FINANCIAL CONDUCT AUTHORITY

Evaluation Paper 19/1: An evaluation of our general insurance renewal transparency intervention

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Contents

Executive summary

Evaluating the impact of our general insurance renewal transparency intervention

Evaluation is part of our Mission's decision-making framework. Testing the effectiveness of our remedies helps us make better decisions.

We committed to evaluating the impact of our rules to increase transparency and engagement at renewal in general insurance markets when we announced our market study on general insurance pricing practices.

We introduced measures in 2016 to deal with concerns of poor consumer outcomes at renewal in general insurance markets

We made new rules and guidance in August 2016 which required firms to make changes to their general insurance renewal communications by 1 April 2017. These rules aimed to deal with concerns that consumers defaulted to renew products that were not good value or had become unsuitable for their changing needs. We based our proposals on findings from large-scale randomised controlled trials (RCTs). These findings suggested improved transparency could lead to more consumers negotiating and switching at renewal.

Under the 'renewal requirements', firms proposing the renewal of a general insurance product to retail customers (consumers) must:

- show the premium to be paid on renewal and the previous year's premium at each renewal (ie on the renewal notice)
- include text on the renewal notice encouraging consumers to check that the level of cover offered is appropriate against their needs and indicating that, if they wish, they can compare the prices and levels of cover from other providers
- include an extra prescribed message encouraging them to shop around where the proposal relates to a fourth or subsequent renewal

We envisaged that our intervention would:

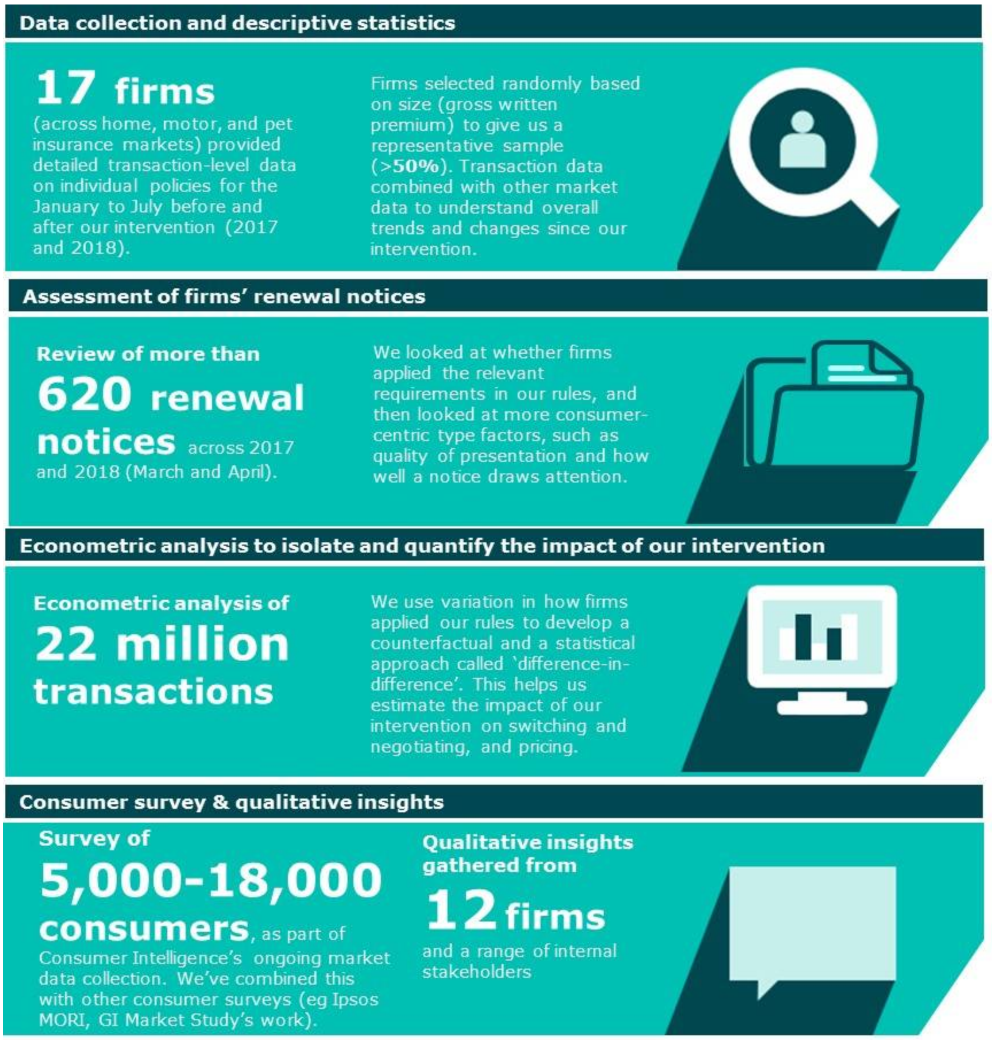
- prompt consumers to pay greater attention at renewal, engage, shop around, and make better-informed decisions
- improve firms' treatment of existing customers by focusing on, for example, pricing strategies and renewal practices and, as a result, improve consumer outcomes
- promote effective competition by encouraging consumers to shop around

Evaluation relies on a range of evidence

This evaluation follows our framework for post-intervention impact evaluations and our 2018 pilot evaluations. We focus on quantifying the impact of the intervention. We do this with reference to our pre-intervention expectations, which are, in part, based on the cost benefit analysis (CBA) in the Consultation Paper for the rules (CP 15/41), as well as considering other potential effects (eg unintended consequences).

Figure 1 summarises our approach to evaluating the impact of our intervention in the home, motor and pet insurance markets.

Figure 1: Our evaluation approach



Source: FCA
Note: We looked at renewal notices from 21 firms and collected transaction data from 17 firms.

Our intervention appears to have had a positive impact on consumers

We summarise our main findings from the evaluation in Table 1 and Figure 2. We estimate consumer savings of between £39m and £330m a year (with an average estimate of £185m a year) due to our intervention, set against costs of around £4m a year. We believe these benefits have arisen due to 2 main, inter-related effects, which differ in size between home, motor and pet insurance markets:

- Firms' increased focus on renewal practices, such that premiums offered at renewal for home and motor insurance have not increased by as much as they would have done without our intervention.

- Consumers being prompted to make better-informed decisions through engaging and shopping around, leading to changes in consumers negotiating or switching at renewal (increasing in motor and pet insurance and decreasing in home insurance).

Table 1: A summary of our evaluation's findings

	Findings
Improving consumer outcomes through firms' increased focus on renewal practices	▪ We estimate that **home** insurance premium increases at renewal, compared to last year's premium paid, are £2-£9 lower, on average, than they would have been without our intervention. The increase was, on average, £16 per policy, rather than £18-£25 (shown below in Figure 3). The impact is 1-3% of the average premium offered (around £300) and 1-5% of the average margin. ▪ We estimate a similar impact in **motor** insurance, such that premium increases at renewal, compared to last year's premium paid, are between £1-£6 per policy lower than if we had not intervened. The average increase was £57, as opposed to £58-£63. The impact is 0-1% of the average premium offered (around £500) and 1-3% of the average margin. ▪ In **pet** insurance, the impact is different - we estimate that premium increases at renewal, compared to last year's premium paid, are £4 higher, on average, than they would have been without our intervention (ie £71 rather than £67). This is 1% of the average premium offered (around £430) and 2% of the average margin. It could be, for example, that firms predicted more consumer negotiating and switching. So, pre-emptively, firms might have raised the renewal offer to increase revenues from customers that don't switch or negotiate and to offset any losses from customers that do switch (either by moving provider or cancelling because the price was too high) or negotiate a better deal.
Prompting consumers to make better-informed decisions through engaging and shopping around	▪ Consumer survey data suggest that consumers are making more active decisions after our intervention. There has been a notable increase after our intervention in the proportion of consumers 'actively renewing' (ie shopping around). Ipsos MORI's consumer survey data show increases from 21% to 25%, and 27% to 30% in the **home** and **motor** insurance markets respectively. ▪ Other consumer survey data show an increase, after our intervention, in the percentage of consumers who stated that they shop around only to get price quotes to help negotiate with their current provider in **all markets** (2-8 percentage points increase).
Changes to the proportion of consumers negotiating or switching at renewal	▪ Based on our analysis, we estimate small increases (ie 1 percentage point) in the proportion of consumers negotiating or switching due to our intervention in the **motor** and **pet** insurance markets. ▪ In **home** insurance, it appears that fewer consumers are negotiating / switching because of our intervention. This might be explained by our impact on firms' reduced premium quotes at renewal. Our intervention may have also helped consumers better decide when it is worth spending their time to search, negotiate, and/or switch.
Costs of complying with our intervention	▪ One-off compliance costs (around £30m) appear to have been around 70% less than estimated in our CBA. This is partly due to lower than expected systems change costs from firms who provided us with data. ▪ Ongoing costs were in line with our CBA (around £4-5m a year).

