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Dear CEO,

FCA supervision strategy for Price Comparison Websites (PCWs)

We are writing to you to set out our view of the key risks of harm PCW firms pose to their consumers or the markets in which they operate. Please consider the extent of these risks in your business and assess if your strategies, processes, systems and controls reduce the risks. In this letter, we outline the drivers of harm and our supervisory strategy for these. The key risks of harm identified in this letter form part of our supervision of your firm.

Your portfolio

As part of our approach to supervision we have grouped all the firms we supervise into different 'portfolios'. Each portfolio is made up of firms with broadly similar business models. We have allocated your firm to the Price Comparison Website (PCW) portfolio.

We are developing a series of supervisory strategies for each portfolio which allow us to monitor all firms effectively, and target those firms that pose the greatest risk of harm. Where we conclude that firms, and/or individuals are not meeting our expectations, we will act. The supervision strategy in this letter covers the period to the end of 2022.

Who this letter applies to

This is for firms in the Price Comparison Websites (PCWs) portfolio. This includes:

- PCWs who conduct comparisons for regulated products on their own site
- PCWs who outsource their comparison services to other firms

What we expect

PCW firms carry out insurance distribution activities and are, therefore, subject to the relevant requirements for insurance intermediaries in the FCA Handbook and rules in the Insurance Conduct of Business Sourcebook (ICOBS). Through PCWs, customers should only be able to buy products that are consistent with their demands and needs, and receive appropriate, clear information to make an informed choice about whether to buy the policy. However, at times, some firms in this portfolio have demonstrated a poor understanding of their regulatory obligations.

Implementing regulatory change effectively is fundamental to ensuring both that the participants in the market treat consumers fairly, and that consumers can buy products that meet their demands and needs. We have previously seen poor implementation of regulatory change within the PCW portfolio.

PCWs should be more proactive in their response to regulatory change. We encourage you to work with other members of the insurance distribution chain to ensure that the products sold on your sites are appropriate for the target market and do not lead to consumer harm.

The PCW market has rapidly expanded in recent years and we have seen moves to diversify into new areas and take advantage of innovative technologies. You need to ensure you manage these developments appropriately, identifying the potential risks – as well as opportunities – of the new products and technology, to ensure they do not lead to harm.

Good operational response to the pandemic

Overall this sector has responded well to the challenges posed by coronavirus (Covid-19) and, so far, has been able to adapt rapidly to the operational demands of home working and in responding to consumers' changing needs. The harms identified in the remainder of this letter may be heightened by the impact of Covid-19 and we expect you to keep this in mind.

Our view of the key drivers of harm

We have analysed firms' strategies, business models and drivers of culture, including governance arrangements and purpose. Based on this, we have identified the following key harms and drivers of harm in your sector:

- consumers being sold products that do not meet their demands and needs
- consumers unable to access financial services
- ineffective governance arrangements and poor culture
- poor operational controls
- poorly managed innovation

Consumers being sold products that do not meet their demands and needs

We have seen PCWs selling products in ways that may not always ensure they are consistent with a customer's demands and needs. In some examples the information the PCWs gave could be improved to better enable customers to make an informed decision.

PCWs must ensure consumers are only offered products consistent with their demands and needs as outlined in ICOBS. PCWs should understand the products they sell to match them to the appropriate target markets, and to effectively distribute them in a way that meets consumers' needs and achieves good outcomes.

Firms should also give consumers appropriate information to allow them to make informed decisions including benefits, exclusions and limitations, as well as other appropriate information about the policies offered. We expect robust, comprehensive plans to address any current shortcomings and for firms to continue to review their customer journeys to ensure they are in line with our rules and principles.

It is also important to remember that these obligations apply on a continuing basis. Markets are continually evolving, and products with them. As a result of Covid-19, we have seen significant changes to products in terms of cover levels and availability; travel insurance being a prime example. It is important that PCWs continue to monitor the products they sell and update their sales processes to ensure that consumers do not purchase products unless they are consistent with their demands and needs.

Consumers unable to access financial services

In July 2020, we published our policy statement on signposting to travel insurance which will help consumers with pre-existing medical conditions (PEMCs) better navigate the market to find cover appropriate for their condition. We highlighted the risk of consumers struggling to navigate the market to find specialist providers after getting a high quote or being refused cover due to a PEMC.

