

# Client Alert

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## UK's Financial Services Regulator Finds Price Comparison Websites are Failing

By Susan McLean

The UK's financial services regulator, the Financial Conduct Authority ('FCA') issued a report on 16 July 2014 identifying that price comparison websites operating in the general insurance sector are failing to meet consumers' expectations and, in some cases, the FCA's regulatory standards.

Websites that compare the general insurance products (such as car, home and travel insurance) offered by various providers ('PCWs') have grown in popularity in the UK over recent years. Indeed, some PCWs (such as Confused.com, CompareTheMarket.com and GoCompare.com) are now well-established UK brands, and the FCA estimates that one-third of UK consumers purchase their general insurance through PCWs.

PCWs are subject to the rules detailed in the FCA's Insurance Conduct of Business Sourcebook (ICOBS) and the guidance on the selling of general insurance via PCWs that was published by the FCA's predecessor, the Financial Services Authority, back in October 2011 ("Guidance").

The FCA launched a review into PCWs in 2013 ("Review"), as it was concerned that PCWs may not be providing appropriate information to allow consumers to make informed decisions. The FCA reviewed 14 PCWs which together account for more than 90% of general insurance products sold via PCWs in the UK, and considered the extent to which PCWs had implemented the 2011 Guidance. The FCA also carried out consumer research with 50 participants.

### FINDINGS

The FCA found that a number of PCWs were not meeting regulatory requirements in delivering fair and consistent outcomes for consumers. The FCA also found that consumers had a number of misconceptions about the services provided by PCWs.

Although most PCWs had taken steps to comply with their regulatory obligations, they had failed to fully implement the 2011 Guidance.

In particular, the FCA identified that:

- PCWs did not always present sufficient product information (e.g., in terms of policy coverage, plus any excesses and add-on fees) in a clear and consistent way. Accordingly, there was a risk that consumers would not be making properly informed decisions.
- Consumers were price focused when using a PCW and some mistakenly believed that the extent and quality of coverage was largely the same regardless of price. Price is shown more prominently than other information provided, leading consumers to go for the cheapest policy. The FCA emphasised the need for consumers to understand that not all products are the same, and the cheapest product may not always be the best for their needs.
- By using buttons such as "Proceed", "Go to site", "Get insured" and "Buy now", some consumers may act on these

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messages and proceed to buy a policy without assessing its suitability. Alternative labelling, such as “learn more” and “more info”, which invited consumers to look further, without the fear that they were committing to purchase, was considered more appropriate.

- PCWs did not always make clear their role in the distribution of the product or the nature of service they provided. Indeed, some consumers mistakenly believed that PCWs had provided them with quotes on the best policy based on their individual needs.
- PCWs which are part of a larger group of an insurer or broker did not always disclose this potential conflict of interest, which is against FCA rules. However, the FCA found no evidence that these firms used this relationship to their commercial advantage.
- PCWs were not always clear about their remuneration.
- Although PCWs carried out due diligence on the insurers, brokers and intermediaries with whom they had contracted, many did not conduct follow-up due diligence to ensure that the provider continued to hold the correct permissions.
- Certain PCWs did not have secure access control over customers’ accounts, exposing consumers to the risk of sensitive information being inappropriately disclosed.
- Certain PCW terms and conditions were not easy to read or digest.
- Many PCWs did not regularly review their websites to ensure that their disclosures on their practices, procedures and regulatory status were up-to-date and compliant with regulatory requirements.
- Certain PCWs did not explain clearly how customers’ data would be used, and opt-in/out processes were unclear.
- Guidance on how to make a complaint was not always easy to find, and some was out of date.
- Certain PCWs had misleading financial promotions.

## RECOMMENDATIONS

The FCA has recommended that all PCWs:

- take reasonable steps to ensure consumers have appropriate information to make an informed decision;
- provide a consistent level of information from different providers to allow consumers to easily compare products;
- make clear their role in the distribution of products and the nature of their service;
- ensure that they are compliant with relevant regulatory and legal obligations, including those relating to complaints, data management, financial promotions, due diligence and conflicts of interest; and
- ensure that their customers’ interests are genuinely at the heart of how they run their businesses.

In addition, the FCA encourages PCWs to consider the [voluntary guidance for comparison websites](#) issued by the European Insurance and Occupational Pensions Authority (EIOPA) in January 2014.

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## NEXT STEPS

The FCA has asked all PCWs involved in the Review to take action where they are falling short of expectations. The FCA will be conducting follow-up checks to ensure compliance. The FCA also expects insurers to consider the findings of the Report, and work with PCWs to address any issues.

It is worth pointing out that the FCA believes that the Report's findings have relevance beyond general insurance. PCWs that provide a comparison service for other financial products should also consider the findings, and evaluate whether they are meeting their regulatory requirements. Accordingly, all financial services PCW operators should now review their existing processes, website/app design and architecture, policies, and terms and conditions to ensure compliance with the FCA recommendations.

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## INSURANCE IN THE REGULATORY SPOTLIGHT

This Review is one of a number of regulatory activities currently affecting the UK general insurance sector. For example, in March 2014 the FCA announced a proposed shake-up of the sale of general insurance “add-on” products (such as legal protection), following an investigation into the sector. In addition, in June 2014 the UK's Competition and Markets Authority (‘CMA’) published changes that it proposes to make in order to increase competition in the private motor insurance market and reduce the cost of premiums for motorists. A consultation is underway, and the CMA's final decision will be published in September 2014.

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