insurance firms communicate to consumers, in a way that is easily understood, why their insurance premiums have increased”.

What the regulator decided

3. The FCA did not uphold your complaint. It:
 - a. Said that the FCA does not have the power to intervene in individual complaints and explained the complaints process through the firm and then said if you remain unhappy you can refer your complaint to the Financial Ombudsman Service (FOS);

- b. Provided you with contact details for the Information Commissioners Office (ICO) for you to obtain their view about the information you were requesting from your insurer;
- c. Said they it was unable to comment about whether your insurer was offsetting premiums against the fine and guided you to contact the firm to get this answered;
- d. Advised you that the information which you had provided around the conduct of the firm would be passed to the Supervisory Team that supervises the insurer, but you would not receive updates or feedback about any action which is or is not taken.

Why you are unhappy with the regulator's decision

- 4. On 22 November 2023 you submitted a complaint to my office and said neither the insurers nor the FCA has answered your question about why the premiums have increased so steeply. You have been passed from pillar to post between the FCA, the FOS, the ICO and the insurers and no one has answered your question.
- 5. On 8 March 2024 you wrote to me to say: "this year's premium proposing a further hike of 99.5%, from £495.49 to £989.37 - even though we have never made a claim and nothing has changed in our rating area. In other words, within two years the premium has risen from £229.11 to £989.37, an increase of 432%".

My analysis

- 6. You have a simple question: why have British insurers increased their premiums steeply year on year? You have asked the FCA to either instruct the insurers it regulates to answer this question so that the information is transparent to consumers or to answer the question itself.
- 7. Whilst it is true that the FCA cannot get involved in individual complaints, it seems to me your complaint is much broader than that. You have asked the FCA to answer a question or ask the firms it regulates to answer the question. The FCA has done neither. Whilst you have used your own premiums as an

example, it is clear from the correspondence you have had with the FCA that your query has a general element to it.

8. The FCA provided this information about motor insurance to you in its scoping letter, however, it did not reference it in its decision letter to you:

“Inflation continues to have a significant impact on the price of insurance, mostly because the cost of repairs has gone up. Recent research by the Association of British Insurers (ABI) estimates that the cost of vehicle repairs has increased by 33%. Insurers have told the ABI that inflationary claims cost increases include:

- Energy inflation adding to each repair.
- Average paint and material costs have increased by nearly 16%.
- Courtesy car costs to repairers are increasing at around 30%.
- In addition, the average price of second-hand cars has jumped by 30% in three years.

Unfortunately, additional costs associated to the fulfilment of claims is likely to result in an increase in the premiums charged by insurers, as they need to be able to sufficiently cover these costs”.

9. The FCA has also said this about obligations of insurers when answering above complainants: “Whilst insurance premiums may be higher than in recent history, our rules still require that firms’ insurance policies offer value to their customers. This means that firms must be able to demonstrate that the price a consumer pays for a product or service is reasonable compared to the overall benefits they can expect to receive. We continue to monitor the market in this regard and will take action where we find this is not the case”.
10. Whilst the information above will provide some useful insight into why some premiums have increased, which the FCA provided to you in its scoping letter, it still does not address the following issues:
11. The FCA had not explained satisfactorily whether insurance companies are required to provide an explanation of increases in premiums, especially when these are substantially higher year on year; I recommended it answer this point and it has now done so to say that they are not required to provide such

explanations. It has also added further explanations about the work it has done with insurers on pricing, and an extract is attached in appendix 1.

12. The FCA has said it is monitoring the market to ensure that the price a consumer pays for a product or service is reasonable compared to the overall benefits they can expect to receive, however, it seems to me from the information you have provided about the alleged excessive premium increases that there may be concerns about the fairness of increases in the insurance industry. In light of this I recommended that the FCA considers the extent to which this might be an issue and whether any action is necessary to ensure fair treatment for customers and reports back to me in one month from the date of issue of this report.
13. The FCA has said that it has accepted “the spirit” of the recommendation as the “FCA is already undertaking a full evaluation of the impact of pricing rules in insurance. However, we do not believe it is possible to provide a specific update in a month due to the nature of the work.
14. Details of the letter sent to the Treasury Select Committee can be found here <https://committees.parliament.uk/publications/43122/documents/214540/default/>
15. The Commissioner may also find it useful to know that on 17 April 2024 the Treasury Select Committee held a session to consider what steps the insurance industry is taking to keep insurance cover affordable. The FCA attended this session and the FCA Director of Insurance gave oral evidence, more details can be found here <https://committees.parliament.uk/event/21196/formal-meeting-oral-evidence-session/>

My decision

16. You reported some concerns you had about affordable cover in the insurance industry and asked some questions which the FCA has now answered. I recommended that the FCA consider whether it needs to undertake any actions in connection to the insurance industry: the FCA has said it is already engaged in a full evaluation of the impact of pricing rules in the insurance industry.

Rachel Kent
Complaints Commissioner
30 April 2024

Appendix 1

Extract from FCA letter to the Commissioner dated 23 April 2024

In 2019-2020, we carried out a market study (MS18/1.3) to understand whether pricing practices in home and motor insurance support effective competition and lead to good consumer outcomes. This followed a thematic review showing that consumers who stayed with the same provider for a long time paid on average significantly more for home insurance than newer consumers. We were concerned about the potential harm this could cause to consumers. Our market study identified practices including 'price walking' which resulted in existing customers being charged higher prices than new customers. As a result, in January 2022 we introduced rules (PS21/5) to ban firms from charging existing home and motor insurance customers premiums higher than an equivalent new customer would pay.

We published a feedback statement in July 2019 FS19/04 which considered the issue of fair pricing in Financial Services.

We published the finalised guidance for firms on the Consumer Duty in FG22/5 which explained that the price and value outcome rules do not operate as a price cap. This means firms continue to have flexibility in the way that they set prices. We are not seeking to cap the prices or margins of products and services. In 2021, we introduced further rules requiring insurers to ensure their products provide fair value, including carrying out regular assessments of their products.

These issues were also raised by the Treasury Select Committee (TSC) on 12 December 2023 and the FCA wrote to the Chair on 24 January 2024 to explain what we were doing in the insurance market.

The letter said that the FCA planned to carry out a full evaluation of the impact of pricing rules in 2024 and explained 'As part of this evaluation, we will assess the current state of the market, the underlying profitability of insurers, and look at concerns about some insurance add-ons and additional costs, such as those incurred by using premium finance (a product about which we have been raising concerns with the industry since 2022)'.

For full text of the letter please see here:

committees.parliament.uk/publications/43122/documents/214540/default/