



HOUSE OF LORDS

Financial Services Regulation Committee

Corrected oral evidence: The regulation of the consumer insurance market

Wednesday 24 June 2026

10.10 am

Watch the meeting

Members present: Baroness Noakes (The Chair); Baroness Bowles of Berkhamsted; Lord Davies of Brixton; Lord Eatwell; Lord Hollick; Lord Lilley; Lord Sharkey; Lord Smith of Kelvin; Lord Turnbull.

Evidence Session No. 4

Heard in Public

Questions 46 - 57

Witness

Chris Bose, Director of General Insurance and International at the Association of British Insurers.

Examination of witness

Chris Bose.

Q46 **The Chair:** Welcome to today's meeting, which is the fourth oral evidence session as part of the committee's inquiry into the regulation of the consumer insurance market. Thank you very much, Mr Bose, for attending.

This session is open to the public. It is broadcast live and will subsequently be accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and will be put on the parliamentary website.

Could you please introduce yourself for the record, Mr Bose? Then I believe you will be making a brief opening statement.

Chris Bose: Yes, thank you very much. I am director of general insurance and international for the Association of British Insurers. We are the trade body for the insurance industry. Thank you for inviting us to give evidence to this inquiry. We are very pleased to help you understand the challenges of consumer understanding in the insurance market.

I would say up top that insurance, at its heart, is about providing security and resilience in volatile and uncertain times, whether that be to consumers, to organisations or to businesses. I argue that the ever more volatile world that we live in means that the sector is absolutely crucial. It is essential to economic growth and innovation as well.

It is worth also taking a step back and understanding the scale of the industry. This is an industry that operates at scale. If we take motor insurance, insurers paid out close to £12 billion in claims last year. For property insurance it is £6.1 billion, and for travel insurance it is £500 million. It is easy to just see the numbers. Behind those numbers are countless examples of difficult situations for people and businesses. We are also seeing that a number of the risks that insurance protects people against are becoming more severe and more frequent, whether that be climate change and adverse weather events or cyber risks and digital risks.

Inevitably, when a product covers consumers for a wide range of risks, it can be hard to understand. It can be complex. It is worth also keeping in mind that when consumers are thinking about buying insurance they often have to imagine some very bad things happening. All of us, with human nature, do not like to think that we will fall ill abroad or that our home will be flooded. That creates challenges around consumer understanding.

The final point I would make is that, with a topic like consumer understanding, which can be quite hard to pin down, it is worth looking at some of the data points. The FCA's Financial Lives Survey shows that roughly 90% of customers who are buying building and content insurance think that they understand the policy either very well or fairly well.

Equally, when we look at claim satisfaction data from the FCA, we see that about 80% of consumers who have made a claim are satisfied with how that claim has been handled. I know that you have had some good evidence from consumer groups recently. Looking at some of their data—for example, the Fairer Finance index on trust and satisfaction—we see sustained increases in trust and satisfaction. We have also seen a reduction in complaints.

We are not the least bit complacent. A lot more can be done, and some of that understanding reflects the good work from the industry and the regulator. I am sure we will unpack some of these things as we go. Thank you.

Q47 The Chair: You gave some statistics a moment ago about the volume of claims paid in certain categories of insurance. Could you paint a slightly broader picture of the size of the market overall for general insurance for consumers so that we can position home and travel contextually within that?

Chris Bose: Yes, I am happy to. I will draw on some of the ABI's data and some of the FCA's data as well.

Perhaps the best way to think about the size of the different product lines and markets is to look at gross written premiums. If we look at the ABI's data from 2024, we see that gross written premiums for motor insurance were £22 billion and £7 billion for property. Pet insurance was just under £2 billion and travel insurance was £880 million.

To put this in a bit of context, if we look at the FCA data, taking home and contents insurance, we see that 63% of adults hold some form of home insurance policy and 22 million policies are in force. When we look at travel insurance, we see that approximately 7 million travel insurance policies are in force.

The other metric to look at is the number of claims processed annually. If we take home insurance—again, I am citing the FCA's 2024 data—we see that consumers made 900,000 home insurance claims. Then, on travel insurance—again, using the 2024 data—600,000 travel insurance claims were made.

