Financial Conduct Authority

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Encouraging consumers to act at renewal

Evidence from field trials in the home and motor insurance markets

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FCA occasional papers in financial regulation

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Abstract

The majority of British home and motor insurance policies automatically renew annually, at a price chosen by the provider, unless consumers actively switch or negotiate. Auto-renewal can be beneficial to consumers for example by ensuring continuity of cover. However, the media, consumer groups and politicians have expressed concern that some consumers, often the elderly or vulnerable, pay high prices as a result of automatic renewal.

In collaboration with one home insurer and two motor insurers, we conduct field trials to test the potential for improved renewal notices to encourage consumers to switch or negotiate their policy at renewal. We also use bespoke survey data linked to administrative data from a home and motor insurance provider as well as aggregated data on price levels from several other insurance providers.

Aggregated data from three home insurance providers suggests that average premiums increase in the first five years until they plateau. Our survey evidence for a home insurer suggests that customers underestimate the benefits of shopping around and overestimate the amount of time it takes. The evidence is compatible with Gabaix and Laibson's (2006) 'shrouded equilibrium' model, where consumers do not anticipate that they will purchase additional products at high prices when they are purchasing the original product (although we do not have evidence that firms are making overall excess profits). Our evidence for the motor insurance providers varies by insurer, with consumers showing fewer signs of inertia and some firms showing little evidence of price increases at renewal.

We find that putting last year's premium on renewal notices causes between 11% and 18% more consumers to switch or negotiate their home insurance policy. The effect is larger for consumers offered higher price increases at renewal. We find little evidence of price increases at renewal for customers at the two motor insurers and including last year's premium has no effect. Other changes to renewal notices, including simplifying renewal notices, sending information leaflets, and sending reminders have little or no impact on consumer behaviour.

1 Introduction and summary

Purpose

There has been ongoing public concern in the UK about home and motor insurance policies that automatically renew. Media articles such as '*Scandal of the insurers that rip off the elderly*'[1] present anecdotal evidence of large increases to premiums when policies auto-renew and high levels of premiums, especially for elderly consumers. The Treasury Select Committee has written to the Financial Conduct Authority (FCA) and the Association of British Insurers (ABI) regarding these issues. The ABI and Which? are in favour of including last year's premium in renewal notices to help consumers make better informed decisions. Yet, empirical evidence is lacking on why consumers let their policies auto-renew at higher prices and whether suggested disclosure solutions would help consumers achieve better value for money.

This paper seeks to address this gap in knowledge. We conduct field trials with 300,000 customers across one home insurer and two motor insurers to test the potential for improved renewal notices to encourage consumers to achieve better value for money. We measure the impact of different types of renewal notices on whether customers switch or negotiate their insurance policy at renewal. In particular, we test the following four types of disclosures:

1. Including *last year's premium* next to this year's premium in renewal notices
2. Sending a *leaflet* with renewal notices e.g. a guide to shopping around
3. Simplifying renewal notices by using *bullet points* and *simpler language*
4. Sending *reminders* two weeks after renewal notices

We link administrative data on consumer choices to survey data on consumer beliefs to study the drivers of consumer inertia and shopping around behaviour. We also use aggregated data on price levels from three home and motor insurance providers to understand whether there is evidence of price increases at renewal for some firms in these markets. We note that we do not observe data from the entire market.

Key findings

Changes to prices at renewal

Aggregated data from three home insurance providers suggests that average premiums increase materially over five years until they plateau. These averages include the premiums of customers who retain lower premiums through negotiating prices and those who do not. We also find that only a small proportion of customers renew many times at these firms. We also have data on the expected cost of claims for another home insurer and we find it does not increase with the length of enrolment, suggesting that this is unlikely to be the reason for increasing prices.

[1] http://www.bbc.co.uk/programmes/articles/1ZMshDHTQhv0jc0Wv6DG33v/does-an-automatic-renewal-on-your-car-insurance-pay; http://www.thesundaytimes.co.uk/sto/business/money/Consumer/article1593413.ece

We also have similar aggregated data from three motor insurers. Our evidence on price increases at these firms varies by insurer, with two firms showing little evidence of average premium increases at renewal. We do not have data on the expected cost of claims for customers of these insurers.

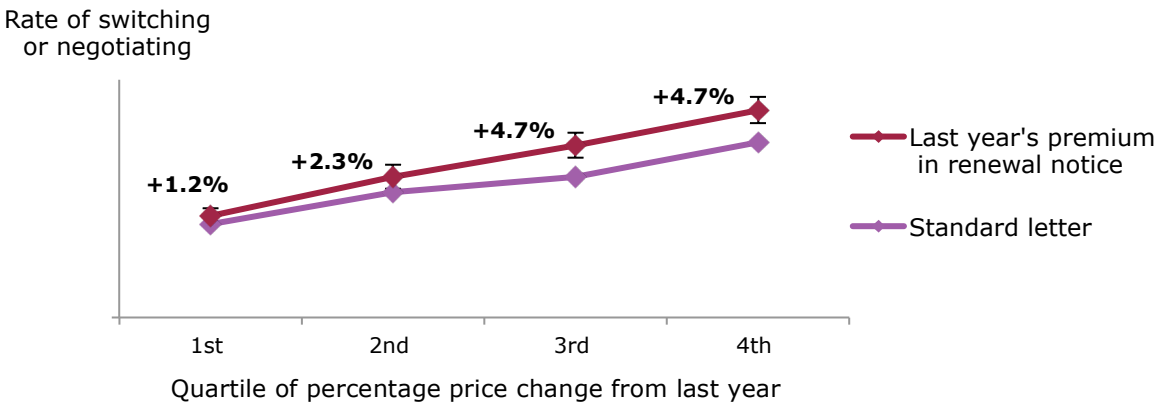
Consumer recall and beliefs

Our survey evidence suggests that over a quarter of motor and home insurance customers either do not recall receiving their renewal notice or do not read them. For the home insurance provider, customers who do not shop around appear to underestimate the benefits from shopping around and overestimate the amount of time it takes. The customers that we surveyed at a motor insurance firm have higher levels of switching and shopping around, and do not appear to underestimate the benefits or overestimate the costs of doing so.

The impact of disclosures on consumer behaviour

We find that for the home insurance customers, who received on average a price increase of over 5% at renewal, disclosing *last year's premium* increases switching or negotiating by 3.2 percentage points. This is equivalent to between 11% and 18% more customers switching or negotiating. Figure 1 illustrates how this effect is larger as customers are offered higher price increases: the effect on the group of customers offered the highest percentage price increase for home combined insurance is 4.7 percentage points (the base rates of switching or negotiating are not shown due to commercial sensitivities).

Figure 1: Impact of last year's premium in home insurance



Note: error bars indicate statistical significance at the 5% level. Consumers are grouped by percentage price change quartiles (where the first quartile received the lowest price change and the fourth quartile received the highest price change). See Table A9 in the Annex for the statistical output.

Average price increases at renewal for the two motor insurers are 0% and 5%, and we find no statistically significant effects of disclosing *last year's premium* on switching or negotiating. However, our survey evidence from one motor insurer suggests it increases shopping around by 7.3 percentage points (although our survey results may be affected by survey sample selection and a smaller sample size).

We tested sending *reminder* letters, text messages and emails two weeks after sending renewal notices with one motor insurer and found no statistically significant effects on switching or negotiating. Using *bullet points, simpler language,* issuing a *leaflet* on how to effectively shop around at renewal or a *leaflet* containing a glossary

of terms had no relevant impact on shopping around, switching or negotiating where these disclosures were tested.

