

Handling of insurance claims for small and medium sized enterprises

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

The assessment explains that, following a review, the FCA has changed the regulations on the handling of insurance claims for SMEs. The review concluded that firms should assess their performance against existing requirements but also introduced two specific additional requirements. Specifically, firms were required to look at providing more proactive communication on the progress of SME claims and putting in place processes to capture feedback on how SME claimants are treated when submitting a claim.

Impacts of the measure

The assessment explains that 36 commercial insurance firms are affected by the change. The FCA estimates that three people per firm need to read the 6,060 word report. Based on average reading speeds, this is estimated to take one hour and ten minutes at an overall one-off cost of £6,000. These firms would then undertake a gap analysis to compare the review's recommendations against firms' actual processes and procedures, at an overall estimated cost of £28,000 to the 36 firms. With regard to the additional requirements, the FCA engaged with a selection of firms to obtain details of the costs involved. Costs identified by the firms related to capturing claimants' feedback and monitoring their experience as claims are processed. The two elements together, firms estimated, lead to one-off familiarisation costs of £2.34 million with ongoing costs totalling £2.01 million per year. The FCA briefly explains that the aim of the measure is beneficial, albeit indirectly, to SMEs more widely. The FCA argues that – as the changes were put in place in 2015 - it would be disproportionate to collect more detailed information retrospectively.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £2.3 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

The FCA has provided sufficient detail of the engagement with a sample of the 36 firms affected to allow the RPC to validate this measure. The assessments's coverage of benefits to the SME sector is extremely brief.

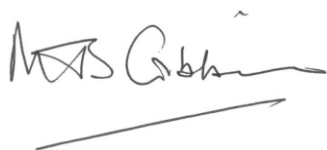
The regulator should have provided further assessment of these benefits, particularly as benefits to SME customers from requirements on insurance companies to provide better guidance, could be direct. The RPC notes, however, that the bulk of the costs to business come from the on-going requirement to "capture claimants' feedback and monitoring their experience". As the benefits flowing from this would be indirect, the RPC can accept the proportionality argument put forward in revisiting the estimates. However, the FCA must take note of this in future assessments and ensure both costs and benefits are sufficiently covered to enable the RPC to validate the EANDCB.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£2.3 million
Business net present value	-£19.94 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated ¹	£2.3 million
Business Impact Target (BIT) Score ¹	£11.5 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: Domestic
RPC reference number: RPC17-FCA-4041(1)
Date of implementation: May 2015