The Chair: Do you have any data on the claims ratio—the relationship between claims paid and premiums written?

Chris Bose: I do not have those to hand. Firms will report those firm by firm, but they do report them and they are available in many of their annual reports.

The Chair: Are they available in aggregate anywhere?

Chris Bose: I am not sure, but we can take that away and, if they are, we will write and provide those to the committee.

The Chair: That would be extremely helpful. Thank you.

Q48 **Lord Lilley:** What impact has the consumer duty had on this area of insurance?

Chris Bose: It is worth keeping in mind what a significant uplift in consumer protection the consumer duty is. It is probably too reductive to think about it as just another regulatory rule. It is a package of changes that is designed to change how regulated firms think about consumers. It is designed to try to get them to go from just complying with regulation to actively putting themselves in the shoes of consumers and trying to ensure good outcomes.

We have seen a good deal of change in the insurance industry—inevitably, with an industry that is this large. There are shortcomings and areas that could be addressed, but we have seen significant changes as well. I will give you a few examples of that.

The consumer duty has encouraged insurers to design systems to actively monitor whether consumers are getting good outcomes from the products that they buy: are they avoiding foreseeable harm? Do they understand those products? Where that is working well, insurers are using a variety of data sources to check that the product is delivering as intended. The executive teams in those insurers are actively monitoring that data, stress testing it, using that to spot problems and—this is the crucial point—acting on it. The consumer duty, where it works best, creates a strong feedback loop that can inform how insurers operate as well.

Also, in terms of the data, as I said, we have seen improvements in consumer understanding and claim satisfaction, and we have seen increases in trust. It is hard to draw a causal link directly to the consumer duty but we see some encouraging signs of progress in some of the thematic reviews that the FCA has done that have looked at how firms are embedding the consumer duty. I would underline that this is a work in progress and more work can be done.

The final point I would make from the ABI and the insurer side is that the consumer duty is a big undertaking. That is right and we support it, but we need regulators to look at where they can simplify, streamline or repeal other rules that are perhaps rendered no longer so necessary in the light of the consumer duty. Regulation continues to impose a significant cost on those firms as well.

Lord Lilley: Could you give us an example or two of concrete changes that might have happened as a result of the consumer duty, —things that did not happen before and do now or did happen before and do not now?

Chris Bose: Yes. The example I gave around firms creating feedback loops and oversight mechanisms is a change that has been brought about by the consumer duty.

To be a bit more concrete, we see examples of insurers rewriting some of their insurance policy documentation to make sure that they are expressed in as simple and clear terms as possible. That can sound like a fairly straightforward thing to do, but it is effective in raising the

comprehension of consumers when it comes to their understanding of policies. We have seen that change there.

We have also seen firms being more innovative in designing prompts into the purchasing journey when someone is buying a product. For example, one insurer, when a consumer buys their home insurance, has good video popouts to say, "It looks like you're not buying accidental damage cover with your insurance policy. This means that if you spill a glass of wine on the sofa, you're not covered". Those are good, effective prompts that have been encouraged and inspired by the consumer duty.

Q49 Lord Smith of Kelvin: What are the advantages and risks of insurance companies outsourcing claims handling? We have heard about all the different parties involved—distributors, underwriters, claim handlers and so on. Does that pose challenges to a firm's oversight of the different elements of the insurance products?

Chris Bose: The simple answer is that it does impose a challenge and a requirement for firms to make sure that they are overseeing that process. Probably the best way to think about this—the regulator has been clear—is that insurers can outsource some of the activities but cannot outsource their regulatory obligations.

I will give you a couple of examples of the benefits of outsourcing first. Travel insurance is a good example. Travel insurers will often outsource their medical assistance to emergency doctors in the US if you fall ill. If that were me, I would rather that than waiting for the insurer to do that. That outsourcing arrangement can make sure that you get the support that you need very quickly.

I mentioned in my opening remarks that insurers are grappling with more adverse weather claims. We are seeing storms and floods. Often that will require an insurer to triage and deal with a large number of claims in a short space of time. Insurers having an outsourced network of loss adjusters that can assess the damage quickly means that they can respond to those surge events quickly.

