General Insurance Pricing Practices Market Study

Forum 1 – Pricing remedy proposal

Agenda

1. **Introduction**

   Robin Finer

2. **Pre-submitted questions**

   Peter Lukacs, Sophie Williams & Edward Oxley

3. **Live Q&A**

   Robin Finer, Peter Lukacs, Sophie Williams,
   Edward Oxley & Jason Pope

4. **Next steps**

   Robin Finer

Introduction

- These forums follow the publication of the final market study report and consultation paper on 22 September 2020.
- Each forum will focus on a different aspect of the proposed remedy package:

Remedy proposal	Date	Time
Pricing remedy proposal	**11 November**	**13.30-14.45**
Product governance proposals	16 November	10.30-11.45
Reporting and auto-renewal remedy proposals	23 November	10.30-11.45

- The aim of the sessions is to address any questions about the policy intent behind the draft rules and how we envisage they might operate in practice.

Introduction

- The consultation remains open until 25 January 2021. We will use all input received from the consultation response and these forums to help us refine the final rules.
- We have not:
  - reproduced all questions verbatim.
  - covered all the questions that we received; however, where we have not covered a question, we will follow up with the firm or individual directly.
- During the 'live Q&A' we will answer follow-up questions. Please submit your questions in the Q&A box during the presentation.
- The slides will be made available after the session.

The pricing remedy proposal

- Aim: to prevent price walking.
- Proposal: where a firm offers a renewal price to a consumer, this should be **no greater than the equivalent new business (ENB) price** that the firm would offer that consumer.
    - The proposal does not mean the renewal price for a consumer could not change over time.
    - When calculating the ENB price, a firm must assume that the customer has approached the firm through the same distribution channel and is using the same payment method as when they first bought their policy.
- Scope: **home and motor insurance** (as well as products sold alongside the policy).

Topics we will cover today

1. Renewal pricing
2. Discounts and negotiation
3. Non-cash promotions
4. Channel
5. Acquired books
6. Closed books
7. Scope
8. Timescales
9. Fair value

Renewal pricing

The following questions relate to the **calculation of the renewal price** under the proposed pricing remedy.

Could firms use internal/external risk data acquired during the course of the policy (e.g. telematics) to calculate the renewal price?	The pricing remedy is **not intended to restrict the risk factors** that firms can use in calculating the renewal quote. If the rules as currently drafted appear to restrict the risk factors that could be used, please highlight this in your consultation response.
How would firms be expected to treat pricing factors that are based on circumstances when the policy was first purchased, where it's unclear what the equivalent factor would be at renewal (e.g. the time of day)?	The draft rules do not cover this point. We **welcome input** on the best approach. One option could be to require firms to use the factor that is **most favourable** to the consumer when calculating the equivalent new business price.

Renewal pricing

Would firms be allowed to conduct price testing to determine the elasticity of demand?	Firms would be **allowed to conduct price testing** as long as the renewal price offered complies with the pricing rule (i.e. the renewal price offered is no higher than the equivalent new business price).
Do fees fall into the definition of the price/premium?	The draft rules do not specify whether fees are included in the price/premium. We **welcome input** on the best approach. We are proposing to gather information on fees as part of the reporting requirements.

Renewal pricing

How do you view the practice of changing elements of the core cover at renewal to differentiate the product (e.g. changing the product excess)?	Firms **would be permitted** to change elements of the core cover at renewal, but any changes (e.g. a change in product excess) would have to be reflected in the equivalent new business price. Firms would also need to ensure that they continue to meet all relevant **insurance distribution requirements**. In particular, firms would need to make sure that any changes to the product at renewal are consistent with the customer's **demands and needs** (ICOBS 5.2). Firms would also need to ensure that any product changes were made in line with their obligations under the **PROD rules**.

Discounts and negotiation

The following questions relate to **discounting and negotiation** under the proposed pricing remedy.

Would firms be able to offer discounts at new business?	Any discount given to new business customers would have to be **reflected in the equivalent new business price for a renewing customer**. This includes uniform and discretionary discounts.
Would firms be able to offer discounts at renewal?	Discounts at renewal **would be permissible** providing the renewal offer price complies with the pricing rule (i.e. the renewal price offered is no higher than the equivalent new business price). This includes uniform and discretionary discounts.

Discounts and negotiation

Could customers negotiate a discount at renewal?	Yes – firms would be **permitted to negotiate** a different price to the renewal quote with renewing customers.
Could customers negotiate a discount at new business?	If firms negotiate prices with new business customers, then the firm would need to ensure that this possibility is taken into account when calculating the **equivalent new business price** for a renewing customer.

Non-cash promotions

The following questions relate to **the use of non-cash promotions** under the proposed pricing remedy.

Can firms use non-cash promotions at new business or renewal?	**Yes** – non-cash promotions would be permitted for new and renewing customers. We **welcome input** on what should be considered a non-cash promotion.
Could firms give free add-ons at new business or renewal?	**Yes** – free add-ons would be permitted. However, where an add-on is offered for free at new business and the same add-on is offered again at renewal, it must be offered at the equivalent new business price, which would be zero (assuming it is still being offered free to equivalent new business cusomers).

Channel

The following questions relate to **the definition of 'channel'** under the proposed pricing remedy and its **use as a pricing factor**.