Conclusions

Overall, our evidence suggests that the home insurance market is in an equilibrium where some consumers do not switch or negotiate prices when they rationally should: the expected benefit from negotiating or switching is sufficiently large to outweigh any reasonable search costs. Our findings suggest that the low perceived benefits relative to the actual benefits of shopping around is a key factor that drives inertia. The evidence for home insurance is compatible with the 'shrouded equilibrium' of Gabaix and Laibson (2006) where consumers do not anticipate that they will purchase additional products at high prices when they are purchasing the original product (although we do not have evidence that firms are making overall excess profits). Our evidence for the motor insurance market varies by insurer, with consumers showing fewer signs of inertia and some firms showing little evidence of price increases at renewal.

We show evidence that putting *last year's premium* on renewal notices causes 11% to 18% more consumers to switch or negotiate their home insurance policy. Since the majority of customers who negotiated lower premiums retained similar policy conditions and our surveys suggest that customers who switched also retained a similar level of coverage, disclosing last year's premium likely helps some consumers secure better value for money. Disclosure of last year's premium may also have the potential to help motor insurance customers (or customers in other general insurance markets) who are more inert and receive larger price increases than observed at the firms we worked with.

This is the second time to our knowledge that empirical evidence from field trials has been used to support policy in financial regulation.[2] Our field trials show evidence that many of our tested disclosures have limited impact despite being suggested policies by interested groups or having an impact in other financial markets. This reinforces the broader lesson of the importance of testing disclosures, where possible, before rolling them out across the market. This can ensure we understand which disclosures can be effective in practice, although we recognise that this is not always possible or proportionate.

Further research focusing on auto-renewal might consider further understanding the effects of drawing consumer attention to policy prices since enrolment and the effects of having a default and automatic option to renew.

[2] To our knowledge, FCA Occasional Paper 7 was the first field trial to support financial regulation policy.

2 Context

The vast majority of households in the UK hold at least one general insurance product (Assocation of Bristish Insurers, 2014). In the two largest retail insurance markets, motor insurance with premium income at £9.6 billion and home insurance with premium income at £6.8 billion, the majority of policies automatically renew annually, at a price chosen by the insurer, unless consumers take action within a set time frame (Mintel, 2014). While auto-renewal ensures that insurance cover will continue, the default and automatic choice to renew with the same firm may discourage consumers from checking if they can get a better deal elsewhere.

The high levels of premiums that have been reported by the UK media may be symptomatic of consumer inertia at renewal.[3] Here, inertia refers to a failure to take action when more careful assessment of the situation would lead to action. Consumers may be sensitive to price when they first purchase an insurance product, which puts competitive pressure on firms to acquire new customers. However, if many consumers allow their policies to automatically renew without considering other available offers, then firms may have incentives to discount prices for new customers and offer higher prices at renewal. In a competitive market, firms may have to discount prices in this way to remain competitive. While higher prices at renewal are not evidence of a lack of competition, they indicate that intense competition for new customers does not protect those who do not shop around at renewal. This is relevant in our context given that the Competition and Markets Authority market investigation into private motor insurance found low levels of market concentration and high levels of switching (CMA, 2012).

High switching costs – the effort, time and other cost associated with shopping around and switching – may provide a rational explanation for consumers not switching despite being able to make significant savings. These switching costs can create market power for firms over existing consumers and therefore these consumers face higher prices than new consumers (Klemperer, 1995). However, evidence from the behavioural economics literature shows that consumers can also not take action even when they rationally should.

Thaler and Sunstein (2008) point out that default options and inertia are among the strongest determinants of individual choices. This is particularly true when there are many product features to compare when shopping around e.g. policy premium, excess and coverage (Grubb, 2015). There is also widespread evidence that consumers in some markets systematically misunderstand certain product features e.g. add-ons, which allows firms to charge high prices after consumers have entered a relationship with the firm (DellaVigna and Malmendier 2004, Gabaix and Laibson 2006). In particular, Gabaix and Laibson (2006) argue that information such as add-on prices may be 'shrouded' in markets where many consumers do not anticipate the total amount that they will pay when they are purchasing the primary product. Importantly, these unexpectedly high prices can persist even in highly competitive

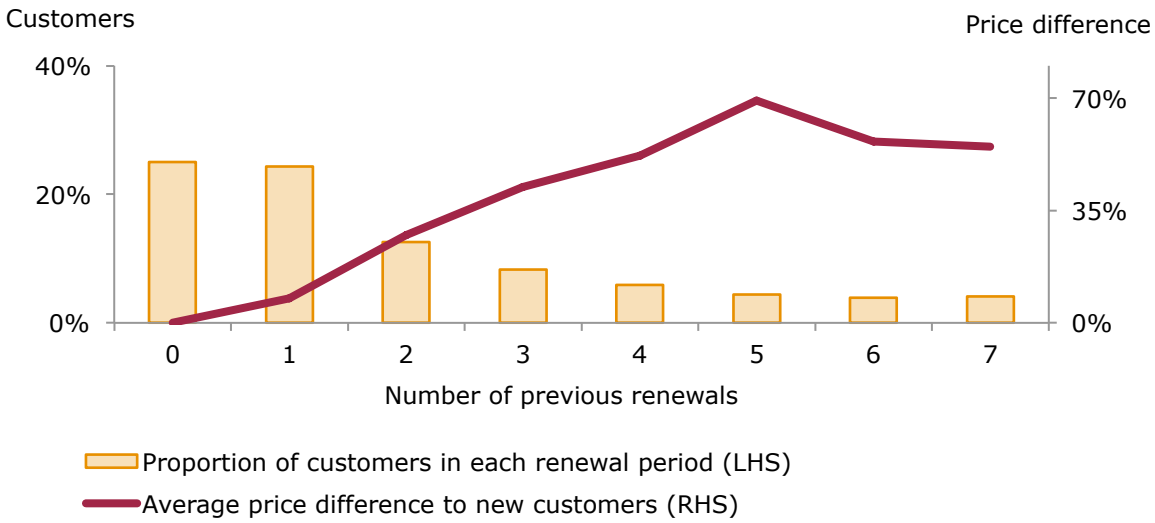
[3] See for example http://www.bbc.co.uk/programmes/articles/1ZMshDHTQhv0jc0Wv6DG33v/does-an-automatic-renewal-on-your-car-insurance-pay; http://www.telegraph.co.uk/cars/advice/why-has-the-cost-of-my-car-insurance-gone-up/; http://www.ft.com/cms/s/0/f561de70-e835-11e4-894a-00144feab7de.html#axzz3gdPBtF20

markets, so regulatory intervention may be needed to secure good outcomes for consumers (Heidhues, Köszegi and Murooka, 2012).

Home insurance

Whilst we do not have market wide data, we have cross-sectional data on customer premium levels aggregated by tenure for auto-renewal policies from three home insurance providers. Figure 2 presents the average percentage premium difference between new customers and existing customers and the average proportion of customers in each renewal period. We find that customers who have been with the same firm for five years pay on average 70% more than new customers. To put the magnitude of the average price differentials in perspective, we note the average market prices are £293 for home combined insurance and £128 for home contents insurance (ABI, 2014). Figure 2 also shows that close to half of customers at these firms have renewed more than twice and that a small proportion of customers have renewed many times with higher average prices.

Figure 2: Home renewal discount structure (average of three firms)



For one of these firms, we could check claims outcomes and found that the expected cost of customer claims does not increase with the length of enrolment suggesting that these prices are not driven by risk factors. The prices may be driven by firms responding to less active consumer behaviour at renewal and increased competition to acquire new customers leading to reduced new business prices among other factors. Many home insurance providers may offer discounts in a bid to retain existing customers; and in some cases these can be for a material amount. This may contribute to the fact that some customers who have been with a firm for a number of years have premiums similar to those at new business. We note that we did not look for and have not found evidence that firms are making excess profits overall and we cannot draw conclusions about the way the entire market operates given our data.