The final benefit I would give on this is that outsourcing can be a benefit to competition. The insurance market is competitive, but if a new firm coming into the market does not perhaps have the scale to manage all those activities itself, having outsourced arrangements is useful.

On the risks here, clearly, the FCA has found in some of its reviews that, in some cases, insurers did not have sufficiently robust oversight and governance of each stage of that outsourcing journey. Equally, it found good examples of where insurers are doing that.

We at the ABI recognise that this is an area to address. One thing that we are currently doing is producing best practice of that outsourcing journey. We are seeing that where firms have multiple sources of insight and data at each stage in the claims processing journey. They are doing things like checking whether certain groups of consumers are not disadvantaged or not getting worse outcomes than others. They are

benchmarking things like their claims acceptance rates and handling times against industry data. They are using that to oversee that process and to proactively address any issues that exist. We as the trade body are doing a lot more on this.

Q50 Lord Davies of Brixton: One factor that led to this study was complaints about claims handling. That has been a focus, but it became clear to us fairly early on that part of the problem was people not understanding what they had bought. How can insurance companies improve consumers' understanding of what they have bought? You have already touched on this but maybe you could expand on the point.

Chris Bose: Yes, and it is worth looking at the claims acceptance rates that the FCA published. We see that virtually 99% of motor claims are accepted. For property claims, that figure is lower—around 70%.

First, that data needs greater consistency. We need to understand that claims declination and acceptance data in a bit more detail. Part of the issue is that if a customer phones their insurer and says, "I've had some strong winds. My fence and my shed have been damaged. Am I covered?", and the answer is no, that could be counted as a decline rather than a query. If you look at the individual claims acceptance rates for home and property insurance by a firm, you see quite a broad spread of acceptance rates, which to my mind suggests some inconsistency. We are working closely with the FCA to try to get better, more consistent data on that.

Lord Davies of Brixton: Is there a time limit on that? Is there a target date for getting that sorted?

Chris Bose: From memory, the FCA said that it is looking at this in H1 this year, and I know that we will join a working group with the FCA shortly to try to work on some of that. That is quite a near-term priority.

On the challenge of understanding, there are various things to keep in mind. As I said in my opening remarks, home insurance covers you for a wide range of perils. It could be a storm, theft, flooding, burglary, subsidence—all these things. Inevitably, that presents a challenge because you are trying to get the consumer to understand a product that provides lots of different coverage against lots of different eventualities. That is a challenge.

The other thing that is relevant here is thinking about how consumers typically buy insurance. As you will be aware, we have an entrenched price comparison website market here in the UK. That delivers lots of benefits in terms of competition but, inevitably, it will impact how consumers understand their products. Again, the FCA is looking at this currently. They are the contextual factors to keep in mind.

We are doing some things, though. The main thing will be delivering a campaign that is designed to try to get customers to understand more about core insurance products, what they are there for, what they cover, what they typically do not cover, and what some of the key terminologies

like “excess” are, for example. With that, we are trying to equip customers with some simple heuristics and rules of thumb to help them to make good purchasing decisions when they do that.

That is one part of the jigsaw. Some of the other things that we are seeing from firms is working with some consumer groups to improve the quality and simplicity of some of their wording. This is fairly nascent, but artificial intelligence could probably play a very big role here. We have seen some large insurers partner with AI companies to help customers do that search and conversational process to understand their policies in a bit more detail.

The final thing that I would call out, because I know that this has been raised previously, is the issue around storm claims. We at the ABI have identified a need for greater consumer-facing information about what a storm typically is, what it tends to constitute and, perhaps as importantly, what you as a customer can do to make sure that your property is sufficiently resilient to these storms.

What that points to in home insurance—maybe this sits beneath some of the declined claims that we see—is that home insurance is not a maintenance contract; it is there to protect you against certain perils. We are trying to make clearer to consumers what they can do to make their property more resilient to these events, which will mean a greater chance of the claim being accepted. I hope that gives you a flavour of some of these areas.

Lord Davies of Brixton: Does further regulation have any role in making sure that consumers understand better?