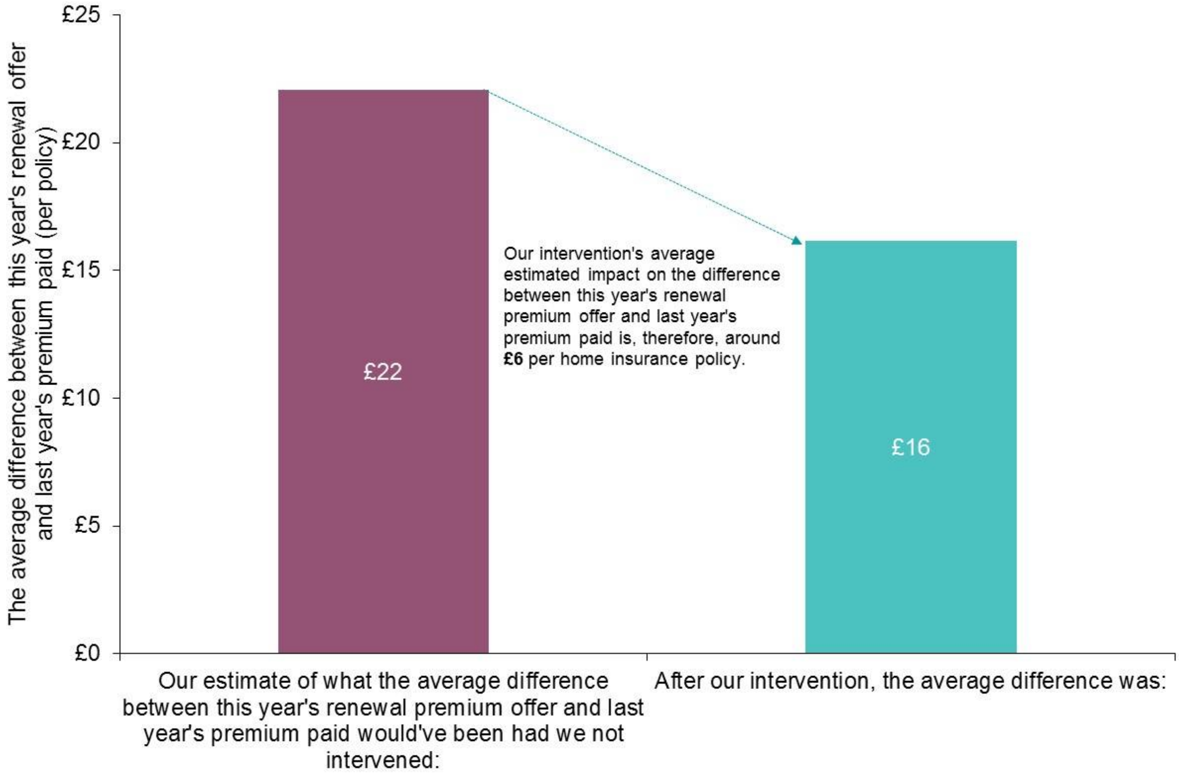
Source: FCA analysis of insurers' transaction-level data and consumer research from Ipsos MORI, Consumer Intelligence, and London Economics.

Figure 2: A summary of our intervention's main estimated impacts

	Home	Motor	Pet	Total
Change in the increase between this year's renewal premium offer and last year's premium paid (£ per policy)	£2 to £9 reduction in the increase (Figure 3 shows average of £6)[1]	£1 to £6 reduction in the increase	£4 greater increase	
Percentage point change on consumer switching or negotiating	-0.8 to -3.0 decrease	+1.3 to +1.7 increase	+1.2 increase	
Estimated impact on consumer savings - range (£m a year)	**-£5m to £154m**	**£51m to £182m**	**-£5m to -£7m**	**£39m to £330m**
Estimated impact on consumer savings – average (mean) (£m a year)	**£77m**	**£114m**	**-£6m**	**£185m**

Source: FCA analysis of insurers' transaction-level data
Note: Changes are relative to what would have happened had we not intervened

Figure 3: An illustration of our intervention's estimated impact on the average (mean) difference between this year's renewal premium offer and last year's premium paid for home insurance



Source: FCA analysis of insurers' transaction-level data.
Note: Monetary figures have not been adjusted for the effects of inflation (ie in nominal terms).

1 Figure 3 rounds the figures for presentational purposes. The £22 figure consists of two figures: £15.51 (the average difference between last year's premium and this year's offer before our intervention) and £6.56 (the estimated change to the average difference had we not intervened). The difference between the two bars is £5.90 (ie the sum of £15.51 and £6.56, minus £16.17, which is the figure on the right-hand side of the graph).

Lessons learned

We view evaluations as an opportunity to learn from previous interventions and to feed any insights into our current and future work.

The main lessons we learned from this evaluation are:

- In this specific case, firms' pricing response to the intervention (ie firms not increasing the renewal premium offers by as much as they might have done) is likely to have had a greater observed effect on outcomes than the impact on consumers' negotiating and switching. This dynamic effect from the intervention was not captured in our original CBA as it tends to be difficult to estimate these effects in advance.
- There may be good reason to be more prescriptive with our interventions when the presentation of information is important to the intervention's effectiveness. Our evaluation found that not all firms presented information in a way that would make it easy for consumers to compare the renewal offer with last year's premium (based on a review of 2017 and 2018 renewal notices).
- Our analysis shows that the intervention has had different effects in different markets. These differences reinforce the need to consider how trial evidence would apply, for example, when thinking about how to apply it across different markets:
  - Our quantitative work (ie the econometric analysis) in this evaluation has looked to remove the impact of other factors, beyond our intervention, that may have affected outcomes across markets since our intervention.
  - But, there are other aspects to consider when applying trial findings. In this case, the data we have collected for the evaluation showed notable differences in how consumers act in the pet insurance market when compared to the home and motor insurance markets. We note that a possible deterrent to switching for some pet insurance consumers is the lack of cover for pre-existing conditions. This, to some extent, ties consumers to their existing provider in a way that is unlike home and motor insurance policies.
  - The analysis also reinforces the need to consider how to account for dynamic effects from competition, which are not visible in trial settings.

1 Why we are evaluating this intervention

This section gives an overview of the general insurance renewal transparency intervention evaluated in this report and our reasons for evaluating it. We also set out the report's scope and structure.

We introduced measures to deal with concerns of poor consumer outcomes at insurance renewal

We consulted on rules and guidance for general insurance renewals in December 2015. These proposals aimed to deal with the concerns set out below in Table 1.1.

Table 1.1: Our concerns before our general insurance renewal transparency intervention

Concerns	Comments
Consumer engagement fell at renewal, and consumers were unlikely to make an informed decision at renewal	▪ Consumers usually paid attention to prices and shopped around when they first bought insurance from a firm. This placed pressure on firms to keep prices down and increase value. ▪ Consumers were less price sensitive and less engaged to shop around at renewal in subsequent years. ▪ Consumers underestimated the benefit of shopping around and overestimated the time it took to switch.
A lack of transparency and consumer engagement at renewal was not promoting competition	▪ Concerns about poor outcomes for renewing consumers focused on the high premiums consumers paid at renewal and a lack of transparency about price changes at renewal. ▪ Consumers were unlikely to be making an informed decision at renewal if they were not undertaking a comparison of their renewal offer with what they could get from competing firms. ▪ Insofar as they could predict this, firms could charge higher renewal premiums. Although not necessarily evidence of a lack of competition, higher premiums at renewal indicated that intense competition for new consumers was not protecting those who did not shop around at renewal.

Source: Consultation Paper 15/41 (CP 15/41), Occasional Paper 12 (OP 12).

We considered that these concerns led to consumers defaulting to renew products that were not good value or had become unsuitable for their changing needs. We were less concerned about consumers who engaged[2], had the information to make an informed decision and chose to remain with their provider.

2 We use the term 'engage' in this report to mean when consumers: read and consider the information in their renewal notice; search / shop around; negotiate; and/or switch insurance provider.

Our new rules and guidance, which applied from 1 April 2017, required firms proposing the renewal of a general insurance product to retail customers (consumers), in good time before the renewal, to:

1. show the premium to be paid on renewal and the last year's premium at each renewal (ie on the renewal notice; see Insurance Conduct of Business Sourcebook ICOBS 6.5.1R(3)(a)-(b))
2. include text on the renewal notice encouraging consumers to check that the level of cover offered is appropriate against their needs and indicating that, if they wish, they can compare the prices and levels of cover provided by other providers (ie that they are able to shop around)
3. include an extra prescribed message encouraging them to shop around where the proposal relates to a fourth or subsequent renewal

We based our proposals on findings from large-scale randomised controlled trials (RCTs). These findings suggested improved transparency would lead to more consumers negotiating and switching at renewal.[3] We estimated that the intervention would generate benefits to consumers of between £64m to £103m a year, which would be a transfer from firms' profits.[4]

Evaluating the impact of our intervention in the home, motor and pet insurance markets

Our Mission makes it clear that evaluation is a critical part of getting our interventions right. Finding out what impact past interventions have had helps develop a strong evidence base to guide our decisions.[5] These decisions can include which issues to prioritise and how best to intervene to tackle harm.