Motor insurance

We also obtained cross-sectional data on average price levels for auto-renewal policies with three motor insurance providers. Our evidence on higher prices at renewal at these firms is varied with some of the firms showing little evidence of average price increases at renewal. At one of these insurers, we find that consumers who negotiate prices at renewal reduce their premiums on average by a fifth. We do not have data on the expected cost of claims for customers at these insurers so we cannot further understand whether these costs are rising or falling with enrolment. We discuss the likely reasons for the observed differences in consumer behaviour between the home and motor insurance markets in the results section of the paper.

3 Research design

We worked with one home insurance firm (Firm A) and two motor insurance firms (Firms B and C). We ran randomised controlled trials (RCTs) with a combined sample of over 300,000 customers and conducted follow-up surveys with 4,000 customers across Firms A and B.

Randomised Controlled Trial

In the UK, consumers can take out motor or home insurance auto-renewal contracts at any point in time. These contracts generally last a year and auto-renew at the end of the policy term unless the customer takes action within a set timeframe. About a month before renewal, insurance firms typically send a letter to notify consumers that their insurance policy is due for renewal. The contents of the letter include the new renewal price and other details about the renewal conditions. These letters are often the only information customers receive from their insurance provider before their policy automatically renews.

In RCTs, individuals are randomly assigned to either a 'control' group or a 'treatment' group. The impact of a treatment can be accurately estimated without bias by comparing outcomes in the two groups. In our case, the control group received the standard renewal letter while the treatment groups received the variants shown in Table 1 (see Annex 2 for stylised versions of the treatments).[4] We test four different types of treatments:

1. Including *last year's premium* next to this year's premium in renewal notices
2. Sending a *leaflet* with renewal notices
3. Simplifying renewal notices by using *bullet points* and *simpler language*
4. Sending *reminders* two weeks after renewal notices

Table 1: The treatments we tested

	Treatment	Type	Firm A (Home)	Firm B (Motor)	Firm C (Motor)
1	Last year's premium	*Premium*	√	√	√
2	Money Advice Service guide	*Leaflet*	√	√	√
3	Glossary of terms	*Leaflet*	√		
4	Salient bullet points	*Simpler*	√	√	√
5	Simpler language	*Simpler*		√	
6a	Reminder letter[5]	*Reminder*		√	
6b	Reminder email	*Reminder*		√	
6c	Reminder SMS	*Reminder*		√	

√ indicates the treatment was tested at the indicated firm

[4] The treatment variants that were tested at each firm depended on what was logistically feasible.

[5] We attempted to test a reminder letter with Firm C but due to data problems the results have not been reported.

We worked with firms from the home and motor auto-renewal insurance markets to identify cross-market lessons related to customer behaviour in the context of auto-renewal. The treatments we tested were either prominent suggested policy solutions or designed using insights from behavioural economics on how to target consumer inertia at different stages of the shopping-around process.

Including last year's premium in renewal notices is a regulatory initiative favoured by the ABI, Which? and MoneySuperMarket.[6] It is expected to empower consumers to more easily compare the premium they paid last year to their renewal offer and make better informed decisions. By 'anchoring' expectations of their new price to what they paid last year, consumers might react differently than if they were to evaluate their new price in isolation. Consumer research by Which? finds that two-thirds of consumers say that having last year's premium would prompt them to look for a better deal with other insurers.[7] We worked with the three firms to present last year's premium in different ways in renewal notices – the stylised versions of the treatments are shown in Annex 2.[8]

Including a Money Advice Service renewal guide – an information *leaflet* - was included in renewal notices to help consumers to shop around effectively. The leaflet outlines the steps that could be taken to shop around, for example, by using price comparison websites. The Money Advice Service leaflet used in this RCT for motor insurance is included in Annex 2. We also tested a glossary of terms leaflet which was suggested by Firm A. It explains important insurance terms, such as 'excess', to help consumers understand their policy better. If leaflets were provided, a clear message box was included on the front letter directing customers towards the leaflet as shown in Annex 2.

Using simpler language and salient bullet points in renewal letters is expected to target our limited attention by making key information more salient and easier to find. Madrian and Shea (2001) find that inattention to information and procrastination are behavioural drivers of low shopping around. We know from the FCA's previous research that even subtle changes to the presentation of information can have large effects on encouraging consumers to take action (Adams and Hunt, 2013).

Sending reminder letters, emails and text messages was intended to nudge customers who had planned to shop around but instead had either procrastinated or forgotten. We know from the FCA's previous research that sending reminders can encourage consumers to switch cash savings accounts when interest rates fall (Adams, Hunt, Vale, and Zaliauskas, 2015).

The RCTs took place between July 2014 and February 2015. For Firm A, we obtained a large sample of home insurance customers who were enrolled in the same auto renewal product and consequently, the sample is not representative of Firm A's entire customer base. To ensure clear results from the trial the sample also excluded customers who were moved across different products during their enrolment period. We split this sample into customers with contents insurance and combined

[6] http://www.which.co.uk/campaigns/insurance-renewals/
http://www.moneysupermarket.com/images/content/MSM-AutoRenewals-Report.pdf
https://www.abi.org.uk/News/News-releases/2014/07/A-new-deal-at-renewal

[7] http://www.which.co.uk/news/2014/02/insurers-should-include-last-years-premium-rate-355338/

[8] Firm A displayed last year's premium after accounting for mid-term adjustments while Firms B and C displayed last year's premium

insurance.[9] For Firms B and C we obtained a sample of motor insurance auto-renewal customers, of whom the vast majority had comprehensive cover. For Firm C, we excluded customers with mid-term adjustments as there were randomisation issues when delivering treatments to these customers. Our approximate final sample sizes after data cleaning are: 160,000 for Firm A combined home insurance, 105,000 for Firm A contents insurance, 29,000 for Firm B motor insurance and 9,000 for Firm C motor insurance.

The firms used pseudo-randomisation techniques to assign treatments to customers: Firm A used the sixth digit of a customer's postcode, and Firms B and C used the last digit of a customer's policy number. Tables A3 and A4 in the Annex show that the treatments are well balanced across customers' observable characteristics at each firm. This is important as it allows us to assign any changes in response rates to the treatments.

Survey

Two to three months after customers received their renewal letter, we conducted telephone surveys with 2,000 customers at each of Firms A and B. The survey asked questions that allow us to understand the root causes of consumer inertia, such as 'hassle costs', and perceived benefits of shopping around. It also prompted customers to recall important features of their insurance product and included questions on whether they actually read their renewal notices and shopped around. The survey response rate was 15.1% for Firm A and 7.4% for Firm B.[10]

Table A1 in the Annex describes the variables in our administrative data set and Table A2 in the Annex shows that there are few important differences in observable characteristics between the population of consumers surveyed and those in the administrative data.[11] We find no statistically significant differences in customer age and the price changes that customers are offered at renewal between the administrative dataset and for those who responded to the survey. However, we do find some marked differences in the percentage of customers who cancelled or negotiated between these two samples for both firms.

[9] Combined insurance is a product that includes both contents insurance and buildings insurance.

[10] 51% and 50% of the attempted survey samples were actually contacted at Firm A and Firm B, respectively.

[11] For Firm A, the survey sample did not include customers who received the glossary of terms treatment. This was done to increase the number of customers we could study in the other treatment groups.

4 Results

This section presents key descriptive statistics from our data, our overall findings from the RCTs and surveys, and more in-depth findings on the impact of the treatments on different consumer sub-groups. In the last part of this section we discuss our results.

Descriptive statistics

To fully understand and interpret our results, it is important to consider the context in which consumers are renewing their insurance products. At renewal, customers were offered different premiums from the premium they paid the previous year at the three firms we studied – the average percentage price changes are shown in Table 2. Average prices at Firms A and C increased while average prices at Firm B did not increase. We also observe large standard deviations at all three firms, which indicate that different customers can receive different price changes.

