FSA factsheet for

Insurance brokers

FSA
Financial Services Authority

Advised and non-advised sales

Is this factsheet for you?

- general insurance brokers;
- motor traders and other firms where selling general insurance is incidental to their main business; and
- mortgage advisers and financial advisers that sell general insurance products.

It explains:

- what an advised sale is;
- what a non-advised sale is;
- why correctly describing and delivering the level of service you provide protects your business and ensures customers are treated fairly; and
- the information on advised and non-advised sales that you need to provide to your customers.

In this factsheet:

Background

It is important your customers are left in no doubt about the level of service they receive when you sell them a general insurance product. They need to know whether you have given them advice or just information.

It is important therefore that you give your customer clear information both before and after the sale. You should inform them about the level of service you offer in your status disclosure document and your demands and needs statement should be a clear and factual account of what was discussed. You need to make sure the information you hand out is accurate at all times, and your firm should monitor this on a regular basis. A customer that receives advice should not receive a statement with conflicting information.

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What is an advised and a non-advised sale?

Giving advice

You give advice when you make a personal recommendation to the customer and in doing so you are required to explain why the particular product and/or provider would meet his or her demands and needs. This will be specific and individual advice to the customer and should not be generic.

Selling on a non-advised basis

A non-advised sale is when no personal recommendation is made to the customer. The customer must, however, still receive sufficient information on the product to enable them to make an informed decision as to whether it meets their own demands and needs.

Examples of non-advised sales could be where:

- the customer decides or knows the specific product they want – this could be in a similar way to an 'execution only' sale of an investment product; or
- the firm offers information on a range of products for the customer to make their own informed decision.

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The pitfalls to avoid

Firms can easily confuse customers by inadvertently providing advice when they have said they are making a non-advised sale, or vice versa.

For a non-advised sale this can occur when the customer asks the adviser: "What do you think? Which one is best? Which product would you choose? Do you think I should go for this one?" Faced with these questions, the person making the sale should confirm to the customer that the decision is theirs and that he/she cannot provide any advice. They should not answer these questions as this would be providing advice.

Any firm providing advice when they don't have the appropriate permission is acting outside their scope of permission and is therefore not meeting our requirements.

On the other hand firms providing advice must provide the customer with an actual recommendation specifically tailored to their needs. Providing a demands and needs statement that appears to the customer like a generic statement with no tailored recommendation does not constitute a proper advised sale.

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Protecting you and your firm

If a customer wants to make a claim on their insurance policy in the future and they discover it is not suitable for their needs they may wish to complain to the firm that sold the policy.

If the sale was made without advice, the firm that sold the product should be able to demonstrate through their records that the customer selected the product without any specific recommendation.

If the sale was made with advice, the firm that sold the product should be able to demonstrate through their records the reasons why the contract they recommended suited the customer's demands and needs at the time, and that this was made clear to the customer at the point of sale.

Demands and needs statements

When you arrange for a customer to enter into a non-investment insurance contract (including at renewal), you should issue a demands and needs statement to your customer. The statement should:

- set out what the customer wants from the product (their demands and needs);
- confirm whether you personally recommended the contract;
- where a personal recommendation is made, it should explain the reasons for the recommendation;
- if no advice is being given, this should be clearly stated on the statement with a generic statement confirming what the product selected will offer the customer; and
- the document should clearly reflect what was discussed.

It is important not to overcomplicate the letter or statement. Whatever level of service you offer your customers, your documentation should be in plain language and clearly explain the level of service you are providing.

The customer should be provided with *information that enables* them to understand:

- the type of product they have bought;
- whether they have received advice or are basing their purchase solely on their own interpretation of the information with which they have been provided; and
- whether their individual needs and circumstances have been taken into account.

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