We have chosen to evaluate this intervention now because it helps:

- Inform potential remedies as part of the general insurance pricing practices market study (GI market study). Demand-side remedies, such as disclosure, can reduce harm (eg some consumers paying excessively high premiums) through consumers taking action and changing firms' behaviour (eg leading to a greater focus by firms on renewal pricing). Our work offers insights on the extent to which this type of remedy has changed consumer behaviour and consumer outcomes, and the extent to which the outcomes depend on consumers actually changing behaviour or, rather, on the likelihood that they might.

3 In those trials, we saw a 11%-18% uplift in combined negotiating and switching in the home insurance market from 18%-28% to 21%-31% (ie a 3.2 percentage point increase), and no motor insurance market impact. We applied the intervention to all general insurance markets (ie home, motor, pet, travel, and private medical). We expected to see an effect on switching/negotiating, similar to that seen in the home insurance trial, in all other markets except motor.

4 As we describe later in Table 2.1, this was our estimate after adjusting down the gains from negotiating and switching. Other benefits we noted (but were unable to quantify) were reduced search costs, increased transparency and more engaged consumers. The range was set against estimated costs. We estimated that: one-off compliance costs would be £133m; ongoing compliance costs would be £4m a year; and consumer shopping around costs would be £13m a year.

5 We note that: i) The Financial Services and Markets Act 2000 requires us to have regard to the FCA exercising its functions as transparently as possible when making policy; and ii) the principles for regulators under Legislative and Regulatory Reform Act refer to regulators being both transparent and accountable.

- Inform how prescriptive our rules should be. We have seen a variety of ways that firms disclose and present information at renewal.
- Enhance our understanding of how to apply trial results. We trialled our intervention in the home and motor insurance markets and applied the intervention to other insurance markets. We consider that it is valuable to evaluate the impact in the markets that we trialled the intervention (ie home and motor) along with impacts in another market where we didn't trial (ie pet insurance, which had annual gross written premiums of £1.2 billion in 2017).[6]

We aim to understand:

- The impact of the intervention in the home, motor and pet insurance markets.
- Whether the intervention met its objectives of addressing the concerns set out above.
- Whether our pre-intervention cost benefit analysis (CBA)[7] and RCTs captured the scale and direction of our intervention's impact accurately.

This report follows our finalised framework for post-intervention impact evaluations[8] and our 2018 pilot evaluations. We focus on the main expected changes after our intervention. We also consider whether there have been any unintended consequences from our intervention.

Report structure

We structure this report as follows:

- Section 2 sets out our approach for this evaluation.
- Section 3 summarises the findings of our renewal notice assessment, where we reviewed renewal notices to see how firms implemented[9] our rules.
- Section 4 covers the impact our intervention has had on how firms priced their renewal premium offers, and consumers' negotiating and switching. It also sets out our estimate of our intervention's impact on consumer savings against the costs of complying with our intervention.
- Section 5 concludes with the main lessons that we have learned from this evaluation.

We also detail our analyses further in the following Annexes:

- Our approach and findings from our renewal notice assessment (Annex 1).
- Our analysis of various consumer survey data and insights (Annex 2).
- Further details of our econometric analysis (Technical Annex).

6 We consider our intervention's impact in 3 of 5 markets. This balances being able to consider how our intervention has affected a range of markets while maintaining analytical focus and proportionate use of resources (FCA's and firms'). We did not select private medical or travel insurance because the characteristics of these products meant that a smaller proportion of policies in these markets fell within the scope of the rules (when compared to home, motor and pet insurance).

7 We refer to our pre-intervention work and expectations by reference to our CBA for brevity. In line with our framework, we do not re-run the CBA.

8 We refer to post-intervention impact evaluations, or ex post impact evaluations, as 'evaluations'.

9 We use 'apply' and 'implement' interchangeably in this evaluation and our annexes.

2 Our evaluation approach

This section sets out how we evaluate the intervention, including:

- how we expected our intervention to work
- the main expectations we test in this Evaluation Paper (EP)
- the methods and data we use to test these expectations

How we expected our intervention to work

We envisaged that our intervention would:

- prompt consumers to pay greater attention at renewal, engage, shop around, and, as a result, make better-informed decisions
- improve firms' treatment of existing customers by focusing on matters such as renewal pricing strategies and improving renewal practices and, as a result, improve consumer outcomes
- promote effective competition by encouraging consumers to shop around

Figure 2.1 below sets out a causal chain of our intervention. A causal chain, pathway, or logic model in this context describes the way that an intervention addresses the identified market failure and reduces harm, leading to improvements in the ultimate market and consumer outcomes.

We have developed the evaluation approach, set out in this section, with reference to Figure 2.1. Figure 2.1 shows how our 2 measures (disclosure of last year's premium and other mandatory disclosures) were expected to achieve the intervention's intended objectives.

We test our intervention against our expectations

To see how well our intervention has worked, we begin by testing outcomes against our expectations set out in the causal chain at Figure 2.1.

We assess how well our intervention has worked relative to what would have happened without it. This is our counterfactual. For many reasons, it can be hard to identify a clear counterfactual so we highlight these instances throughout the report. In these cases, we offer reasons why we cannot establish a clear counterfactual, and an analysis of how the market has changed over time (ie a non-causal analysis).

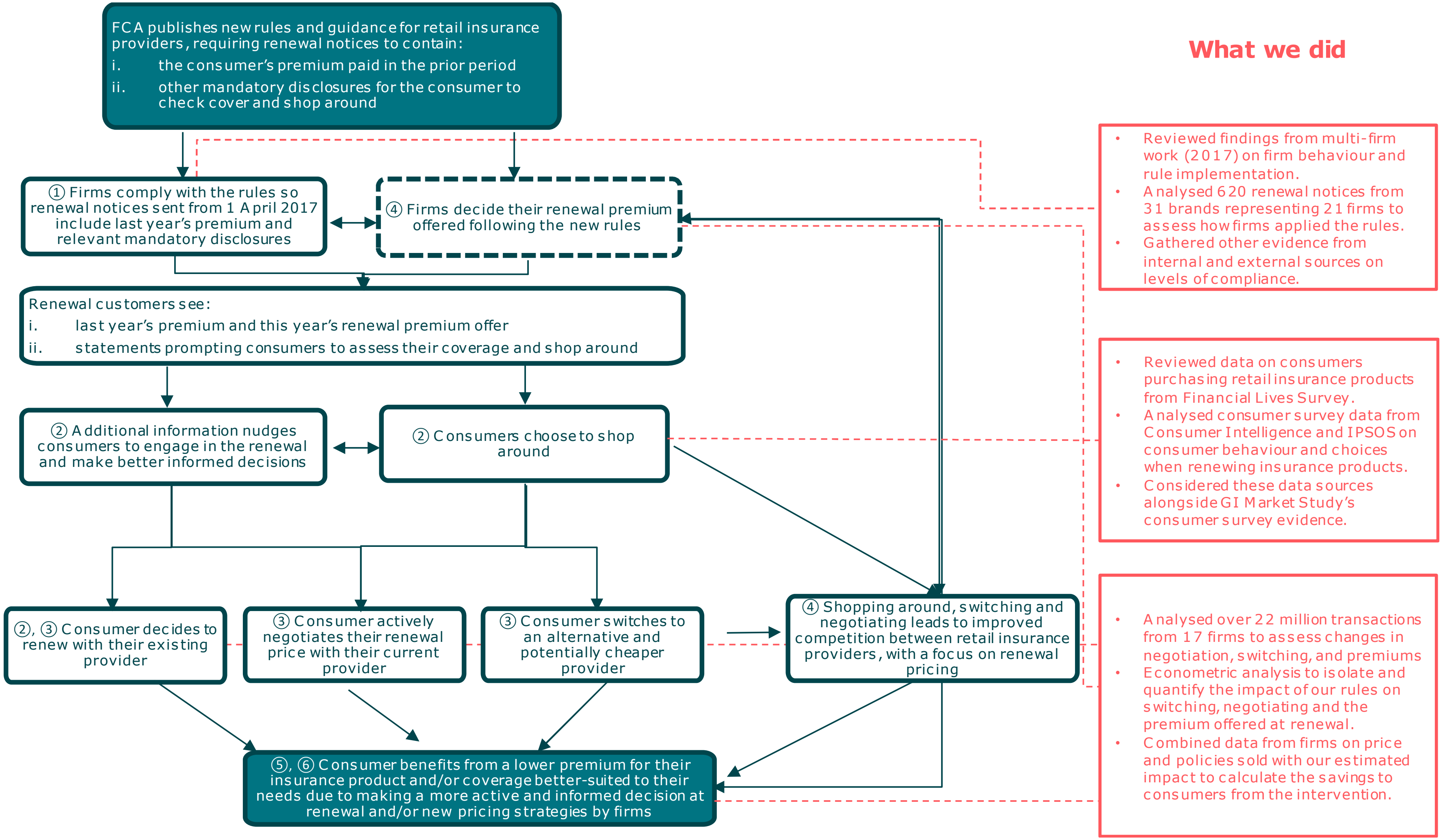
Having considered the effects above, we assess the benefits of our intervention and compare them to the costs.