Chris Bose: It does. That comes down to the supervision and enforcement of the consumer duty. Rightly, the consumer duty sets the North Star: the clear requirement around what consumer understanding looks like and what firms need to do to promote and to ensure that consumers have good consumer understanding. The most effective way is for the regulator to use its supervisory powers and its enforcement powers to make sure that firms are delivering that.

The other thing is that a lot of regulatory activity can happen in a voluntary space. It is easy to equate regulatory activity with new rules. We the consumer groups and the FCA are currently working on a series of working groups to try to tackle some particular issues with consumer understanding. For example, we are looking at consistency of policy terms and how we can deliver prompts within the consumer journey. That package of measures is the right approach rather than just reaching for a new rule.

Q51 The Chair: On consumer understanding, given that quite a high percentage—I think a sixth—of adults have a reading age of only 11 or 12, how does the industry approach consumer understanding when dealing with low levels of literacy among a significant portion of your consumer base?

Chris Bose: It is a significant challenge, not just for insurance but for financial services as a whole. The main way firms are trying to address that is to ensure that they are designing and writing policies that have a sufficiently low reading age so that they can try to ensure significant comprehension. Any of us who has leafed through our insurance policy documentation will probably appreciate that there is quite a lot in there. Having layering—presenting the key information that you need to know up top and thinking about how you structure that information intelligently—is one way that we can do it.

The other example I would draw on is the use of other forms of communication. I mentioned in one of the examples that insurers are using videos to help consumers understand in quite practical terms, “This is what you’re buying and this is what you’re not buying, so if X happens you’ll not be covered”. They are encouraging ways to do it but it is a significant challenge. That points to the broader debate around financial literacy in this country.

Q52 Lord Turnbull: You gave an upbeat account and you talked about a sustained increase in trust. Other figures around point in the other direction to very low acceptance rates, particularly in the housing market, and a greater reliance on settlements that are taken to the Financial Ombudsman.

The whole concept of acceptance can mean all sorts of different things. It could be that I made a claim and they paid the amount that I thought I was entitled to; that they paid and it was not as much as I thought I should have got, but I just had to accept it; or that they declined it, I took it to the Financial Ombudsman, fought my way through and eventually got a settlement.

You are using the term “satisfaction”. All you may be saying is that that case has been resolved. It may not have been resolved to my satisfaction; indeed, I might have had to fight for it. This is a particular feature of the home market. You described this long “journey”—that was the word you used—with a long chain of people: customers, brokers, distributors, mostly the big household names, underwriters and claims managers. Does the light of the consumer duty get right down to the claims handlers or are they given a different job by their companies to help manage this? When acceptance rates go up, are the people at the top saying, “Jolly good, let’s do more of that”, or are they saying, “We need to respond because we’re in hot competition, particularly through the comparison websites. We have to keep costs down”? I do not see the consumer duty shining all the way through to the coalface, which is the claims handling end of things.

Chris Bose: It is a good question. Often the point at which you make a claim and how that claim is handled is the litmus test for the consumer as to whether this regulation is working and how the insurer is treating you.

The FCA has looked at this quite extensively. It has found some examples of it working. Equally, in some areas there is more to do and that

oversight and penetration of the consumer duty requirements right through every stage in that outsource journey is not working and could go further. The examples there are mixed.

On the point about complaints to the ombudsman, we have seen a reduction in complaints overall to the FOS and to the FCA.

We have some good examples of firms—on your point around the claims acceptance/cost dynamic—that are proactively trying to find a way to pay claims and taking quite a consumer-centric position. Equally, where we have seen good practice, through that consumer duty-inspired oversight, firms are making a clear connection between the claims handler and the conversation that they are having with the insured or the consumer and then, right upstream, to how those policies are designed. Good oversight examples would mean senior executives—the material risk-takers in those firms—listening in to those calls, sitting there with claims handlers and asking them, “Are these policies providing the type of cover as intended?” There are some good examples of where that loop works.

It is certainly always going to be a challenge when you have lots of different organisations in the chain, although doing that has strong benefits. The FCA has rightly identified this and is doing a lot of work bilaterally and individually with firms to make sure that those consumer duty requirements are applying at each point in that journey.