We measure the impact of our treatments on whether consumers shopped around, cancelled and switched to another insurer, [12] or 'negotiated'. Negotiating typically involves customers making contact with their provider to discuss their policy leading to them receiving a lower price (this may include amendments to cover which we have observed in a small number of cases in our samples). Table 2 shows the percentage of consumers who said they shopped around (which we know from our survey of customers at Firms A and B), the percentage of consumers who switched or negotiated at renewal for Firms A and B, and the percentage of customers who switched at Firm C (which we know from our administrative data). It is clear that there are different outcomes across firms.

Table 2: Baseline statistics

	Firm A		Firm B	Firm C
	Combined	Contents	Motor	Motor
Administrative data				
Mean price change	>5%*	>5%*	0%	5%
Standard deviation price change	12%	11%	22%	15%
Switched or negotiated	18-28%*	8-18%*	47%	23%**
Survey data				
Shopped around[13]	28%	14%	67%	

*Numbers have been redacted due to commercial sensitivities.

**Switched only. We do not observe data on negotiating at Firm C.

We note that some of our samples were selected in a particular way (see Research Design section) so these statistics may not be representative of customers at these firms.

[12] Out of the consumers surveyed across Firms A and B who cancelled their insurance, 100% responded that they switched to another insurance provider when they were asked why they cancelled their insurance. Therefore, we make the assumption that the consumers who cancelled subsequently switched insurers in our analysis.

[13] Survey question: At the time of your most recent motor/home insurance renewal, did you search around for alternative insurance policies e.g. searched online or phone insurers for quotations?

To study consumers who receive different price changes at renewal, we group them by percentage price change quartile (where the first quartile is the group of customers who received the lowest percentage price change and the fourth quartile is the group who received the highest percentage price change).[14] Table 3 shows shopping around rates for these groups of consumers. At Firm A, the levels of shopping around are surprisingly stable across the price change quartiles despite customers being offered significantly different percentage price increases. On the other hand, customers of Firm B shop around more as they are offered higher price increases. This indicates that the customers of Firm B show fewer signs of inertia compared to the sample of customers at Firm A (however this is unlikely to be indicative of Firm A's whole customer base).[15] We note that the survey took place after customers renewed their insurance policy, so their shopping around behaviour is likely being directly influenced by the premiums they were offered. We do not describe these customers further due to commercial sensitivities.

Table 3 – Shopping around for customers offered different price changes

Relative price change quartile	Proportion shopped around
Firm A - Home combined insurance	
1 (lower)	27%
2	26%
3	27%
4 (higher)	30%
Firm A - Home contents insurance	
1 (lower)	14%
2	13%
3	14%
4 (higher)	17%
Firm B - Motor insurance	
1 (lower)	62%
2	65%
3	80%
4 (higher)	81%

Consumers recall and beliefs

We start by studying the information consumers had about their insurance policies after renewal (the surveys were conducted two to three months after renewal). We compare what consumers believe they paid for their insurance policy, which we know from our survey, with what they actually paid, which we know from firms' administrative data. Figure 3 shows which aspects of insurance policies consumers recall correctly (for customers in the control groups). Recall of simple features, such as whether they pay annually or monthly, is good whereas their recall of what they actually paid is relatively poor.[16] This finding indicates that there is an opportunity to improve consumer engagement at renewal. Moreover, this may give context about what information feeds into consumer decisions to renew their policy although

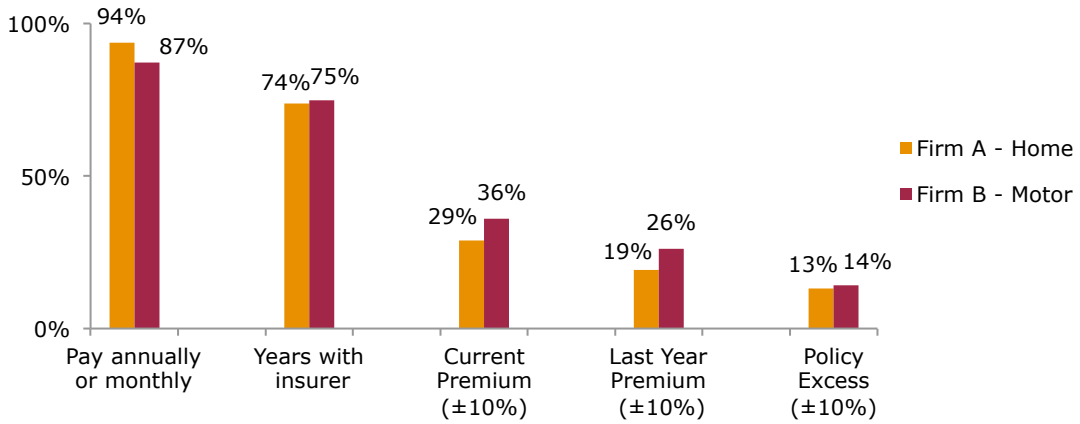
[14] We only consider consumers who were in our survey sample in order to study shopping around behaviour

[15] Shopping around rates may be influenced by many factors such as whether customers are more likely to leave mid-term rather than at renewal for specific products

[16] Customers who either responded "I do not know" or with an answer in pound amounts more than 10% away from what they actually paid are categorised as not being able to recall their current premium, last year's premium and policy excess correctly. Customers who responded with the correct payment method or correct number of years they have been with their insurer are categorised as been able to recall these features correctly.

consumers may have forgotten this information since renewal. For example, about a quarter of consumers can correctly remember what premium they paid last year.

Figure 3 – What consumers correctly recall about their insurance product



Base: customers who renewed in the control group at Firm A (459) and Firm B (295)

Moreover, we can understand whether consumers overestimate or underestimate what they paid for their insurance. Table 4 shows the percentage of consumers who overestimated and underestimated the insurance premiums they paid by at least 10% at Firm A and Firm B. Notably, 21% underestimated what they paid this year while 8% overestimated at Firm A. In contrast, these proportions were more balanced at Firm B. The larger price increases at renewal that we saw for Firm A compared to those at Firm B may be a key factor in explaining these differences.

Table 4 – Do consumers overestimate or underestimate what they pay?

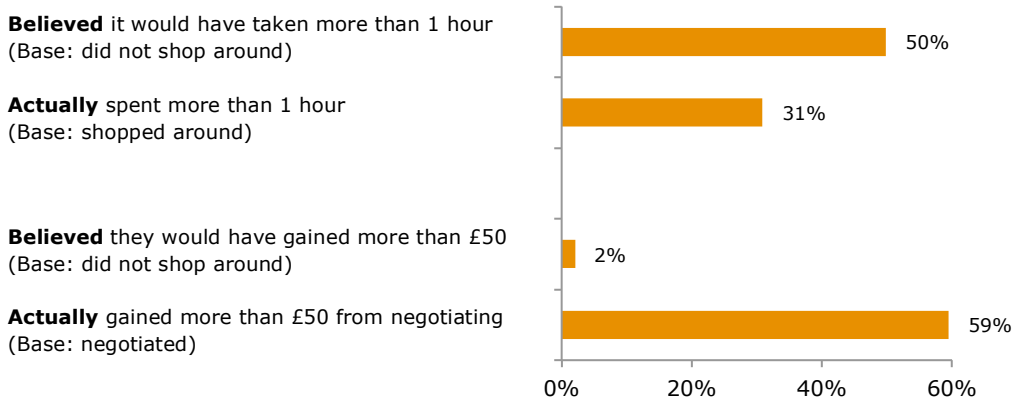
	Firm A (Home)	Firm B (Motor)
This year premium paid		
Overestimated by at least 10%	8%	24%
Correct within 10%	29%	36%
Underestimated by at least 10%	21%	15%
Don't know	42%	25%
Last year premium paid		
Overestimated by at least 10%	8%	15%
Correct within 10%	19%	26%
Underestimated by at least 10%	13%	18%
Don't know	58%	41%

Base: customers who renewed in the control group at Firm A (459) and Firm B (295). We tested and found statistically significant differences at the 5% level between Firm A and Firm B for each statistic.