There are many other ways to measure the impact of an intervention beyond expressing the costs and benefits in monetary terms. A few measurable metrics give a good indication of whether our expectations were met. These include: changes in the proportion of consumers shopping around, negotiating, and switching; premiums (in absolute terms, relative to the expected claims costs to firms and compared to premiums paid by consumers in the previous year); and consumers' views. Throughout the report, we present what has happened to these metrics. We do this to show whether and, where possible, to what extent observed changes after our intervention are, in our view, positive or negative outcomes.

Table 2.1 sets out:

- questions that, when answered, will help understand the extent to which our intervention has worked
- our expectation (informed, where relevant, by the CBA)
- where, in this report, we present findings from our analysis to answer a question

Figure 2.1: Causal chain of our general insurance renewal transparency intervention



Source: FCA
Note: The numbers in the causal chain correspond to the questions to answer in Table 2.1. Dashed border represents uncertainty of effect when intervening.

Table 2.1: Questions to answer and expectations to test

#	Question to answer	Expectation from our policy intervention and CBA	Report section where we present findings
1	Did firms comply with our rules?	We expect firms to comply with our rules. Following implementation, we acted on instances where we found firms had not fully complied with them. We published our findings from multi-firm work in October 2017. We expected this to improve overall compliance in the market.	Annex 1, summarised in Section 3
2	Have consumers been prompted to make a more active decision at renewal?	We expected that our intervention would lead to consumers being more engaged and making more informed decisions about whether to renew their insurance policy. Even if a consumer doesn't take further action (eg negotiate or switch), it is still a positive outcome if they are making a more informed decision, notwithstanding the cost of doing so (eg the time taken to make a more informed decision). We did not quantify this in our pre-intervention work. However, OP 12 and CP 15/41 noted that more motor insurance consumers who had last year's premium on the renewal notice said that they shopped around, than those without it (73% vs 67% respectively).	Section 4
3	Has the proportion of consumers negotiating or switching at renewal increased?	The RCT showed a 11-18% increase in the proportion of home insurance consumers negotiating and switching (3.2 percentage point increase). This was split as follows: 11.9-18.5% increase in switching (2.3 percentage points); 10.5-16.4% increase in negotiating (0.9 percentage points). In our 2015 CBA, we applied our home insurance trial results to medical, travel and pet insurance markets (with an adjustment, see Question 4 below). We expected no negotiating or switching impact in the motor insurance market (because we did not find a statistically significant effect on consumer behaviour in our RCTs).	Section 4

4	Has our intervention caused changes in how firms price premiums at renewal?	Consumer learning, aided by our intervention, may lead to sharp premium increases at renewal becoming less prevalent in the market. We incorporated this into our 2015 CBA estimates by adjusting down the monetary gains from more consumers negotiating and switching by 25%. This would imply that our intervention could affect how firms price their premiums at renewal (ie the renewal offer). However, in the 2015 CBA, we stated that we expected any impact on premiums would be limited.	Section 4
5	How much did consumers save due to our intervention?	We expected that those consumers who negotiated or switched at renewal due to our intervention would pay less for similar levels of coverage. This could happen either through paying a lower price to: an existing provider (ie negotiating down an initial renewal quote); or a new provider (ie switching and paying the new business price). We estimated benefits of £49m to £89m a year[10] for these 3 markets, which was a transfer from firms' profits. Other benefits we noted (but not quantified) were reduced search costs, increased transparency and more engaged consumers.	Section 4
6	What were the costs of complying with the intervention?	Our pre-intervention CBA estimated: one-off compliance costs of £133m and ongoing compliance costs of £4m a year. We have scaled[11] these back to apply to markets of focus in this evaluation, with one-off compliance costs of £108m and ongoing compliance costs of £3m a year.	Section 4

Source: FCA

10 This range is for the markets we analyse in this evaluation only. That is, we reduce the estimated range in CP 15/41 (Table 1) of £64m to £103.4m by the sum of the estimated benefits for medical (£11.7m) and travel (£3.1m).

11 We used Mintel data published in 2018 for the 2017 estimates of gross written premiums for the 5 markets that we highlighted in CP 15/41. We then scaled down costs by the percentage of gross written premiums for the 3 markets of focus in this evaluation compared to all 5 markets. This approach is our best estimate given data availability. We are aware that there are other approaches that could be used.

We use various methods and data to test our expectations

The rest of this section sets out the different methods and data used to test the expectations in our causal chain at Figure 2.1.

Table 2.2 summarises the analytical methods we used for each expectation (ticks indicate method used). We explain these methods in further detail below. We also use qualitative insights from stakeholder (eg firms) engagement throughout. This helps us understand the impact of our intervention from various perspectives and provides a valuable sense-check of our data analysis.

Table 2.2: How we deal with each expectation

Expectation	a) Assessment of firms' renewal notices	b) Descriptive statistical analysis	c) Econometric analysis of firms' data[12]	d) Insights from consumers' views
1: Firms comply with our intervention	✓			
2: Consumers make more active decisions at renewal	✓	✓	✓	
3: Negotiating and switching at renewal increases		✓		✓
4: Firms changes how they price renewal offers	✓	✓	✓	
5: Consumers save because of our intervention	✓	✓	✓	
6: Firms incur costs from complying		✓		

Source: FCA

a) Assessment of firms' renewal notices

We assessed a random sample of renewal notices in each market. We looked at various aspects of the notice, including:

- how clearly the information was set out and whether the notice drew attention to the key information
- how easy it would be for consumers to compare the renewal offer to last year's premium
- the accuracy of the premium data included

By doing this, we were able to understand the extent to which clear information disclosure has affected consumer behaviour (eg shopping around, negotiating, and switching). This

12 This includes descriptive statistical (ie non-causal) data analysis and econometric analysis. We do this to diagnose the relationship between a data series of interest (eg consumer switching) and a range of factors that affect the data series at the same time. This approach helps us to isolate the underlying correlation between many variables and the one of interest.

assessment sheds light on how firms applied, in practice, an intervention that we trialled ahead of making it a rule. Our method for doing this is summarised in Section 3 and detailed in Annex 1.

b) Descriptive statistical analysis

Descriptive statistics provide context on what has happened in the market. They set out overall trends and changes after our intervention. We present these data using summary statistics, charts, and tables in the report.[13]

Our Technical Annex details the data we've collected and how we've used them. Our data include transaction-level and monthly data from 28 insurance brands (17 firms) across the home, motor and pet insurance markets. These brands cover more than 50% of each insurance market (based on gross written premium). The transaction-level data cover the periods of January to June 2017 and January to June 2018.

c) Econometric analysis of firms' data

Econometric analysis helps us diagnose whether there is evidence that our intervention has led to changes in the market.

We use a specific type of regression model to help identify our intervention's causal impact on measures of interest. In this case, these measures include negotiating, switching, and premiums offered to consumers at renewal.

A difference-in-difference ('DiD') model compares how trends in outcomes change between 'treated' (ie affected by an intervention) and 'untreated' (ie unaffected by an intervention) groups over a period relevant to the intervention. Unobserved factors might affect the outcome. But, if they do not affect trends in the outcome, then the trends for both groups in the absence of a policy will be the same. DiD is a well-known, often-used econometric approach when evaluating policy interventions.[14]

We use variation in the clarity and quality of firms' renewal notices to distinguish between 'treated' and 'untreated' groups. This allows us to, for example, compare the extent to which consumers take action (ie switch provider or negotiate with their existing one) based on how firms applied our intervention.

d) Insights from consumers' views

We have used time series data capturing consumers' views from Consumer Intelligence commissioned for this evaluation (with the technical report in Annex 4), and Ipsos MORI (Financial Research Survey). We have also considered, where relevant, London Economics' consumer survey findings for the GI market study and our Financial Lives Survey. We summarise the various relevant insights in Annex 2.

13 When doing this, we present any currency-based data (eg prices) without adjusting for the effects of inflation (ie nominal terms). We have done this because the premium data presented to consumers (ie on the renewal notice) following our intervention are not adjusted for the effects of inflation.

14 'Untreated' is also called 'control'. Examples of DiD approaches include: Ashenfelter & Card, 1985, Using the Longitudinal Structure of Earnings to Estimate the Effect of Training Programs; Meyer, Viscusi & Durbin, 1990, Workers' Compensation and Injury Duration: Evidence from a Natural Experiment; and Card, 1994, Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania.