Lord Turnbull: We have been in with the consumer duty for three years now. Is that long enough for this to have exercised its constraint all the way along the chain? You say that there are good examples. It seems to me that there is also possibly quite a long tail of people where the consumer duty has not begun to bite yet.

Chris Bose: I am not sure I would characterise it as a long tail, but there are certainly areas where there are shortcomings. The FCA has been quite clear about this. Outsourcing is one example. Also, particularly within the outsourcing, the FCA has called out overseas insurers that are branching into the UK or outsourcing to a third country, where that can be more challenging. I would not seek to diminish that. There definitely are areas where firms can go further. Our role as the trade body is to try to do what we can with those firms to help them to do that, but we are seeing good progress and some of that is reflected in some of the data points and the satisfaction levels that you see.

Lord Turnbull: You have the Which? super-complaint. Where is the ABI in this? Are you defenders of all your members or are there bits where you are saying, “Fair cop. We really should be doing something there”? What is the feeling about the changes that might emerge when that case has run its course?

Chris Bose: By way of background and illustration, I joined the ABI, and the insurance sector, last year. I have come from outside the sector. I was quite struck when I came in that, relative to some other trade

organisations, the ABI plays that critical friend role with the industry. I think we do hold up a mirror and say, "Look, here are areas"—

Lord Turnbull: A friend of the industry, not a friend of the industry's customers?

Chris Bose: I was going to come on to that. We are a critical friend to our members to illustrate where there is a case to go further. Ultimately, we want to see markets that work well for consumers, as do insurers. We want to see consumers who are engaged and can make good purchasing decisions.

There is an alignment of interest there. I talked in my opening remarks about the scale of some of the challenges facing this country, whether it be more severe weather events or cyber attacks. There is a strong alignment of interest between consumers having the requisite information to understand and to respond to those risks, and the interest of the firm in providing that protection.

However, on a practical level, we try to get firms that are perhaps not operating at the level that the FCA might want them to be to see how others are doing it in a competition-safe space and to apply some of that best practice. Some of the examples that I have given around outsourcing are practical ways in which we are doing it.

The other area we are doing it in is cash settlements, which I know has come up before. We are producing best practice guidance for our members to help them understand what they should be doing to explain to consumers what a cash settlement is, some of the advantages of a cash settlement and, equally, some of the disadvantages. Through some of that activity, we are trying to play that role with members to help them move to that standard.

Q53 **Baroness Bowles of Berkhamsted:** The ABI is creating quite a lot of good information. How is that going to get to the public? How can the public think, "I could go and look at this on the ABI website"? I did not engage with the ABI until I was landed with being a rapporteur for Solvency II. I certainly had had insurance for many years before that. I suppose, with more searching available nowadays than there was back then, that I might have tripped over you earlier but, given the point about the average reading age for some cohorts, how will you be able to get your information through to them?

Chris Bose: We are cognisant of that challenge because, with the best will in the world, the majority of the public is not landing on the ABI homepage all the time for this information, but we are trying to do that in a variety of ways. We try to be quite targeted and quite focused on particular events or consumers where there is a need to communicate this information. One pertinent example would be floods. Every year when they happen, we will do a lot of work with our members to communicate to people in the affected region: these are some of the risks; this is what you can do to prepare; if you have been flooded, this is

what you need to do to make a claim. Insurers will do the same. We try to be laser-focused where there is a particularly acute need. Often, that will mean going to the region. We have had events in Scotland over the past few weeks with land movements. We have had a member of the ABI up there to talk to consumers if they have any particular challenges. I appreciate that that is reaching quite a narrow audience, but it is often at a point of need.

The way in which we are trying to reach the mass market is through that campaign I spoke about. What we are looking to do is to deliver a multimedia, multiyear campaign designed to reach the public with some very simple messaging around insurance—what it covers, how to understand your product and how to make good purchasing decisions. We are trying to do that.

The other approach is working in partnership. Quite a lot of work is happening very actively at the minute between the FCA, the ABI and some of the consumer groups and the price comparison websites. What we are trying to drive out there is thinking about how some of those price comparison websites can provide consumers with more information around some of the relevant risks. One of the areas that is quite central is the importance of being able to put property flood resilience into your home if you have been flooded. That can often be a very simple thing: closing the airbrick, getting a flood gate. That can be very effective. In my experience of interacting with them, those comparison websites want to provide that information, so we are working on those channels as well.