At the time of renewal, consumers may decide that the savings they could make from shopping around and switching are not worth the time and inconvenience of shopping around. Consumer inertia may be exacerbated if they systematically underestimate the benefits or overestimate the 'hassle costs'. To understand to what

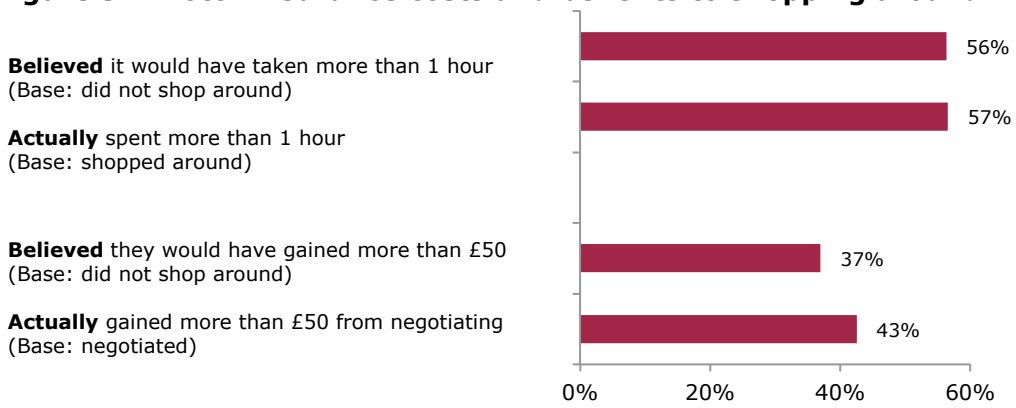
extent these factors drive consumer inertia, we compare how long consumers expect to spend shopping around (for those who didn't shop around)[17] to the actual time it takes (for those who did shop around)[18]. Similarly, we compare what consumers expected to gain from shopping around (for those who didn't shop around)[19] to what consumers gained if they negotiated a lower price with their insurer. We use the gains from negotiating as a proxy of the potential gains that could be made from actively shopping around for insurance policies as we cannot identify how much consumers would have saved from switching given our data (although we note that this likely overestimates these gains for those who do not have savings available).[20] Figure 4 and 5 illustrate this comparison for consumers at Firms A and B.

Figure 4 – Home insurance costs and benefits to shopping around



Base: customers who renewed in the control group at Firm A (459)

Figure 5 – Motor insurance costs and benefits to shopping around



Base: customers who renewed in the control group at Firm B (295)

We found a substantial difference between Firms A and B in terms of how closely aligned the expected costs and benefits are to the realised costs and benefits. We found that 2% of those who didn't shop around expected to gain over £50 from

[17] Survey question: If you had shopped around, how long do you think you would have spent searching and comparing alternative quotes?

[18] Survey question: How much time did you spend searching and comparing alternative quotes?

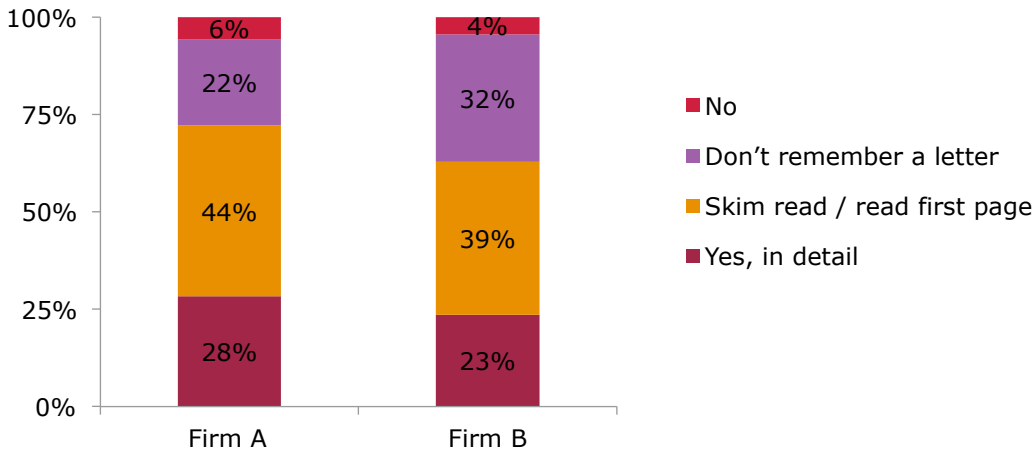
[19] Survey question: If you had searched around, how much, if anything, do you think you would have saved on your insurance per year?

[20] Due to the very small number of customers who switched in our control groups, told us how much they were paying and retained a similar level of coverage, we cannot understand how much customers saved from switching.

shopping around. Of the people surveyed who discussed their cover and terms with Firm A and subsequently received a lower price, 59% of them saved £50 or more. Whilst this is not representative of the savings that all Firm A customers would receive it does demonstrate that many customers underestimate the amount they can save. These numbers are more closely aligned for Firm B. These differences may be partly explained by the higher levels of shopping around at Firm B compared with Firm A, as customers at Firm B would be more aware of the time it takes to shop around and the available prices on the market. While these findings are suggestive of higher levels of consumer inertia at Firm A, we caveat that the differences between beliefs and actual benefits could be driven by real selection, e.g. those who negotiate are more likely to be able to negotiate their price downwards than those who do not.

To fully understand and interpret the effects of the treatments in our field trials, we asked questions in our survey on whether consumers actually read their renewal notices.[21] Figure 6 shows that, across Firms A and B, over a quarter of consumers either did not read their renewal notice or do not remember receiving a letter at all. The most common action that consumers take is to skim read or only read the first page of the notice (price information is prominently displayed on the first pages of the notices with the firms we worked with). As we cannot identify which customers have read their renewal notice in our administrative dataset, we will use an 'intention to treat' approach for estimating the impact of our treatments in our trial, e.g. consumers who were sent a particular treatment are counted as treated even if they have not read the letter.

Figure 6 - Did consumers read their renewal letter?



Base: customers who renewed in the control group at Firm A (459) and Firm B (295)

Treatment effects

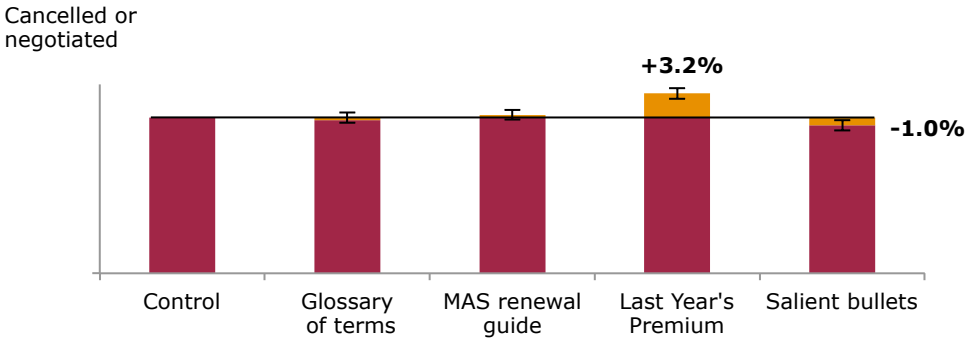
Firm A home insurance

At Firm A, including *last year's premium* in renewal notices increased the proportion of consumers who switched or negotiated by 3.2 percentage points for combined home insurance – this is equivalent to between 11% and 18% more customers switching or negotiating compared to customers who received the standard renewal

[21] Survey question: Did you read the letter?

notice. This is illustrated in Figure 7 and in Table A5 in the annex. The effect was driven by customers both cancelling and negotiating, which is also shown in Table A5. We found that including information *leaflets* – the Money Advice Service renewal guide and a glossary of terms – in renewal letters had no effect on consumer behaviour. Surprisingly, using salient *bullet points* decreased the proportion of customers cancelling or negotiating by 1 percentage point.[22] While this is a small effect, it may be possible that Firm A's standard letter already highlights key information in a way that is more appealing to consumers than using bullets. The base rate of cancelling or negotiating is not shown due to commercial sensitivities.