3 Results: Our assessment of firms' renewal notices

Key findings

We reviewed firms' renewal notices to understand whether, and how, they implemented our rules in practice. We found that firms included the required information set out in our rules. However, we also found that there was significant variation in how firms did this (between firms and over time). The differing presentation quality of last year's premium, in particular, may have influenced how consumers interacted with the renewal notice and their actions thereafter.

This section summarises our analysis of firms' renewal notices in the home, motor and pet insurance markets. First, we set out the reasons for reviewing firms' renewal notices. We then summarise the findings of our work, which are set out, in full, in Annex 1.

Reviewing firms' renewal notices helps us understand how they have applied our intervention – and the potential differences in doing so

The first stage in Figure 2.1 is to consider the evidence on whether firms have, in all or most part, complied with our intervention (process evaluation). Evidence on compliance is important for supporting our causal analysis for the following reasons:

1. No knowledge about compliance: If we had no information on compliance and our intervention appeared to have had no impact, it might be that nobody complied with our intervention. Our conclusion about the intervention's inefficacy would then be based on an incomplete evidence base and could be wrong.
2. Evidence of widespread non-compliance: Other things being equal, our estimates may understate the intervention's potential impact, which could have been greater if more firms had complied.

Such an assessment reveals differences in whether, when, and how firms applied our new rules. We use these differences (eg in clarity and quality of renewal notices), and combine them with econometric techniques to isolate, and quantify, the causal impact of our intervention.

We found that firms applied our rules in a varied manner

Annex 1 includes details of: our rules for the implementation assessment, how we selected firms and gathered data, our assessment framework, and our findings.

Our approach involved:

- Reviewing a random sample of 620 renewal notices from 31 brands representing 21 firms across the 3 markets.[15] These renewal notices were sent by firms to consumers during March-April 2017 and March-April 2018. We complemented this with other information sources (eg existing work and knowledge within the FCA and our 2017 multi-firm review) and asking firms when they applied the rules (ie if it was before 1 April 2017, in advance of the implementation deadline).
- Developing a framework to assess and score each renewal notice. When finalising our rules and guidance, we stated that our approach achieved the right balance between being prescriptive and allowing appropriate flexibility to firms. Firms, therefore, had some flexibility in how to disclose and present the information. The scoring framework (Annex 1) takes into account a range of factors including what we stated in the rules and the views expressed in our multi-firm review about, for example, presentation quality.

We found, in summary, that:

- All firms in the home and motor insurance markets, and nearly all firms in the pet insurance market, had amended their renewal notices to include last year's premium, and other relevant disclosures required by ICOBS 6.5.1, the week before the rules came into force.
- For each of the 3 markets, there was significant variation[16] in how firms disclosed and presented this information, with some higher performers and some lower performers. This variation was between firms and over time. The main variation between firms in applying our rules came from how they drew attention to, and presented, last year's premium and statements on switching.
- While some firms' score remained stable across the time periods in our assessment, some firms' scores improved just after the intervention came into force (April 2017), with other firms' scores improving between 2017 and 2018 (in some cases, in response to our multi-firm work). A small number of firms' scores fell between 2017 and 2018.

Overall, our assessment of how firms applied the intervention means that:

- How firms disclosed and presented the information in the renewal notice may have affected how consumers interacted with the renewal notice, and acted thereafter. As a result, we might expect different impacts on consumer behaviour based on how the information was presented in the renewal notice.
- For our econometric analysis, we have enough variation to construct a counterfactual to isolate and quantify our intervention's impact.

15 We reviewed notices from 10 brands of 7 firms operating in the home insurance market. These firms accounted for 49% of gross written premium (GWP) in this market. We reviewed notices from 14 brands of 10 firms operating in the motor insurance market. These firms accounted for 56% of GWP in this market. We reviewed notices from 7 brands of 4 firms operating in the pet insurance market, with these firms forming 66% of complaints made about pet insurance firms (firm-level GWP data were unavailable).

16 13 out of 31 brands scored in excess of 50 by April 2018 based on our scoring methodology ranging from 0 (lowest possible score) to 100 (highest possible score), which we developed for the purposes of this evaluation. Further details of our approach are set out in Annex 1.

4 Results: Our intervention's impact

Key findings

Our intervention appears to have improved consumer outcomes mainly through limiting the extent of premium increases at renewal in the home and motor insurance markets.

The data show that consumers appear to be more engaged after our intervention, resulting in them making better-informed decisions through engaging and shopping around at renewal in all 3 markets.

We estimate that our intervention has caused more consumers to negotiate and switch in the motor insurance market, and fewer consumers to negotiate and switch in the home insurance market.

The differences between markets may be explained by:

i. the relative ease of searching and switching motor insurance, when compared to home insurance
ii. the difference between the premium offered at renewal and last year's premium paid in motor insurance being greater than the value that consumers place on their time to search and switch
iii. the difference between the premium offered at renewal and last year's premium paid in home insurance being less than the value that consumers place on their time to search and switch

We estimate that our intervention has saved consumers between £39m and £330m a year, with an average estimate of £185m a year. Our estimate of firms' costs of complying with our intervention is around £30m one-off and £4m a year. These costs are significantly less than our pre-intervention expectations.

We have looked at the impact on consumers from:

1. firms anticipating higher consumer engagement at renewal and changing pricing strategies accordingly (4a)
2. negotiating or switching, once they receive their renewal notice, in terms of the changes in these behaviours (4c)

We have also looked at how consumers' behaviour has changed after our intervention by looking at measures like shopping around (4b). This is a comparison of changes over time, which is informative in understanding possible wider effects of our intervention. However, we do not claim that our intervention has necessarily had a causal impact on these measures.

We then end this section (4d) with a summary of our estimated savings to consumers from our intervention, set against the estimated costs to firms of complying with our intervention.

a) Our intervention has limited the extent of renewal premium increases

In this section, we focus on the difference between the premium offered at renewal and last year's premium paid. Last year's premium paid is the first price against which consumers can compare this year's offer. It may, therefore, have an impact on what consumers choose to do (ie whether they want to shop around and take any further action).[17] Consumer survey evidence indicates that the difference between the premium offered at renewal and last year's premium paid has a notable effect on consumers' shopping around behaviour. Specifically, more consumers report that they shop around when they see a premium increase – and that this varies by the extent of the increase (see Annex 2 for further detail). The impact on the difference between the premium offered at renewal and last year's premium paid shows how firms have responded to the intervention and the potential for a greater competitive constraint due to consumers potentially taking action.[18]

The difference between premiums offered at renewal and last year's premium paid, after our intervention

Table 4.1 below shows what has happened to the average (mean) difference between the premium offered at renewal and last year's premium paid, before and after our intervention.[19] In the home and pet insurance markets, this difference has increased after our intervention. However, in the motor insurance market, the difference has fallen.

Table 4.1: The average (mean) difference between this year's renewal offer and last year's premium paid, before and after our intervention

Market	Average increase in the difference, before intervention	Average increase in the difference, after intervention	Change (£)	Change (%)
Home	£15.51	£16.17	£0.66	4.3%
Motor	£60.12	£57.45	-£2.67	-4.4%
Pet	£66.11	£70.91	£4.80	7.3%

Source: FCA analysis of insurers' transaction-level data.
Note: A positive change indicates a greater increase after our intervention; a negative change, indicates a reduced increase after our intervention.

Our intervention's estimated impact on the difference between renewal premiums offered and last year's premium paid

Table 4.1 compares the relevant metrics of interest before and after the intervention. But there are several factors influencing the premiums offered. We want to isolate the change

17 The premium offered at renewal is a helpful comparison because it is usually based on the same cover details that a consumer had for last year's premium paid.

18 Before intervening, we acknowledged that our intervention may affect how firms price their premium offers at renewal. We were unable to estimate how these premiums might change in our CBA.

19 We use the word 'after' to signal analysis that is non-causal (ie we cannot claim that a change happened as a result of our intervention). We use the words 'due to' and 'because of' to signal analysis that is causal. Our presentation of data 'before' and 'after' intervention is based on when each firm applied our intervention (ie not necessarily before and after 1 April 2017, based on our work described in Section 3).

in premiums (offered this year versus paid last year) that is due solely to our intervention. To do this, we use econometric analysis.

Econometric analysis aims to isolate our intervention's impact from other factors that may have also influenced how firms priced premiums at renewal.[20] We do this through comparing outcomes for firms based on when and how they applied our rules (summarised in Section 3).

The Technical Annex contains full details of our analysis. It shows that key metrics[21] for the firms in our sample followed similar trends before our intervention. We can, as a result, estimate what would have happened to metrics of interest (eg premiums offered at renewal) had we not intervened. Our approach assumes that firms applying our intervention (either based on timing and/or on relative quality) would have followed the same trend for the metric of interest as those who did not apply our intervention (be that due to timing or quality of implementation).[22] Our intervention's estimated impact is the difference in the outcome for these 2 groups of firms ('treated' and 'untreated', as mentioned in Section 2).

