Homeserve Fined £30 Million For Widespread Failings

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The Financial Conduct Authority (FCA) has issued its largest ever retail fine of £30,647,400 to HomeServe Membership Limited (HomeServe). The FCA found that HomeServe had serious, systemic and long running failings, extending across many key aspects of its business. In particular, during the period January 2005 to October 2011 it mis-sold insurance policies, failed to investigate complaints adequately, its Board was insufficiently engaged with compliance matters and its senior management were reluctant to address risks to customers if there was a cost implication involved.

HomeServe is an insurance intermediary, which sells home emergency and repairs insurance cover. Following a rapid expansion in the growth of its business, HomeServe developed a profit driven culture where profit targets were met by taking advantage of existing customers in pursuit of sales.

HomeServe has accepted that it needed to restore its customer focus and move away from a culture of putting profits before treating customers fairly. To date, HomeServe has paid approximately £12.9 million to affected customers in redress and is expected to pay a total of £16.8 million. The FCA has an objective to protect consumers and the changes made by HomeServe since the investigation will help ensure their customers are treated better in future.

Tracey McDermott, the FCA's director of enforcement and financial crime, said:

"This is a serious case, one that has warranted our largest retail conduct fine and generated a sizeable bill for consumer redress. HomeServe is another example of a firm that has acted without proper regard for its customers over a long period of time. HomeServe promises to provide customers with peace of mind when things go wrong. In fact the firm's culture, controls and remuneration structures meant that staff were focussed on quantity not quality and there were customers that paid the price for that.

"Firms must put the interests of customers at the heart of their business if we are to restore trust and confidence in financial services. True change in the culture within the financial services industry will only be achieved when firms and their management accept and deliver on their responsibility to ensure that customers are treated fairly."

The FCA found that HomeServe breached Principles 3, 6 and 7 of the FCA's Principles of Business. It breached Principle 3 by failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. In particular HomeServe failed:

- From February 2008 to October 2011, to take adequate steps to address compliance issues, for example, by failing to review and react to compliance monitoring reports that raised serious concerns such as mis-selling;
- From January 2008 to October 2011, to ensure that its senior management undertook adequate regulatory training, which led to a lack of regulatory knowledge and a failure adequately to identify and address issues that created a risk that customers may not be treated fairly;
- From January 2005 to October 2011, to identify and address inappropriate bias within the remuneration structure for the sales teams, which incentivised staff to increase the volume of products sold, irrespective of the customer's need for the product;
- From November 2008 to October 2011, to identify and address inappropriate bias within the remuneration structure for the complaint handling teams, which incentivised staff to close as many complaints as possible, meaning that there was a risk that complaints were not handled fairly and that customers did not receive appropriate redress; and
- From January 2005 to October 2011, to have in place adequate IT software and carry out effective tests on its IT systems, which resulted in some customers being overcharged and being charged for duplicate cover that they did not need.

The FCA also found that, from January 2010 to April 2011, HomeServe breached Principle 6 by failing to pay due regard to the interests of its customers and treat them fairly with regard to complaints handling. HomeServe failed to investigate and resolve certain customer complaints fairly and failed always to offer appropriate redress, for example, for the full cost of having to call out an independent engineer to deal with a plumbing emergency which HomeServe should have resolved.

HomeServe also breached Principle 7 by failing, from November 2006 to October 2011, to pay due regard to the information needs of its clients and communicate information to them in a way which was clear, fair and not misleading when conducting telephone sales. HomeServe mis-sold two of its insurance

policies to 69,000 customers by failing to explain the comparative price and coverage.

The FCA considers that the failings were particularly serious given that a significant proportion of its customers were of retirement age and therefore more vulnerable. HomeServe has been contacting potentially affected customers to provide redress where appropriate. This customer contact exercise is on-going.

HomeServe agreed to settle at an early stage of the investigation and therefore qualified for a 30% discount under the FCA's executive settlement procedures. Were it not for this discount the fine would have been £43,782,058.

-Ends-

Notes to Editors:

1. The Final Notice can be found here.

2. On the 1 April 2013 the Financial Conduct Authority (FCA) became responsible for the conduct supervision of all regulated financial firms and the prudential supervision of those not supervised by the Prudential Regulation Authority (PRA).

3. The FCA has an overarching strategic objective of ensuring the relevant markets function well. To support this it has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

4. Find out more information about the FCA, as well as how it is different to the PRA.

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