Baroness Bowles of Berkhamsted: That leads into my next point, which was, looking at the price comparison websites, should there always be a minimum or skeleton list of what is covered and what they are quoted for, so that you know you are doing a like-for-like comparison when you choose the price? They can put all the warnings that products may not be the same, which they do not necessarily do at the moment, but if you want a comparison you need to have a standard skeleton that you can take as representative. If you want more coverage, one would presume that it would cost proportionately more. I can see all kinds of issues there—that suddenly the extras all get very expensive. What work is being done in that area?

Chris Bose: By way of illustration, looking at home and contents insurance and travel insurance, the proportion of consumers who buy those products through a price comparison website is, from memory, around 35% to 50%. It is a very significant part of the market. You got to the crux of the challenge here, and there is some nuance to unpack. There is a difference between getting greater consistency in understanding of some of the important policy terminology and standardisation. We should be driving towards greater consistency of understanding.

Storms are a good example, where the ABI has some guidance on what typically constitutes a storm—55 miles per hour wind speeds, et cetera. Crucially, what we are doing there is saying that insurers can and do

exercise discretion and flexibility. If we were to go down the route of hard standardisation, whereby you mandate that insurance products define certain terms and perils in certain ways, there is a risk of creating a much more rigid policy. What the FCA has indicated it would like to see, and what consumers want to see, is insurers exercising flexibility and discretion.

On the contents of that insurance policy, if you were to regulate for a minimum floor—so that all policies must include certain areas—that would inevitably introduce more cost for consumers. What we need is a variety of products in the market, some geared towards more basic, affordable requirements and others offering more comprehensive gold-star policies. What we need is for consumers to be able to understand the difference and make the right decisions. Standardising policy terms is not going to be good from an affordability or accessibility point of view.

It is worth focusing for a moment on the affordability challenge, because we have worked very hard as an industry and a trade body with the Government in recent years to try to make sure that policies are affordable—and we have seen that they are. The average cost of a motor premium is £560; the average cost of a property premium is about £375. They have come down in recent years, and there has been a lot of concern around what happens if they do not become affordable in a cost of living environment, and whether consumers will cut back and leave themselves more exposed to risk. That is a material concern that we should be very vigilant about if we are thinking or talking about standardisation of policies.

Baroness Bowles of Berkhamsted: On the cost of living issue, have you seen a big change in the number of consumers switching to third-party cover only, for example, in motor insurance?

Chris Bose: I do not have those figures to hand, but we have a lot of data on that. We will take that away and look at whether we have seen any significant shifts there.

Q54 **Lord Davies of Brixton:** Did you say that the price of policies has come down in recent years?

Chris Bose: Yes, in recent years, in the last couple of years.

Lord Davies of Brixton: What is the generally accepted reason for that? I can think of two reasons: that the industry is more efficient, or it could be that policies are getting tighter.

Chris Bose: That is a good question. The FCA has done pretty extensive work in this area. Partly, I think what that dynamic speaks to is the shifts that we go through in a market—hard market and soft market cycles. It will also be about the amount of competition and capacity in the market. A very large part of the price of insurance is the cost of claims, and those costs are pretty stubborn.

In simple terms, if we take motor insurance, cars are more expensive, more complex, and are harder and take longer to repair. That is having a significant impact on the cost of motor insurance. When we look at home and property insurance, ABI members paid out a record amount of money on property claims last year, largely because we are having more adverse weather.

There is a particular challenge that we are trying to call out: we welcome the Government's target of building 1.5 million homes, but we are building too many of those homes in areas that are at risk of flooding. That is going to perpetuate the problems that we have talked about. Our ask is that the Government use property regulations, building regulations and planning policy to limit those new homes being built in those areas, because that will affect affordability.

Q55 Lord Eatwell: I was struck by the figure you gave in your introduction about the FCA's work—the 90% of customers who think they understand. The crucial word there is "think", because 30% of household claimants discover that they did not. I do not think that figure is very valuable. It is an indication of lack of understanding, not of understanding.