Table 4.2 below summarises the results of the econometric analysis for the home, motor and pet insurance markets. We estimate that, without our intervention, the difference between the premium offered at renewal and last year's premium paid would have been greater in the home (see Figure 4.1) and motor insurance markets. Our analysis, however, indicates that the intervention led to the increase from last year's premium being higher than it would have been had we not intervened in the pet insurance market.

The Technical Annex captures our further analysis of this impact:

- The impact is consistent when considering smaller sub-groups of consumers by what they did at renewal (ie switchers, renewers that negotiate and those that do not).
- The impact on the premiums appears to persist when looking at the difference between the premium paid this year and last year. However, it is likely that this measure is not as reliable as the difference between the renewal offer and last year's premium paid. This is because of potential differences in how providers capture, for example, changes that consumers might make to their policy cover in response to their renewal letter (changes to policy cover affect the price paid, and would mean that we wouldn't be comparing like-for-like policies).

In summary, due to our intervention, we estimate that the increases in premiums offered at renewal were lower than they otherwise would have been in the home and motor insurance markets by 1-3% and 0-1% of the total premium offered at renewal respectively. This is an average impact across all renewing consumers (ie those that received a renewal notice). We consider that our intervention's positive impact here for home and motor insurance applies to those consumers who renew without actively engaging in the market as well as those consumers who go on to actively engage (see Sections 4b and 4c below). We make the same assumption for the impact that we estimate for the pet insurance market (which we explain further in Table 4.6).

20 This includes controlling for how risk factors may have changed premiums offered at renewal.

21 This includes the proportion of consumers switching or negotiating.

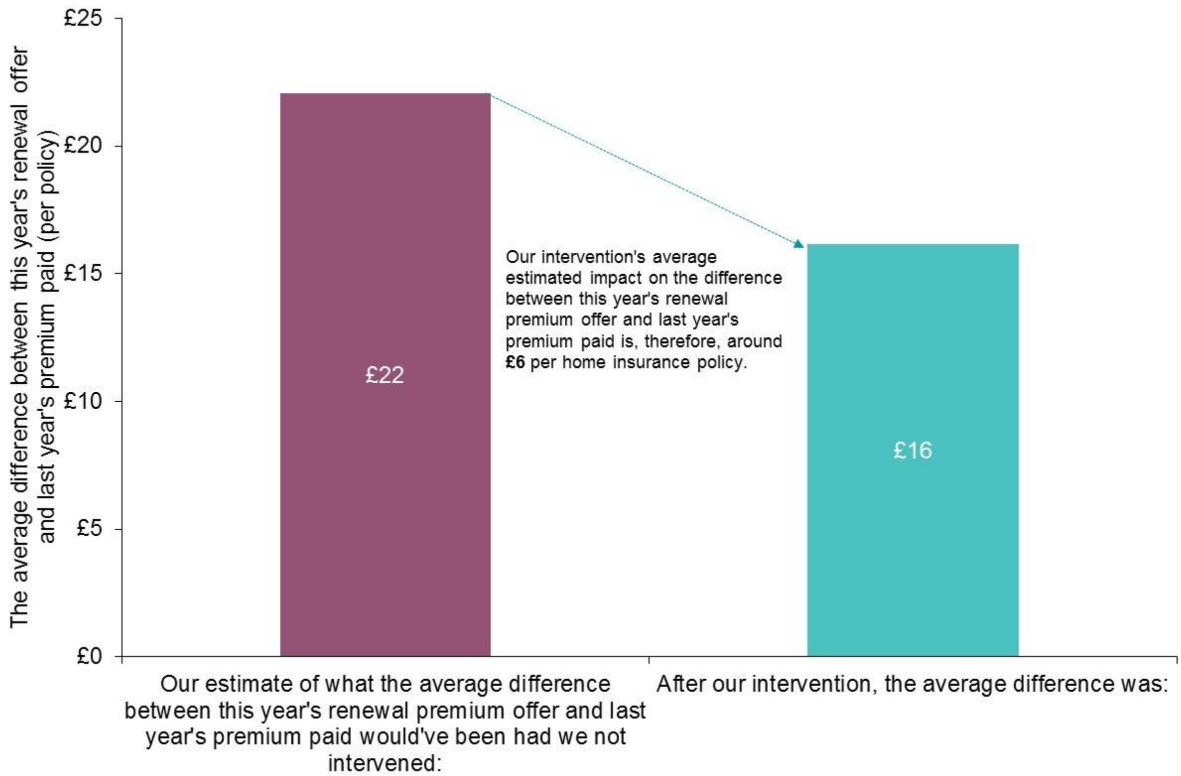
22 As we have 2017 and 2018 data, we can capture any potential changes firms might make to their renewal notices after initially applying our intervention. However, we cannot capture any changes falling after our 2018 data end.

Table 4.2: Our intervention's estimated average (mean) impact on the difference between the premium offered at renewal and last year's premium paid, per policy (causal analysis)[23]

Market	Absolute impact per policy	As a percentage of what the premium difference would have been without our intervention	As a percentage of the average premium offered	As a percentage of the average premium paid	As a percentage of the average margin at renewal offer
Home	£2 to £9 reduction in the increase (See Figure 4.1: average of £6[24])	11 - 37%	0.6 - 3.0%	0.7 - 3.4%	1.1 - 5.0%
Motor	£1 to £6 reduction in the increase	2 - 8%	0.3 - 1.1%	0.3 - 1.2%	0.7 - 2.9%
Pet	£4 greater increase	-6%	-0.9%	-1.0%	-2.3%

Source: FCA analysis of insurers' transaction-level data.
Note: Absolute impact figures rounded for presentational purposes.

Figure 4.1: An illustration of our estimated intervention's impact on the average (mean) difference between this year's renewal premium offer and last year's premium paid for home insurance



Source: FCA analysis of insurers' transaction-level data.

23 The use of ranges is explained in the notes to Table 4.7. As above, our presentation of data 'before' and 'after' intervention is based on when each firm applied our intervention (ie not necessarily before and after 1 April 2017, based on our work described in Section 3). Average margin is equal to the average (mean) premium offered at renewal less the average (mean) claims cost. The table expresses this as a percentage of the renewal offer.

b) We see signs that consumers are paying more attention at renewal, after our intervention

Annex 2 details our analysis of consumer survey data. This sub-section summarises these findings.

Overall, there are signs[25] that consumers are paying more attention and making more active decisions at renewal after our intervention. The evidence suggests that consumers are more aware of the gains from engaging at renewal. The data show small positive increases in the shopping around rate and the intention to shop around next year across all 3 markets. We also found more consumers reporting they shop around so that they have the means to negotiate with their current insurer.

Key findings are set out below.

- There has been a notable increase in the proportion of consumers 'actively renewing' (ie shopping around and getting at least one premium quote on a price comparison website). In doing so, it appears that these consumers have moved away from relying only on their notice to renew. Ipsos MORI's data show that this increased from 21% (before our intervention) to 25% (after our intervention) in the home insurance market and 27% to 30% in the motor insurance market.[26]
- The data show an increase, after our intervention, in the percentage of consumers who stated that they shop around solely to get price quotes to help them negotiate with their current provider across all markets (2 to 8 percentage points increase).[27]
- There has been a 2% fall in the proportion of motor insurance consumers reporting that they 'cannot be bothered' to shop around, though it was still the third most likely reason for them not to do so.[28] We also found a 6% decrease in the proportion of home insurance customers reporting that they 'cannot be bothered' to shop around.
- We also found that more home insurance consumers rate the price of their policy as an important factor when choosing their provider after our intervention, with 76% rating it highly after our intervention compared with 72% doing so before.[29] In motor insurance, 83% of consumers rated price as the main factor after our intervention.[30] However, pet insurance consumers appear to focus more on non-price factors. For

24 Figure 3 rounds the figures for presentational purposes. The £22 figure consists of two figures: £15.51 (the average difference between last year's premium and this year's offer before our intervention) and £6.56 (the estimated change to the average difference had we not intervened). The difference between the two bars is £5.90 (ie the sum of £15.51 and £6.56, minus £16.17, which is the figure on the right-hand side of the graph).

25 This section looks at relevant indicators in consumer surveys after our intervention. It is not a causal analysis so we cannot claim that the changes we see are solely due to our intervention. Figures presented here are statistically significant changes.

26 Ipsos MORI Financial Research Survey data for home and motor insurance. Pre-intervention figures average of March 2015 to March 2017 (Unweighted base: Home: 62,161, Motor: 62,193). Post intervention figures average September 2017 to March 2019 (Unweighted base: Home: 45,651, Motor: 48,538).

27 Consumer Intelligence.

28 Consumer Intelligence research found that motor insurance consumers mainly chose not to shop around because they liked the company they were with (26% after our intervention) or the price was about the same as last year (17% after our intervention).