We introduced these new rules for firms to signpost consumers towards a directory of travel insurance firms with the appetite and capability to cover consumers with more serious PEMCs. We expect PCWs to implement the new rules effectively, taking into account consumers' information needs when trying to access financial services.

Covid-19 has increased the risk that consumers find it difficult to access financial services, e.g., travel insurance that includes Covid-19 cover for those with medical conditions, or protection products. We recognise that PCWs are well placed to provide information to consumers, and the recent signposting rules will continue to assist consumers to navigate the market, helping them get wider access to the range of providers.

Governance and culture

As set out in our 2020/21 Business Plan, firms' culture remains a key priority across sectors. We expect firms to have a healthy culture and robust governance to drive good behaviours and fair consumer outcomes. Good governance is central to the effective running of any financial institution.

Critical components of good governance include:

- clear accountabilities for activities which affect outcomes, with appropriate channels of escalation
- a robust risk framework which identify key risks of harm and provide for monitoring and mitigation by accountable individuals
- strong and independent Board oversight and challenge

We expect PCWs to prioritise embedding a healthy, customer-centric culture. Failings in this market have often been due to firms not fully understanding their role as regulated intermediaries and, as a result, falling short of the regulatory requirements designed to protect consumers. One area of concern (discussed further above – on page 2) has been consumers buying products via PCWs that may not always meet their demands and needs.

Firms within the PCW portfolio came under the Senior Managers & Certification Regime (SM&CR) in December 2019. SM&CR aims to reduce harm to consumers and strengthen market integrity by creating a new system that enables firms and regulators to hold people to account. It sets a new standard of personal conduct for everyone working across the industry.

We hold senior managers accountable for delivering on their responsibilities and being active in setting a healthy culture in the firm. We recognise that issues will always occur, even in the best-run firms, and expect senior managers to both take reasonable steps to prevent issues and potential harm and also to act quickly and effectively to address and remediate when things go wrong. We will consider taking robust action for longstanding issues that firms do not resolve.

While firms typically engage closely with the Senior Managers Regime, the Certification Regime and Conduct Rules are also fundamental parts of SM&CR. Firms now have until 31 March 2021 to ensure all staff in Certified roles are fit and proper to perform them. Your firm must identify a Senior Manager as having individual responsibility for ensuring your firm carries out proper assessments of Certified staff. Those who do not meet fit and proper standards cannot be certified. We expect firms to have a rigorous and robust process and some staff might not meet these standards.

Senior Managers and Certified staff should already have been trained on our Conduct Rules, and firms, if the requirements as proposed in CP20/10 are made, have until 31 March 2021 to train other staff. This training must ensure – and can evidence – that staff understand how the Conduct Rules apply to them.

Where we find failings in implementing the SM&CR, we will hold Senior Managers to account.

Operational controls and resilience

PCWs must have systems and controls that help absorb the shock from operational disruption, IT incidents and cyber-attacks, as well as the impact from severe but plausible events such as Covid-19, and continue to deliver their most important business services.

Cyber-attacks are increasing and pose a significant risk to firms. We expect PCWs to establish and maintain a strong cyber-resilience posture and protect against loss of consumer data. We expect you to have strong technology and cyber controls with third parties and intermediaries to ensure the confidentially, integrity and availability of data.

We expect firms to meet their obligations around risk management and business continuity. As part of our joint consultation with the Bank of England and the Prudential Regulation Authority on operational resilience, we are proposing that firms:

- identify which of their business services are important based on the potential impact of disruption to customers and markets
- set impact tolerances for how much disruption can be tolerated; map dependencies; conduct scenario testing to identify vulnerabilities
- and act to address those vulnerabilities to ensure they remain within their impact tolerances where appropriate during severe but plausible scenarios

We have been proportionate in the CP by limiting our proposals to only the highest impact firms we regulate. However, we think they help increase the resilience of all firms we regulate, and will consider whether to extend them. We encourage firms to look at the consultation and consider whether these principles could help to strengthen their resilience to such incidents, and to minimise the harm they can cause to consumers and markets – as well as to a firm's viability.

Poorly managed innovation

We have seen firms continue to diversify their products and services. Innovations include Open Finance, auto-switching, AI services offering alternative services to consumers and development of platforms for new product lines. Firms should consider consumer outcomes, paying particular attention to vulnerable customers, and any potential harm from their innovations. This includes how regulatory requirements apply to the distribution of new services or products and consideration of the needs of the target market. Firms should also consider whether new products or distribution arrangements bring them within the scope of new regulated activities.

