



Response to the Public Consultation on the Review of Differential Pricing in the Private Home and Car Insurance Markets

Central Bank of Ireland

22 October 2021



Coimisiún um
Iomaíocht agus
Cosaint Tomhaltóirí

Competition and
Consumer Protection
Commission

Introduction

The Competition and Consumer Protection Commission (CCPC) welcomes the opportunity to respond to the Central Bank of Ireland's (CBI) public consultation on strengthening the consumer protection framework arising from the findings contained in the final report of the Review of Differential Pricing in the Home and Car Insurance Markets (the "Review"). From a consumer welfare perspective, it is noteworthy the Review provides a quantitative value on how consumers are being impacted by pricing practices such as differential pricing. The Review provides important information on the impact on consumers of the practice of price walking and the higher premiums on average faced by consumers with longer tenures.

The CCPC recognises that the proposals being consulted on target pricing practices which can be detrimental to consumers, and are relevant to a wide number of competition and consumer protection considerations. The proposals to restrict price walking¹ for renewing consumers are welcome, as the CBI's evidence demonstrates that this is an area of consumer detriment. While these measures are intended to address detriment arising from consumer loyalty, it is noted that the proposals also provide a continuing basis for insurers to offer reduced deals for new consumers, and for consumers to negotiate on price and coverage. This will give consumers who are actively monitoring the market the opportunity to switch or negotiate to obtain better deals, and for existing insurers and new entrants to the market to grow market share through making offers on price, while also adding protection for less engaged consumers.

While the CCPC welcomes the broad aims of the proposals as outlined above, it has some specific observations about how the proposals will be implemented and supported by changes to the Consumer Protection Code (CPC), particularly concerning vulnerable consumers and the future development of technology in the market. This is informed by an ongoing project on pricing practices across a variety of markets, including home and motor insurance, being undertaken by the CCPC.

¹ Where customers are charged higher premiums relative to the expected costs the longer they remain with an insurance provider.

Price Walking

The CCPC notes the CBI's finding in the Review that price walking may lead to unfair outcomes for consumers, particularly where consumers may not be aware of the practice and where it has not been applied in a transparent way. Market research conducted by the CCPC in 2021 indicates relatively high levels of switching in the home and car insurance markets. This level of consumer engagement may support the finding of the Review, that consumers must switch in order to avoid price walking. As such, older consumers may be disproportionately affected by pricing practices, such as price walking, given that they are less likely to switch than younger cohorts.

The CCPC welcomes the proposals to ban price walking in the home and car insurance markets. The proposals should ensure that consumers who are loyal to an insurance provider will not be subject to a loyalty penalty if they decide to remain with a particular provider, while also ensuring that there is an active market for switching so as to enable consumers to avail of new business discounts. In this way the contestability of the market should be retained. More generally, if these proposals are introduced, it will be important to monitor the impact on switching in the insurance market. It may lead to less switching given the intention that consumers will not be charged a premium higher than if they were a year one renewal customer, and the loyalty penalty will no longer negatively impact on consumers. If the proposed measures are introduced, it would be valuable for the CBI to carry out projections of the impact of market switching and market entry. This could be achieved by potentially using the APTP ratio² for new consumers that has been deployed in the Review.

The CCPC surveyed consumers regarding 12 different markets in 2021³, and found that engagement with home and motor insurance, in terms of searching for a better deal or switching, was relatively high, with most of those who were shopping around also approaching their current provider to negotiate. However, two of the age groups surveyed (45-55 and 65+) are overrepresented regarding non-switching in home and motor insurance markets. The market research also found that, compared to other markets

² Defined in the Review as 'the Actual Premium divided by the Technical Premium, where Technical Premium is a measure of the premium needed to cover the expected costs of the policy.'

³ The CCPC surveyed 1,850 consumers regarding the following commonly held consumer products: car insurance, home insurance, health insurance, broadband, landline, mobile, pay television, electricity, gas, current accounts, credit cards, and mortgages.

surveyed, the use of online methods of gaining information to support switching or shopping around is less common in motor and home insurance. Use of methods such as phone conversations with the provider, and communication with a broker, were at above average rates. Compared to other commonly held consumer products, consumers will be more likely to interact with providers and conduct their search through offline methods. The CCPC suggests that the CBI take account of this consumer behaviour through requirements for the standards and user friendliness of information as part of the revised CPC, and improved training for staff, which we note will be considered as part of the upcoming review of the CPC.

We also note from the Review that the level of training focused on interacting with vulnerable consumers varies across firms. Future behavioural work carried out by the CBI could take account of what information will be a priority for consumers to have under the revised CPC and how this would be received and processed through different communication means. Another area for further examination could focus on the shift in payments habits of consumers who do not also engage with their insurer online. It would appear that these consumers seem to fall outside the terms of the current proposal.

The Review notes that the Technical Premium decreases as consumer loyalty - or tenure - increases due to lower average risk at longer tenures and that it remains flat over tenures for home insurance. However, as the CBI survey work reflects, the consumer does not perceive a flat premium in this scenario as an effective 'price increase', which then may bias their decision against switching provider or shopping around. In the results of the CCPC's consumer survey, it was apparent that those who had not switched home or motor insurance in the past two years were disproportionately (compared to the other 10 markets) of the view that they already had the best price and/or package available. This may be another indication that consumers do not fully recognise some pricing practices. It may be beneficial to considering this matter in any future evaluation of the impact of changes made to the CPC as a result of the Review. This could be carried out in tandem with a comprehensive review of how changes have affected the balance of overpayment between different consumer groups and lengths of tenure, and where pricing practices may still be having a negative impact.