29 Ipsos MORI Financial Research Survey home insurance data. Maximum of 3 selected answers to 'main factors influencing decisions to choose a home insurance provider'. Pre-intervention figure July to December 2016. Post-implementation figure July to December 2018.

30 Ipsos MORI Financial Research Survey motor insurance data. Maximum of 3 selected answers to 'main factors influencing decisions to choose a motor insurance provider', July to December 2018.

example, renewing pet insurance consumers were more likely to respond that the need for the 'best cover' was more important than paying the 'lowest price'.[31]

- After our intervention, more home and motor insurance consumers report that their cover is better than the cover offered by other companies (between 1 and 2 percentage points more often than before our intervention). We have no evidence to suggest that basic coverage changed (increased) over this period. So, this finding could be a result of our intervention prompting consumers to review or compare their level of cover with other providers.
- Fewer pet insurance customers appear constrained by factors related to their pet. For example, 2% fewer consumers reported that the main reason they didn't shop around was because their 'pet has a pre-existing medical condition' and 3% fewer reported that it is 'hard to get cover because of my pet's age'. This finding could be a result of our intervention prompting consumers to shop around. However, if consumers are moving to a provider without cover for pre-existing conditions, then the consumer may suffer unexpected costs later on. So, it is unclear whether this is a positive outcome overall.

c) Our intervention's estimated impact on consumer negotiating and switching is mixed

We expected negotiating and switching to increase in all markets except motor insurance

We expected negotiating and switching to increase due to our intervention in all markets apart from motor insurance, following our RCT results.

Table 4.3 sets out our pre-intervention expectations for consumers negotiating and switching. These expectations were based on large-scale RCTs in OP 12, but adjusted down by 25% to capture dynamic responses from firms, as in the CBA.

Table 4.3: Our pre-intervention expectations for negotiating and switching

Market	Expected percentage change of consumers negotiating at renewal	Expected percentage change of consumers switching at renewal	Expected percentage change of consumers negotiating or switching at renewal
Home	7.9 - 12.3% increase	8.9 - 13.9% increase	8.6 to 13.4% increase
Motor	0%	0%	0%
Pet	7.9 - 12.3% increase	8.9 - 13.9% increase	8.6 to 13.4% increase

Source: CP 15/41 and OP 12, FCA analysis.
Note: Figures from the RCT (Table 2.1) have been adjusted down by 25% in line with the CBA assumptions.[32]

31 Nearly 50% of consumers responded that 'best cover' was a main reason to stay with their existing provider after shopping around post-intervention, compared with approximately 30% selecting 'easy/convenient to buy' and/or 'lowest price'. 'I trust this company' was selected by approaching 30% of the sample. Multiple answers could be selected.

32 We have presented these as percentage uplifts rather than percentage point changes. This is because our RCTs relied on different data from different firms for the trial, when compared to the data we have collected

Negotiating and switching after our intervention

Table 4.4 shows negotiation and switching rates for all 3 markets before and after our intervention. It shows that negotiation and switching rates have increased in all markets after our intervention. The data show that the largest percentage point change was in motor insurance negotiating (from 23.8% to 27.3%, a 3.5 percentage point increase).

Table 4.4: Percentage of consumers negotiating and switching, before and after our intervention (ie non-causal)[33]

Market	Negotiating		Switching		Negotiate or switch	
	Before	After	Before	After	Before	After
Home	12.4%	12.6%	16.1%	17.5%	25.8%	26.6%
Motor	23.8%	27.3%	24.5%	26.0%	46.6%	48.3%
Pet	2.5%	3.9%	12.2%	13.4%	13.5%	15.1%

Source: FCA analysis of insurers' transaction-level data.
Note: 'Negotiate or switch' does not equal the sum of 'negotiate' and 'switch' because some consumers negotiate and then switch. 'Negotiate or switch' counts these consumers once.

Our intervention's estimated impact on negotiating and switching

We use a difference-in-difference econometric approach to estimate our intervention's causal impact on negotiating and switching at renewal. We use the same approach and assumptions described in Section 4a, except our metrics of interest are negotiating and switching at renewal.

Table 4.5 summarises the results for the most robust model in our econometric analysis[34] (further variants of our econometric analysis are set out in the Technical Annex).

We estimate that, because of our intervention, negotiating and switching is:

- higher in the motor and pet insurance markets than if we had not intervened
- lower in the home insurance market than if we had not intervened

The Technical Annex sets out further analysis of our impact on negotiating and switching. It shows, among other things, that our estimates have the same direction of impact using a range of different econometric approaches.

for this evaluation. A percentage uplift is more suited than a percentage point change to compare outcomes of the intervention with our CBA. As set out in Table 2.1, our expected percentage point impacts for home insurance negotiating and switching were increases of 0.9 percentage points and 2.3 percentage points respectively.

33 For this comparison, we use the transaction-level data for consistency. We have verified our findings to other data sources (eg consumer research) where possible. While our precise point estimates differ, the changes before and after our intervention are broadly consistent. Our point estimates might differ because by using the transaction-level data from firms we are working with a sub-sample of each market and are unable to, in all cases, identify whether a consumer has switched to or from a firm. As above, our presentation of data 'before' and 'after' intervention is based on when each firm applied our intervention.

34 See Technical Annex for details of how we test our econometric analysis. Overall, these checks indicate that the size and direction of our intervention's estimated impact are stable. The impacts here are estimated based on the group of firms that we have in our dataset. It is possible that these findings are driven by a small number of firms, such that the results would be different (in magnitude) if different firms were in our dataset.

Table 4.5: Our intervention's estimated average (mean) impact on negotiating and switching at renewal (percentage point change and percentage change, causal analysis)[35]

Market	Estimated impact on negotiating at renewal	Estimated impact on switching at renewal	Estimated impact on negotiating or switching at renewal
Home	-0.9 to -2.5 percentage points (10 - 18% decrease)	-0.4 to -1.2 percentage points (3 - 8% decrease)	-0.8 to -3.0 percentage points (3 - 11% decrease)
Motor	0.0 to -0.1 percentage points (0% change to 0.6% decrease)	+1.1 to +1.3 percentage points (5% increase)	+1.3 to +1.7 percentage points (3 - 4% increase)
Pet	0.0 percentage points (0% change)	+1.2 percentage points (10% increase)	+1.2 percentage points (9% increase)

Source: FCA analysis of insurers' transaction-level data.
Note: Text in red signals a decrease; text in green signals an increase. The final column counts consumers who negotiate and then switch only once, which explains why it is not exactly related to the previous 2 columns.

Comparing Table 4.3 and Table 4.5 shows that our estimated impact on negotiating and switching was very different to our expectations. In particular, we see a decrease, rather than an increase, in the home insurance market. We also see an increase in the motor insurance market, where we had assumed no change. Only the findings in the pet insurance market moved in the expected direction.

Table 4.6 below offers some reasons why this might have happened.

Table 4.6: Possible reasons why our intervention's estimated impact on negotiating and switching differs from our expectations

#	Reason	Explanation
1	The difference between the renewal offer and last year's premium paid in home insurance was less than consumers' own value of their time.	▪ The GI market study's consumer survey analysis[36] showed that consumers, on average, needed £29 to switch home insurance provider. Our transaction-level data show that the difference between the renewal offer and last year's premium paid for home insurance was, on average, around £16. As a result, a reduction in negotiating and switching because of our intervention might be a result of consumers not considering that the effort was worth the expected gain (based on the information in the renewal notice). ▪ This contrasts with the motor insurance market. Consumers, on average, needed £30 to switch motor insurance provider. Our transaction-level data show that the difference between the renewal offer and last year's premium paid was, on average, around £60. In this case, it might be that consumers decided to take action based on the difference highlighted in the renewal notice.

35 The percentage changes are relative to the pre-existing negotiating or switching levels in the sub-group of firms in the relevant model of the econometric analysis, and therefore may not be equal to the percentage change if calculated using Table 4.4.