We also expect firms to have in place robust data governance to ensure they – and their suppliers – manage data innovations appropriately, securely and ethically with appropriate consent from customers.

We expect all firms to keep us informed of any material changes to their business. This helps us understand the impact on firms' business models, the potential risks of harm and how firms plan to mitigate them.

Pricing practices

Our thematic report on household insurance pricing practices found that many firms' pricing decisions appeared to focus primarily on achieving business plan and financial objectives without appropriately considering consumer outcomes. The report also identified the potential for harm from differential pricing, where some groups of consumers pay significantly higher prices than others with similar risk and cost-to-serve characteristics.

Our Market Study into pricing practices in the home and motor insurance markets found that 6 million consumers are paying high prices for home and motor insurance. Though many consumers get good deals by shopping around, the cost of acquiring new business exceeds £2 billion per year, which is ultimately passed on to consumers. While PCWs do not set the price, they do influence the dynamics of competition and pricing outcomes for consumers. PCWs are an important distribution channel and can affect the market by:

1) intensifying price competition at new business
2) creating additional costs to providers (e.g., through the cost of customer acquisition)

The rapid penetration of PCWs into the market has encouraged consumers to shop around, but has also caused an increased focus on price, potentially driving consumers to purchase products that may not always meet their needs.

On 22 September, we published the Final Report into pricing practices alongside a consultation paper on a package of proposed remedies. We believe that the harms we have identified in the home and motor markets are best addressed by implementing a package of remedies that protects consumers and drives improved competition. The pricing remedy is intended to address the risks of consumers paying a higher price where they renew policies without shopping around or negotiating at renewal.

We are consulting on new proposed measures to further boost competition and deliver fair value to all insurance customers including:

- product governance rules requiring firms to make products intended to provide fair value to the target market
- requiring firms to report motor and home insurance data sets to us so we can check they are following the rules
- making it easier to stop automatic renewal across all general insurance products

We are seeking your views on our proposals and ask for comments by 25 January 2021.

Our Final Report also discussed the potential value of Open Insurance. We proposed taking it forward as part of our wider Open Finance programme, rather than as a standalone piece of work. We expect to engage with PCWs on this.

Brexit

The UK left the EU with a Withdrawal Agreement on 31 January 2020, and entered a transition period, during which it is negotiating its future relationship with the EU. The transition period is due to operate until 31 December 2020. During this time EU law will continue to apply in the UK and passporting will continue. As matters develop during the course of this year, you will need to consider how the end of the transition period will affect you and your consumers, and what action you may need to take to be ready for 1 January 2021. For information on Brexit, including what the transition period means, visit our website.

Covid-19 and firm resilience

On 17 April 2020, we updated our guidance on FCA expectations on financial resilience for FCA solo regulated firms. Firms must ensure they have adequate capital resources to meet their liabilities as they fall due. Firms should ensure their business models have been stress tested to consider the impact of Covid-19 and ensure their business remains viable and sustainable. To re-emphasise the key messages in our publications:

- During this time of stress, we expect firms to ensure the sound management of their financial resources. This means taking appropriate steps to conserve capital, and to plan for how to meet potential demands on liquidity.
- If a firm needs to exit the market, it should consider how it can achieve this in an orderly way while taking steps to reduce the harm to both consumers and markets. Firms should maintain an up-to-date wind-down plan that takes into consideration the current market impact of Covid-19.
- If a firm is concerned it will be unable to meet its capital requirements, its debts as they fall due, or if its wind-down plan has identified material execution risks, it should contact us, with its plan for the immediate period ahead.

Next steps

We will continue to engage with firms. We will write to you again in 2022 to provide our updated view of the key risks firms in this portfolio pose, the extent to which these risks are being mitigated, and our updated supervisory plans as a result.

If you have any questions please contact the Supervision Hub on 0300 500 0597. This is the primary point of contact for your firm's day-to-day interactions with the FCA, and there are further details of how to contact us on our website: https://www.fca.org.uk/contact.

However, we recognise that there may be occasions in which your firm faces urgent issues of strategic importance. In such significant circumstance, please contact me on 0207 066 5900, or at Roma.Pearson@fca.org.uk. If I am not available, then please contact one of my managers, Alexandra Bennet on 0207 066 0080 or at Alexandra.Bennett@fca.org.uk.

Yours sincerely

Roma Pearson
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