Figure 7: Average treatment effects– Firm A home combined insurance



Error bars indicate statistical significance at the 5% level. The base rate and statistically significant effect sizes at the 5% level are labelled. Table A5 equation 1.

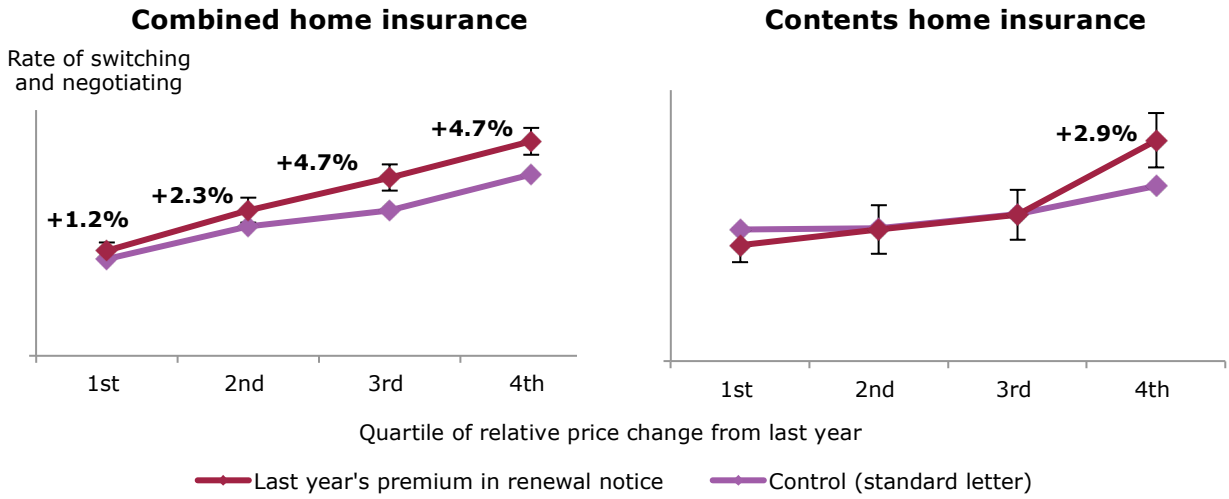
In contrast, we found no statistically significant average treatment effect for any treatment for contents insurance customers at Firm A which is shown in Table A5 in the annex.

We found a clear interaction effect between the effect of disclosing *last year's premium* and the price increase that customers were offered at renewal: disclosing *last year's premium* has a stronger effect as the relative price change from last year increases.[23] These effects are shown in Table A7 and A9 in the annex. To illustrate this result, we group customers by the price change they were offered (price change quartiles, as defined earlier in this section) and we estimate the effect of *last year's premium* on these groups, as shown in Figure 8 (the base rates of switching or negotiating are not shown due to commercial sensitivities). The effect on the group of customers offered the highest price increases for combined and contents insurance was 4.7 and 2.9 percentage points, respectively. These effects are equivalent to between 15% and 30% more customers switching and negotiating in these groups. We also found statistically significant effects for all the other groups for combined insurance but not for contents insurance. This finding is consistent with the higher average price increase we found for combined insurance compared to contents insurance. It may be possible that *last year's premium* could decrease response rates when prices decrease; however, we do not observe enough customers with decreasing prices at renewal to validate this hypothesis. We discuss the likely reasons behind these results later in this section.

[22] We also tested the effects of these treatments on whether consumers shopped around and whether they could correctly recall the premium they paid this year and last year, which we measure using our survey responses – see Table A10. We find no statistically significant effects for both combined and contents insurance at Firm A.

[23] We also tested an interaction term between the treatment and absolute price increase (see Table A7 equation 7 and 8), but we find no statistically significant interaction effect.

Figure 8: Effect of last year's premium by price change quartile at Firm A



Note: error bars indicate statistical significance at the 5% level. Numbers illustrating effect sizes are shown in cases of statistical significance at the 5% level.

While we found varied effects of *last year's premium* on consumers who were offered different price changes, we found no statistically significant differences in effect sizes between different age groups – this result is shown in Table A7. We also found no statistically significant differences in effect sizes between consumers who renewed a different number of times, with the exception of those who have renewed over nine times who were not affected as much, although this may be driven by the smaller average price changes that they were offered (see Table A7). These results are an interesting contrast compared to the different effect sizes found for price change quartile groups, which suggests that consumers in these quartiles are different in ways other than age and length of enrolment. For example, these customers may have different underlying behavioural characteristics which are indicative of how sensitive consumers are to prices at renewal.

Firm B motor insurance

At Firm B, we found that no statistically significant average treatment effects on switching or negotiating - this result is shown in Table A6 and A8 in the annex. However, a key piece of context surrounding this result is that, unlike Firm A, average prices did not increase at renewal and the base levels of switching or negotiating were high (47% switched or negotiated at Firm B while under 28% did at Firm A combined insurance). This is an important consideration if we expect that the effect of disclosing *last year's premium* is dependent on these factors.

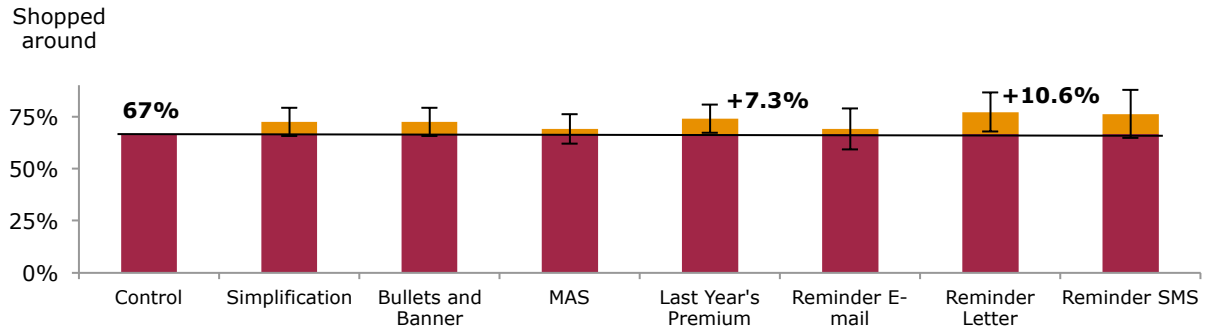
We also tested the effect of *last year's premium* on consumers offered different percentage price changes. We found no statistically significant interaction effect between last year's premium and the price change that consumers are offered. This is in stark contrast to our results for Firm A, where disclosing *last year's premium* had a stronger effect where consumers were offered higher price increases.

While disclosing *last year's premium* did not increase switching or negotiating, our survey data suggests that it did increase shopping around by 7.3 percentage points - an 11% relative increase. This is shown in Figure 8 and Table A11. We note that our survey sample is significantly smaller than our administrative data sample and it may

not be fully representative of the administrative data sample (see Table A2), which may affect our survey results.

We also found that *reminder* letters increase shopping around by 10.6 percentage points. These results are shown in Figure 9 and Table A11. This suggests that while disclosing *last year's premium* and sending *reminder* letters encouraged consumers to shop around, many decided that they already had a good deal and chose not switch their insurance. We also found that *simplifying* letters, using *bullets* and a banner to present information, issuing a Money Advice Service *leaflet*, and email and text message *reminders* had no statistically significant effect on encouraging consumers to shop around at Firm B.

Figure 9: Average treatment effects – Firm B motor insurance



Error bars indicate statistical signiifcance at the 5% level. The base rate and statistically significant effect sizes at the 5% level are labelled. Table A11 equation 1.