36 Table 12a and Table 13a of Annex 4 to the GI market study.

#	Reason	Explanation
		▪ Our analysis of negotiating and switching by the difference between the renewal offer and last year's premium (Technical Annex) adds further evidence that our intervention may have created an 'anchor' to the difference for some consumers.
2	Searching and switching requires more information in home insurance	▪ Research indicates that consumers consider the time taken to search and compare for insurance policies is high (ie it is costly). ▪ Consumers need more specific information when searching for home insurance policies than motor insurance (eg information about the locks in the property, specifying items worth more than a defined amount). Finding this information and going through the process places a cost on consumers that they may not be willing to bear, especially if the gains from doing so are not worth their time (see 1 above).
3	Recent research shows that there are limits on how many people read and/or act upon disclosure	▪ Our findings are consistent with recent academic research on disclosure and its impact on switching published after our intervention. The literature indicates that although well-designed disclosure remedies can be effective, their impacts can be modest in causing consumers to take action.
4	Some characteristics of the pet insurance market are very different to home and motor insurance	▪ Our transaction-level data indicate that negotiating and switching rates in the pet insurance market are low relative to home and motor insurance markets. ▪ Consumers may be less accustomed to taking action if, for example, they buy their pet insurance through their vet (with whom they have an ongoing relationship). ▪ We note that the expected cost of claiming rises over the length of the policy (ie as the pet grows older). Consumers may not think that there is much to gain from taking action if they expect the price of insuring a pet to increase over time. They may, as a result, think that a new provider's premium offer would not be much better than what they would get with their current provider. ▪ We also note that a deterrent to switching for some consumers is the lack of cover for pre-existing conditions. This, to some extent, ties consumers to their existing provider in a way that is unlike home and motor insurance policies. ▪ Our intervention appears to have caused an increase in switching. This is perhaps in reaction to our finding in Section 4a of premiums offered at renewal, when compared to last year's premium, increasing because of our intervention. ▪ The latter finding is difficult to explain based on our evidence. It could be, for example, that firms predicted more consumer negotiating and switching. So, pre-emptively, firms might have raised the renewal offer to increase revenues from customers that don't switch or negotiate and to offset any losses from customers that do switch away (either by moving provider or cancelling all together because the price was too high) or negotiate a better deal. Other reasons include the firms in our sample and the quality of our dataset.

d) We estimate that our intervention has led to consumer savings of between £39m and £330m a year (and, on average, £185m a year) across the 3 markets

Table 4.7 brings together the estimated causal impacts set out above (ie in 4a and 4c) to show how much consumers might have saved because of our intervention. The estimate is a combination of 2 impacts:

1. The gains from firms' response in setting prices (the difference between what the renewal offer would have been without our intervention and what it is with our intervention).
2. The gains from negotiating and switching (the difference between the renewal offer in the notice and the final premium paid).

We find that the first effect has been larger than the second.

When collecting transaction-level data, we requested that our sample of firms provided us with high-level data on how much it cost them to comply with our intervention. We estimate that the one-off costs of complying with our intervention were around £30m (one-off) and £4m a year.[37]

We conclude that our intervention has been net beneficial and has improved outcomes for consumers. We note that the costs are less than what we expected before intervening (see Table 2.1). They are also less than our intervention's estimated impact on consumer savings (Table 4.7). The findings about the impact of our intervention are based on our analysis of 2017 and 2018 data. It is possible that:

- Our analysis captures only short-run impacts. If there are further dynamic adjustments from consumers and firms over time, then our analysis may overstate or understate the longer-term impact of our intervention.[38]
- Our findings are our best estimates of the impact of our intervention based on data from a sample of firms and using econometric techniques that make certain assumptions. Any such analysis remains an estimate and is subject to the analytical techniques being able to successfully isolate the impact of the intervention. The true impact of our intervention might fall in a relatively wide range around the average point estimates presented in this report. The Technical Annex sets out various ways that we've tested the reliability and accuracy of our econometric analysis and the assumptions underpinning it. Having applied these tests, we consider that the analysis gives a good estimation of the likely impact, in terms of direction and scale, of our intervention.
- Consistent application of the intervention (ie in terms of quality of implementation) may have led to larger changes to consumer behaviour (ie negotiating and switching) and/or how firms priced at renewal.

37 We scaled up cost estimates collected from firms in our sample by their market share (based on gross written premiums). These market share data are from Ipsos MORI's Financial Research Survey. This approach gives us an indication of firms' costs of complying with our intervention. It might be that the actual costs to all firms are more or less than the figures presented in the evaluation.

38 We also see that new insurance policy prices do not appear to have increased notably after our intervention, though this is only a non-causal observation.

Table 4.7: Illustrative estimate of our intervention's causal impact[39]

	Home	Motor	Pet	Total
① Our intervention's average causal impact on insurance policy switching (percentage point change)	-0.4 to -1.2 percentage points	1.1 to 1.3 percentage points	1.2 percentage points	
② Our intervention's average causal impact on insurance policy negotiating (percentage point change)	-0.9 to -2.5 percentage points	0.0 to -0.1 percentage points	0.0 percentage points	
③ Our intervention's causal impact on insurance policy switching / negotiating (£m a year)	-£6m to -£39m	£26m to £74m	£6m to £8m	
④ Estimated average causal impact on the difference between the renewal premium offer and last year's price per policy (£ per insurance policy)	£2 to £9 *(See Figure 4.1: average of £6)*	£1 to £6	-£4	
⑤ Estimated causal impact on the difference between the renewal premium offer and last year's price (£m a year)	£34m to £160m	£25m to £108m	-£13m	
⑥ Total estimated causal impact of our intervention - range (ie ③ plus ⑤, £m a year)	**-£5m to £154m**	**£51m to £182m**	**-£5m to -£7m**	**£39m to £330m**
⑦ Total estimated causal impact of our intervention – average (mean)	**£77m**	**£114m**	**-£6m**	**£185m**
⑧ Causal impact range as a proportion of 2017 annual gross written premiums	-0.1% to 3.1%	0.5% to 1.9%	-0.5% to -0.6%	

Source: FCA analysis of: insurers' transaction-level data; consumer research from Ipsos MORI and Consumer Intelligence.
Note: Any discrepancies when adding up figures will be due to rounding. ④ repeats the results set out in Table 4.2. ⑤ applies this to renewing policyholders, using an illustrative estimate combining Ipsos MORI's data and our transaction-level dataset. The impact of ④ is already counted in ③ for those additional policyholders who we estimate negotiated / switched because of our intervention).

39 Monetary figures have not been adjusted for the effects of inflation (ie in nominal terms). We assume that monetary gains from negotiating or switching are relative to the respective consumer type's renewal offer. We apply our causal impact saving (ie difference between renewal offer and last year's premium) to all renewing customers, using Ipsos MORI's data and our transaction-level data for split of consumer types. The negotiating and switching savings figures rely on being able to match consumers between firms based on variables in our dataset. These savings from negotiating and switching are reduced by the cost of shopping around, consistent with CP 15/41 (ie £12 an hour, assuming it takes 1 hour). Ranges in our estimates are based on taking two measures of the average (mean and median) for the returns from negotiating and switching, and using the minimum and maximum point estimated impacts from our econometric analysis for negotiating, switching, and our impact on the premium offered at renewal.

5 Lessons learned

The learnings from this evaluation are specific to this intervention and this market. They may not necessarily read across directly to a similar intervention in another market. Still, they provide useful insight for the formulation of policies and their likely effectiveness. We set out the main lessons learned in Table 5.1.

Table 5.1: Main lessons learned from our evaluation

<table>
<tr><th>#</th><th>Lesson learned</th><th>Comments</th></tr>
<tr><td>1</td><td>Consumers' and firms' response to interventions can be complex and change over time. These are aspects that cannot be fully captured by RCTs (<u>as highlighted in recent research</u>). It is difficult to disentangle these various effects without understanding the dynamics of each consumer action(s) and each firm's reaction (eg how firms choose to change their pricing approaches).

Evaluations provide us with an opportunity to assess impacts that we cannot reasonably do before intervening.</td><td>The complexity comes from:
– some consumers not being affected by 'nudge' remedies (eg longstanding, inactive and/or potentially vulnerable consumers)
– firms seeking to pre-empt consumers' reaction by lowering prices/price increases
– firms further increasing prices for consumers who do not respond, or working on ways that do not prompt consumers to respond in a manner that would affect the firm negatively and significantly</td></tr>
<tr><td>2</td><td>There may be good reason to be more prescriptive with our rules where behavioural aspects / the presentation of information are important to the intervention's effectiveness.</td><td rowspan="4">Firms can, and do, apply our remedies in different ways to how we trial them. Our rules were not prescriptive; for example, they did not detail precisely where and how last year's premium should be included in the renewal notice. Our renewal notice assessment shows that many firms in our sample did not implement the remedy as we tested it in our RCTs.

On 3): This does not mean we should not look to RCT findings in one market and apply them to another; it means that we need to acknowledge the uncertainty and apply RCT estimates carefully.

On 4): Our multi-firm work highlighted firms with renewal notices that were falling short of our expectations. This timely work appears to have contributed to better quality renewal notices from these firms (those in our sample) in 2018.</td></tr>
<tr><td>3</td><td>Our analysis shows that the intervention has had different effects in different markets. This finding reinforces the need to consider how trial evidence would apply, for example, across different markets and when taking into account further dynamic effects from competition, which are not visible in trial settings.</td></tr>
<tr><td>4</td><td>We need to see whether firms are implementing our intervention as we intended. This kind of work helps us to understand how firms adjust other practices just before and/or after our intervention's implementation date (eg in this case, our econometric analysis suggests that firms have adjusted their annual renewal premium offers to consumers in response to the new rule).</td></tr>
<tr><td>5</td><td>In this case, firms' pricing response to the intervention (firms not increasing the renewal premium offers by as much as they might have done) is likely to have had a greater observed effect on outcomes than the impact on consumers' negotiating and switching.</td></tr>
</table>

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