I am also struck, in the claims area, by the dramatic difference between motor insurance, where 99% of claims are met, and household and travel, where a significant proportion of people in these volatile times find that they are not insured when they thought they were. How do you explain that difference? One thing that comes to mind is that motor insurance is a legal requirement that has tight legal specifications around a substantial part of it—not all, of course, but a substantial part—whereas household insurance does not. Would you think that makes a difference?

Chris Bose: I think it does. Motor insurance is a simpler product; it is easier to understand that if someone has hit you or your car has been stolen, you can make a claim. It is an easier product to understand. Home insurance provides coverage for a bunch of very discrete, separate perils. That inevitably affects consumer understanding.

The other difference between motor insurance and home insurance is that motor insurance has a legal requirement to have an MOT, which provides some assurance and protection of the asset you are insuring. No such requirement exists in home insurance. What we will often see is that if a property has been in a state of disrepair for some time—missing tiles on the roof, for instance—it is going to be a lot more vulnerable to weather, storms and those types of events. That is an issue.

I urge a note of caution on the conclusions we draw from the claims acceptance rates. We need to straighten that out a bit more, because some of that claims declination proportion will include a fair amount of people who are phoning up to say, "I do not think I am covered for this, but I just wanted to check", rather than what we might classify—

Lord Eatwell: If the insurance companies are giving us inaccurate numbers that is their problem; it results in the larger figure for declines.

They should produce more accurate data. The other aspect I would like to ask about is, suppose I am an insurer writing a household insurance policy and I want to price it. I look at the overall pricing and the overall claims, and I say, "I'm going to decline 30% of these", and that is part of my business plan. Is that correct? Is the level of declines part of the business plan?

Chris Bose: No, not to my understanding at all.

Lord Eatwell: If your answer is correct then insurers are overcharging for insurance, because it means they are basing their pricing on 100% satisfaction of claims. That cannot be true. It must be true that some of the declines are part of the business plan.

Chris Bose: That is not my understanding at all and I do not think that is the case. If it were true, what you might see is variations over time in the claims acceptance rates for these products. In the period for which we have FCA data, the acceptance rates for home and contents insurance have stayed broadly stable. Insurers will price policies based on risk—that is risk-based pricing. They are not pricing on the basis of the number of declines. What insurers want is to be able to compete in a very competitive market. They want consumer trust and to be seen as an organisation that will meet the needs of consumers. It is not in their interest at all to have a target of reducing or declining claims.

Lord Eatwell: That is interesting, because it means that if they are pricing just on risk—assuming 100% acceptance, as I said—they are overcharging.

Chris Bose: I would not say that they are overcharging at all. The price of home and contents insurance has come down. It is competitive, partly because of the role that price comparison websites play in this market. It is a very price-sensitive, very competitive market. Insurers will base their products and price them on risk. Part of the challenge when it comes to home and contents insurance is that there are many different variables and factors that go into the overall risk profile. That is the basis on which insurers price their products.

Q56 **Lord Hollick:** Can we come to claims handling? One of the features of the industry seems to be that a large number of insurers outsource this, so you have a fairly competitive set of claims-handling companies. How are they remunerated? What incentives are put in place by insurers to guarantee good service, to reduce the level of claims perhaps, or to increase the level of cash settlements, which might actually be at a lower level than required, but the insured is in need of doing something quickly? How does that outsourced industry work?

Chris Bose: You will appreciate that I am not privy to the detail of the remuneration requirements between the insurer and the outsourcer, but I can speak generally around—

Lord Hollick: You could talk more precisely, because it is interesting that the FCA has ducked that question in the super-complaint as well. It

seems to be shrouded in mystery.

Chris Bose: The arrangement between the insurer and the third party that they are outsourcing to will be a commercial arrangement between those firms. However, those arrangements—the metrics, the SLAs or whatever data point we want to use—will need to ensure that the outsource firm, the insurer, all parties are meeting the requirements of the consumer duty. That means, for example, ensuring that the information requirements that an outsource party asks the consumer to provide as they go through the claim are reasonable and proportionate. It means ensuring that the claim is handled promptly and fairly. They will need to have MI to ensure that the outsource party is providing regular, empathetic communication to the consumer.