We could also test the effects of these treatments on whether they helped consumers correctly recall what they paid for their current and previous insurance policies. We found that *last year's premium* increased correct recall of this year's premium by 10.4 percentage points and using *bullet points* increased it by 9.1 percentage points. These results are shown in Table A11. We found no statistically significant effects for other treatments. These results reinforce the importance of using consumer surveys to obtain a richer understanding of what disclosures are effective in practice: while these treatments did not cause any material impact on cancelling or negotiating, they nudged consumers to shop around, make more informed decisions to renew and helped them recall important information about their insurance policy.

Firm C motor insurance

At Firm C, we found that no statistically significant average treatment effects on switching – this result is shown in Table A6. We note that we do not observe customers who negotiated their insurance at Firm C so cannot measure the effect on this outcome.

We also found that, as with Firm B, *last year's premium* did not have an impact on consumers who were offered different price increases – this is shown in Table A9. It appears that including *last year's premium* increased switching by 4.5 percentage points for the group of customers offered the highest price increase (fourth price change quartile), although this result is not statistically significant.[24]

[24] We also note that the sample of customers at Firm C is smaller than at Firms A and B, which could also be the reason behind the lack of any statistically significant effect.

Discussion

Consumer behaviour in home and motor auto-renewal insurance

As noted in the Context section, Gabaix and Laibson (2006) developed a model that describes how firms lack incentives to draw attention to, or compete on, add-on prices when many consumers do not anticipate the costs of these add-ons. The prices of these add-ons are 'shrouded'. Consequently, firms can charge high prices for add-ons but in a competitive market will need to charge low prices (possibly below cost) for the primary product to attract consumers. 'Myopic' consumers pay high prices for add-ons while 'sophisticated' consumers shop around and avoid high prices. There is therefore redistribution from 'myopic' consumers to 'sophisticated' consumers, since the latter benefit from a lower price on the primary product.

The evidence that we have for the home insurance market is compatible with Gabaix and Laibson's (2006) 'shrouded equilibrium', where purchasing the add-on is analogous to purchasing the home insurance product at renewal and redistribution is from consumers who do not switch or negotiate at renewal to those who do. Our findings suggest that consumers often do not switch or negotiate at renewal when they rationally should because they do not anticipate how much they could save from doing so. We note that we do not have evidence or suggest that firms are making excess profits overall and we do not have sufficient evidence to draw market wide conclusions.

Our findings suggest that motor insurance customers show fewer signs of inertia as they have higher rates of shopping around and they do not appear to underestimate the benefits of switching or negotiating. As consumers become more active, firms have fewer incentives to offer higher prices at renewal which may explain why we did not observe obvious evidence of higher prices at renewal at these firms. We note that we only observe a part of the home and motor insurance markets, we do not observe the full insurance cycle, and that customers at different firms and with products purchased through different channels may behave differently.

There may be many reasons for the differences in consumer behaviour between the home and motor insurance markets. Consumers' sensitivity to the prices available in the market could be influenced by a consumer's age, wealth, income, financial sophistication, the level of attention and effort that they pay to home and motor insurance policies, the nature of the products, the channel through which the product is purchased and many other factors. Customers may also be different across firms within the same market. A low sensitivity to price can also be a sign that consumers have limited alternative options to consider to switch to – for example if a consumer's risk has risen above what other firms are willing to insure; however, we have found no obvious evidence of consumers not switching for these reasons in our surveys.

The salience of prices at renewal

Disclosing *last year's premium*, to some extent, 'unshrouds' prices at renewal and encourages some home insurance consumers to either negotiate a lower price with their insurer while retaining the same level of coverage and policy conditions, or switch to another provider. Of the home insurance customers who switched and that we surveyed, 88% said that they have at least the same level of coverage with their new policy.[25] This suggests that the vast majority of consumers who switch do not

[25] Survey question: Does your current policy have approximately the same level of coverage as your previous policy?

excessively focus on price when choosing a new policy but instead secure better value for money.

We also found that disclosing *last year's premium* had no impact on switching or negotiating for motor insurance consumers. This result is consistent with consumers being more active at these firms: we found higher rates of shopping around and switching, that customers do not appear to underestimate the benefits to shopping around and that prices were more stable at renewal compared to home insurance.

Evidence from the behavioural economics literature can help us understand why disclosing *last year's premium* is helping some consumers make better decisions. Bordalo, Gennaioli and Shleifer (2014) point out that salience only plays a role when attribute realisation differs from expectation and thus draws attention. Kahneman (2012) shows how people may 'anchor' expectations to some relevant or irrelevant figure when estimating unknown quantities. For example, consumers may consider the amount they paid for their premium last year and use this as a benchmark to evaluate the value of their new renewal offer. If last year's premium is much below the renewal offer, this may 'anchor' expectations further away from the renewal offer which then draws attention. Moreover, consumers may interpret an increase in this year's price from last year's price as a 'loss', which may further attract consumer attention due to loss aversion, our tendency for preferring to avoid losses instead of acquiring equivalent gains (Kahneman, Knetsch and Thaler, 1991).

Last year's premium is simple to determine, easy to communicate to consumers and facilitates a comparison between this year's premium and last year's premium. These factors may appeal to consumers, save them time and explain why this disclosure is having a positive impact on switching and negotiating. We note that last year's premium (or the premiums paid in previous years) may often not be a relevant benchmark to evaluate the value of a new premium offer because circumstances change over time. Consequently, disclosing last year's premium will often not reveal the true benefit of switching or negotiating, and particularly for consumers who are already paying higher prices and who do not receive higher prices at renewal. There are also other disclosures that may prompt consumers to act. For example, disclosing the price that similar new consumers are offered may prompt more consumers to shop around if this initial price is lower than last year's premium. However, such a disclosure is more likely to have unintended consequences and may be too complicated to implement, e.g. a firm's product range may change over time which would make comparing prices difficult.

While field trials provide robust evidence on how consumers respond to different disclosures, they do not give a complete picture of how the market might change if the treatments are implemented. Given that a different disclosure can change consumer behaviour, firms may respond to these changes. For example, consumers may become more active as a result of a disclosure when they receive higher prices at renewal and firms may respond by limiting these higher prices.

Gabaix and Laibson (2006) speculate that consumer learning causes shrouding to disappear eventually. For example, if consumers learn to anticipate the possibility of being offered higher prices at renewal, they may start to shop around every year to ensure that they secure a good deal for themselves. It is likely that disclosing last year's premium may speed up this learning process and further reduce shrouding.

For home insurance, of the consumers who switched and that we surveyed, 79% said they retained the same level of coverage, 9% said they increased their coverage, 6% said they decreased their coverage and 7% were uncertain.

For motor insurance, of the consumers who switched and that we surveyed, 85% said they retained the same level of coverage, 4% said they increased their coverage, 2% said they decreased their coverage and 9% were uncertain.

Lessons on effective disclosure

We found that many of the disclosures that we tested had limited impact on increasing switching or negotiating despite being suggested policies by interested groups or having an impact in other financial markets. In particular, we found that issuing *leaflets* that outline the shopping around process had no impact on consumer behaviour across all three firms. This chimes with other evidence from field trials conducted by the Behavioural Insights Team (2015), which found that issuing leaflets to prompt consumers to make more efficient use of home heating controls had no effect on energy use and Hunt, Kelly and Garavito (2015) who found that issuing annual summaries had a limited impact on consumer behaviour in the personal current account market. These findings reinforce the broader lesson of the importance of testing and trialling disclosures before rolling them out across the market, although we acknowledge that this is not always possible or proportionate.

5 Conclusions

Overall, the evidence suggests that the home insurance market is in an equilibrium where some consumers do not switch or negotiate prices when they rationally should: the expected benefit from negotiating or switching for some consumers is sufficiently large to outweigh any reasonable search costs. The evidence is compatible with the 'shrouded equilibrium' of Gabaix and Laibson (2006) where consumers do not anticipate that they will purchase additional products at higher prices when they are purchasing the original product (although we do not have evidence that firms are making overall excess profits and we are not suggesting this). Our evidence for the motor insurance market varies by insurer, with consumers showing fewer signs of inertia and firms showing little evidence of offering high prices at renewal.