Would you consider each individual aggregator to be a separate channel?	**Yes** – each individual aggregator would be considered a separate channel. However, the reporting requirements would not require firms to provide data to this level of granularity.
What if the purchase channel that a renewing customer used is no longer available or we cannot identify it?	If the purchase channel is no longer used or cannot be identified, then firms must assume the channel used is the one **most commonly used** by other consumers of the firm (ICOBS 6B.2.4).

Channel

What channel should a renewing customer be attributed to if they switched channel during the sales process?	The draft rules do not cover this point. One option would be that the firm should use whichever channel was used to determine the price for that particular customer at new business. We **welcome input** on the best approach.
If a customer shops around at renewal and presents via a different channel, can firms offer them a different (either higher or lower) price to their renewal offer?	The rules **do not restrict** the new business price that an existing customer can be offered if they shop around at renewal and present as a new business customer through a different channel.

Acquired books

The following questions relate to **the treatment of acquired books** under the proposed pricing remedy.

If a book has been acquired where agreement was reached to accept the risks at below standard technical pricing, would the insurer need to increase the premium on these risks to meet their standard technical price?	**No** – the customers in the acquired book would still be considered "renewal" customers. As the remedy states that the renewal price should be **no higher** than the equivalent new business price, there would be no need for the insurer to increase the price to meet the standard technical price.
Where an insurer acquires a book that is priced differently to their existing book, can they continue to price the two books separately?	**Yes** – firms can have different pricing models for different books of business and whether one book has been acquired or not does not affect that.

Closed books

The following questions relate to **the treatment of closed books** under the proposed pricing remedy.

Some firms might try to evade the remedy by setting new business prices within a back book at an uncompetitively high price, with the intention of maintaining high renewal prices. What is the FCA's view on this?	This back book would fall under our definition of a **closed book** (because the firm has not sold or does not expect to sell more than 15% of policies to new business customers). Therefore, when calculating the renewal price, the firm would be required to: • identify the equivalent new business price for a **close matched product** (ICOBS 6B.2.7-13); and/or • ensure that it **does not systematically discriminate** against customers based on their tenure (ICOBS 6B.2.19R).

Closed books

Where an intermediary has a product on its panel which has a low proportion of new business customers (simply due to the footprint of its target market), but the product is also sold on other intermediaries' panels which have a higher proportion of new business, is this product classed as a 'closed book' for the former intermediary (notably when the product may not be deemed a closed book by the insurer)?	The product would be a closed book for the price setting intermediary if they sell or expect to sell <15% of the product to new customers. The product would not be a closed book product for the insurer if they sell or expect to sell >15% of the product to new customers. We **welcome feedback** on our definition of a 'closed book' in the draft rules.

Scope

The following questions relate to **the scope** of the proposed pricing remedy.

Will the FCA consider extending the pricing rules to other markets (e.g. roadside assistance)?	Our market study looked at **home and motor insurance only**. We have not investigated whether loyalty penalties exist in other markets, so we do not plan to extend the pricing remedy at this time. We are proposing to apply the pricing remedy to home and motor insurance, as well as **additional products when sold alongside a home or motor insurance policy** (to address potential avoidance). Therefore, roadside assistance is not within scope, unless it is sold alongside a home or motor insurance policy.

Scope

Does van insurance fall within scope of the pricing remedy?	The pricing remedy applies to motor vehicles "purchased by a consumer". So, whether the pricing remedy applies to van insurance **depends** on whether the policy covers a private vehicle or not. For example, the rule would not apply to a van insurance policy for a sole trader or company.
Are mid-term adjustments within the scope of the remedy?	The pricing remedy **does not apply** to mid-term adjustments.

Timescales

The following questions relate to **the timings** of the proposed pricing remedy.

What is the expectation in terms of timescales for the migration of existing customers?	Following the implementation date, we expect most existing customers to remain on their current policy until their next renewal. **At their next renewal, the renewal quote offered by the firm must comply with the new rules**. So, if the rule came into force on 1 August 2021, then the renewal pricing on all existing policies would need to be compliant with the rule by 31 July 2022.
Will the rule apply to renewal quotes offered on the implementation date or policies that start on the implementation date?	This will be confirmed in the Policy Statement (due Q2 2021).

Fair value

The following question relates to how the proposed pricing remedy helps us to achieve our aim of **fair value** in the market.

The proposed pricing remedy could increase prices for some consumers (in particular, those that shop around). How does this square with your focus on 'value', assuming increased prices result in reduced 'value'?	We recognise that our pricing remedy could mean a reduction to the very low prices that are available to some new customers. However, **we expect good deals to still be available** to regular switchers. The pricing remedy should help to promote fair value by: • Ensuring that consumers have a realistic picture of the **long-term cost** of their policy when purchasing it. • Incentivising firms to **compete for consumer business on this basis**.

Live Q&A

- We will now answer any follow-up questions that you have on the proposed pricing remedy.
- Please submit your questions in the Q&A box
- We will attempt to answer as many questions as possible in the time available.
- If we are unable to your question, please email us at GIPricingPractices@fca.org.uk and we will respond to you directly.

Next steps

- Thank-you for all your questions and for joining us today. We will use all the input to help us refine the final rules.
- We look forward to welcoming you to our other virtual forums:

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- Please remember to also respond to our consultation by **25 January 2021**.
- Responses can be sent to us using the form on our website at: www.fca.org.uk/cp20-19-response-form

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