What the FCA has pointed to and highlighted is that, where things are working well, there is a very clear line of sight and oversight mechanism from the insurer to the outsource party. Where things are perhaps awry—if, for example, claims acceptance rates for a particular cohort of customers have dipped, or there has been a shift in claims declinatures benchmarked against others—they respond to that. Regardless of the details of the commercial arrangements between the outsourced firm and the insurer, the oversight mechanism must ensure that each point in that process adheres to the consumer duty. The FCA will supervise firms to ensure that they are doing that.

Lord Hollick: Is that an industry-proposed set of measures, or is it imposed by the FCA? One of the things coming through your evidence is that you look to the FCA to tell you what to do. Why does the industry not take the initiative, do it itself and make it publicly available?

In particular, on a question Baroness Bowles asked, a standard product that is kitemarked or something of that kind is something that the industry itself ought to be doing. The industry ought to be making sure that the whole process of claims handling is visible. You used the word “empathetic”. I suggest that that is not a word that anybody who has ever made a claim would claim about claims, but that is just an observation. Would it not be better for the industry to take responsibility for doing these things and be rather more transparent?

Chris Bose: How this is operating is that the regulator sets principles-based, outcomes-based regulation. The consumer duty is the best example of that. That allows sufficient flexibility and latitude for the firm to work out how best to meet those obligations at each stage in the claims-processing journey. There are many examples of where they are doing that.

On the specific question about what the industry is doing itself, I would say it is doing a lot. To take a concrete example of how we can get more firms to operate best practice in the outsourcing journey, we are working with a number of those firms and outside parties to highlight what “good” looks like in that outsource journey to make sure that customers understand the importance of having lots of different data sets and MI to

assess claims outcomes, not just being overly reliant on one figure.

We had a webinar on this recently, looking at outsourcing overall across general insurance. We are going to be doing deep-dive webinar sessions on home, travel and property soon, and we are going to produce a report for firms to help them to operate to that level. There are good examples of firms showing initiative and looking to innovate to try to meet those more principles-based requirements set by the consumer duty.

Lord Hollick: It would be helpful if you could communicate that more widely to the individuals and households buying that insurance. As far as we can see from the evidence, it is a fairly foggy area—you only find out what is missing when you make a claim.

Chris Bose: That is precisely why we are going to be delivering this public-facing media campaign to help consumers understand those inclusions and exclusions, and how to respond to them.

Q57 **Lord Sharkey:** I think all your members have a commitment to what they call signposting. Could you tell us briefly what that is but, more importantly, could you tell us how you measure its effectiveness?

Chris Bose: You will forgive me if I suggest that our next witness from BIBA might be slightly better placed to answer that question, because BIBA has played the key role in it, but I will give you our sense of it.

The importance of signposting is to ensure that consumers who have been declined for a product know where they can go to access that insurance. For example, somebody who has a pre-existing medical condition might need a more specialist insurer. BIBA and others will operate a directory where a consumer can go to try to get coverage for their more specific needs. That is the rationale and purpose for signposting. BIBA will be able to give you more on that.

Perhaps I can give you one relevant adjacent example of an area where we are leading, which is around the treatment of pre-existing mental health conditions for travel underwriting, because this has rightly been raised as a concern by the Money and Mental Health Policy Institute and other consumer groups. What we are trying to do at the minute is to convene insurers and consumer groups, such as MMHPI, to understand in more granularity and with more transparency how different mental health conditions are treated from an underwriting perspective, so that we can drive up consumer understanding of that.

The other area on which I am personally very keen that we can drive some progress on is to try to ensure, for those customers who have pre-existing conditions, that the process of asking the customer about their anxiety, their depression or whatever it may be is as empathetic as it can be, because this can be a very distressing time. That is a relevant adjacent piece of work, which we are driving forward as part of the Treasury's financial inclusion strategy, but our next witness will be able to give you more information on signposting.

The Chair: Thank you very much, Mr Bose. That has been a very interesting session. You have said you will come back on a couple of points, and I would be grateful if you would follow up on those. Thank you very much for this morning's session.

Chris Bose: Thank you.