The ban on price walking is also a welcome development for consumers in the older age groups. As mentioned above, two of the older age groups (45-55 and 65+) are

overrepresented among non-switchers in the home and car insurance markets. This may make these consumers more vulnerable to pricing practices. We also note from the findings of the Review that older consumers tend to have longer tenures which may have led to price walking having had a disproportionate impact on this cohort of consumers.

The CCPC notes that prohibiting price walking may also have unintended consequences including a potential impact on competition in the home and car insurance markets. As noted above, the CCPC's consumer research indicates that the most common reason for not switching is that consumers already believe that they have the best deal available. It would be worth examining whether the proposal may further reduce incentives for consumers to engage with the market. The possibility of technological advances providing insurers with an ability to increase the range and accuracy of rating factors, and to increase the potential for individualised pricing has been recognised⁴. It would be valuable to evaluate the amendments to the CPC in light of future changes to these markets resulting from the implementation of an Open Finance approach⁵.

We note that the Financial Conduct Authority (FCA) has amended its rules in the United Kingdom to make it clear that both cash and cash-equivalent incentives that are offered to new customers must be reflected in the 'Equivalent New Business Price'. This is not an aspect that has been included in the CBI's proposals. This could shift the focus of price walking so that instead of consumers projected to walk away from an insurer being offered cheaper prices than those who stay, those consumers are now offered other incentives which have a definite cash value. Particularly in the field of insurance, it is important to also consider technology relevant to the risks that the insurance is being purchased to cover, that may be offered. Examples include monitoring systems in the context of home insurance and motor insurance. These could even be used as a 'technical' reason to charge less or offer preferential terms in future. These non-price factors could be considered in future reviews of pricing practices in insurance markets.

The proposal to ban price walking could also lead to consumers with long tenures being impacted in other ways such as by a gradual erosion of the features associated with their

⁴ https://www.eiopa.europa.eu/media/news/eiopa-reviews-use-of-big-data-analytics-motor-and-health-insurance_en

⁵ The CCPC understands that the European Commission intends to consult on an Open Finance framework in 2022 which would set out a balanced regulatory framework for the sharing of data on financial products to support the financial sector in fully embracing data-driven finance.

insurance package, with influencing this situation still being dependent on the consumer engaging with the wider market, or proactively contacting their insurer or broker to negotiate.

Pricing Practices – Annual Review and Record Keeping

The CCPC welcomes the CBI's proposals to require insurance providers to carry out an annual review of their pricing processes and policies to ensure that they comply with the new pricing provisions. This measure will help to ensure that there is appropriate oversight and control of pricing matters within insurance providers and that insurance providers continue to maintain a focus on pricing practices and developing a consumer-focused culture in this regard.

It would be beneficial for consumers if the information provided to the CBI by insurers as part of the annual review and relevant information could be used to update the general public on the implementation of these measures. This would serve as a mechanism to highlight any deficiencies identified and actions taken to rectify them. The information obtained as part of the annual review could also form the basis for potential follow-up actions to the Review to assess whether the provisions are being implemented and complied with by insurers. In this regard, it could be helpful for the CBI to establish how it will evaluate the success of the measures as a whole. For example, consideration could be given to establishing a target 'fairer' APTP ratio/timescale in order to achieve this before the measures are reviewed.

There is also scope to potentially publish some of the data on firms' pricing practices as a means of increasing transparency and consumer trust.

Automatic Renewal

The CCPC welcomes the proposals on automatic renewal as the new requirements will provide consumers with better information and also act as a prompt for consumers to shop around and switch if they wish. We note that automatic renewal can be of benefit to consumers as it assists in mitigating against the risk of a consumer not renewing their policy in time. However, the practice of automatic renewal can be a barrier to switching as it may discourage consumers from engaging with the insurance market which could lead to them not shopping around or switching. Based on the CBI's findings, not engaging

with the market in this way would increase the likelihood of negative outcomes for the consumer.

We note the CBI's finding that 84% of private car and 80% of home insurance customers stated that they allowed their policy to automatically renew despite being aware of other options available. The fact that consumers will now have to provide written consent prior to entry into an automatic renewal process could encourage consumers to be more engaged in the market and ensure that an insurance policy does not automatically renew without explicit consent. The CCPC's market research found that consumers' knowledge of the frequency by which they received a bill was slightly lower for home insurance than in other markets. Future behavioural work carried out by the CBI could examine the degree of consumer comprehension of information provided at renewal, and any policy implications arising.

The CCPC notes the new information requirements to be provided to consumers in advance of the renewal date. This will enable consumers to make informed decisions. Given the CCPC's specific function to promote the interests of consumers by providing information in relation to financial services⁶, we particularly welcome the inclusion of the relevant section of the CCPC's website relating to getting insurance quotes. This webpage provides consumers with information on shopping around, information that firms must provide to consumers, things to consider as a consumer and things to do when buying insurance. The webpage also enables consumers to download motor insurance and home insurance checklists to assist them in keeping track of their quotes and other key information.

It is welcome that the proposal will apply to the automatic renewal of all personal non-life insurance products as this will have benefits for consumers across a range of insurance products and encourage engagement across the market.

ENDS

⁶ S.10 (3)(J)(i) Competition and Consumer Protection Act 2014