We show evidence that putting last year's premium on renewal notices causes 11% to 18% more consumers to switch or negotiate their home insurance policy. The majority of customers who negotiated lowered their premium while retaining a similar level of coverage and policy excess. Our surveys suggest that customers who switched also retained a similar level of coverage, so it is highly likely that customers are obtaining better value for money because of last year's premium. Disclosure of last year's premium may also have the potential to help motor insurance customers (or customers in other general insurance markets) who are more inert and receive larger price increases than observed at the firms we worked with. The impact of disclosing last year's premium is likely to be dependent on the features and price of the product, the costs of switching and the specific characteristics of customers.

This is the second time to our knowledge that empirical evidence from field trials has been used to support policy in financial regulation.[26] Our field trials show evidence that many of our tested disclosures have no impact on consumer behaviour despite being suggested policies by interested groups or having an impact in other financial markets. This reinforces the broader lesson of the importance of testing and trialling disclosures before rolling them out across the market when this is possible and proportionate, as we now understand which disclosures can be effective in practice.

The FCA has recently opened up the opportunity for firms to collaborate with it on testing communications in order to make sure that our rules are more effective – greater benefits for consumers, lower costs for firms – and we have invited firms to approach us to work together.[27]

[26] To our knowledge, FCA Occasional Paper 7 was the first field trial to support financial regulation.

[27] http://www.fca.org.uk/firms/firm-types/project-innovate/test-ideas

Annex 1: Tables

Table A 1 - Description of variables used in our analysis for all three firms

The first column indicates the variable name, the second column indicates which firm the variable is observed at, the third column indicates the unit and the fourth column describes the variable. The variables are defined in the same way for the three firms.

Variable	Firm	Unit	Description
Insurance			
Renewal offer	A,B,C	£ / year	Premium offer quoted in the renewal letter
Premium paid	A,B,C	£ / year	Premium paid this year
Last year's premium paid	A,B,C	£ / year	Premium paid last year
Excess	A,B,C	£ / year	Policy excess this year
Price change	A,B,C	%	Percentage change in renewal offer from last year's premium paid
Returns to negotiating	A,B,C	%	Percentage change in premium paid from renewal offer
Previous renewals	A,B,C	No.	Number of previous renewals with firm
Claims number	A,B,C	No.	Number of previous registered claims with firm
Insurance type	A,B,C	Categorical	Combined, contents, property, comprehensive, third party
Claimed last 12 months	A, C	Binary	If a consumer claimed in the last 12 months
Mid-term adjustments	A,B,C	Binary	If a customer adjusted their policy mid-term
Pay monthly	A,B,C	Binary	Pays their premium in monthly instalments instead of annually
Date of renewal	A,B,C	Date	The date by which a customer can cancel their policy
Date letter was sent	A,B,C	Date	Date that a customer's renewal letter was sent
Outcomes			
Cancelled or negotiated	A,B	Binary	If a consumer cancelled or negotiated during the renewal period
Cancelled	A,B,C	Binary	If a consumer cancelled during the renewal period
Negotiated	A,B	Binary	If a consumer negotiated a lower price during their renewal period
Increased cover	A,B	Binary	If a consumer increased their cover during the renewal period
Demographic			
Age (year)	A,B,C	Year	Age of customer in years
Male	A,B,C	Binary	If a customer is male
Postcode	A,B,C	Categorical	Postcode of insured building

Table A 2 – Survey sample selection at Firm A and Firm B

This table presents summary statistics for the samples we study at Firms A and B. The 'Admin' columns represent all customers who were present in our administrative data sample. The 'Survey' columns represent all customers who responded to the surveys. Certain statistics have been obscured due to commercial sensitivities. Stars indicate statistically significant differences between the Admin and Survey data at the indicated level.

	Firm A (home)		Firm B (motor)	
Variable	**Admin**	**Survey**	**Admin**	**Survey**
Number of customers	269,363	1,994	29,020	1,953
Treatment Firm A				
Control	20%	26%		
Glossary	20%	0%		
Money Advice Service (MAS) leaflet	20%	24%		
Last year's premium	19%	26%		
Simplification	21%	24%		
Treatments Firm B				
Control			16%	19%
Simplification			12%	17%
Bullets			13%	17%
MAS leaflet			13%	16%
Last year's premium			31%	17%
Reminder e-mail			5%	6%
Reminder letter			5%	5%
Reminder SMS			6%	3%
	Statistically significant difference between Admin and Survey?			
Insurance				
Price change (mean)				
Cancelled or negotiated (%)	***			***
Demographic				
Age				

*** p<0.01, ** p<0.05, * p<0.1

Table A 3 - Balance of treatment groups at Firm A

This table shows the balance of treatment groups across observable customer characteristics and exogenous insurance features (age, gender, whether customers claimed in the last 12 months and price change) for Firm A combined and contents (home) insurance. OLS regressions with robust standard errors are used. Wald tests on the equality of treatment coefficients are performed, F-tests and p-values are presented below. The constants for some regressions have been obscured due to commercial sensitivities.

Combined insurance

	(1) Age (year)	(2) Male	(3) Claimed in the last 12 months	(4) Price change
Glossary	0.0032	-0.0010	0.0027	0.0003
	(0.1289)	(0.0042)	(0.0022)	(0.0007)
MAS leaflet	-0.0538	0.0008	0.0011	0.0010
	(0.1291)	(0.0042)	(0.0022)	(0.0007)
Last year's premium	0.0239	0.0037	-0.0009	0.0006
	(0.1302)	(0.0043)	(0.0022)	(0.0007)
Simplification	-0.1030	0.0028	0.0002	0.0013*
	(0.1275)	(0.0042)	(0.0022)	(0.0007)
Constant	***	***	***	***
	(0.0917)	(0.0030)	(0.0016)	(0.0005)
Observations	140,745	140,835	140,835	139,363
R-squared	0.000	0.000	0.000	0.000
F-test	0.406	0.506	0.955	0.745
p-value	0.749	0.678	0.413	0.525

Contents insurance

	(5) Age (year)	(6) Male	(7) Claimed in the last 12 months	(8) Price change
Glossary	-0.3952**	0.0002	-0.0001	-0.0004
	(0.1834)	(0.0049)	(0.0017)	(0.0010)
MAS leaflet	0.0858	-0.0018	-0.0023	0.0003
	(0.1839)	(0.0049)	(0.0017)	(0.0009)
Last year's premium	0.0372	0.0035	0.0019	-0.0011
	(0.1866)	(0.0050)	(0.0018)	(0.0010)
Simplification	-0.0943	0.0015	-0.0002	0.0000
	(0.1828)	(0.0049)	(0.0017)	(0.0009)
Constant	***	***	***	***
	(0.1301)	(0.0035)	(0.0012)	(0.0007)
Observations	99,525	99,574	99,574	98,301
R-squared	0.000	0.000	0.000	0.000
F-test	2.766	0.404	1.967	0.829
p-value	0.0403	0.750	0.117	0.478

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A 4 - Balance of treatment groups at Firms B and C

This table shows the balance of treatment groups on observable customer characteristics and exogenous insurance features (age, gender and price change) for Firms B and C. For Firm C, the sample of customers who did not claim in the previous year was used due to randomisation issues. OLS regressions with robust standard errors are used. Wald tests on the equality of treatment coefficients are performed, the F-tests and p-values are presented below. The constants for some regressions have been obscured due to commercial sensitivities.

	Firm B		
	(1)	(2)	(3)
	Age (year)	Male	Price change
Simplification	-0.3976	-0.0088	0.0027
	(0.3557)	(0.0107)	(0.0056)
Bullets and Banner	-0.0211	-0.0116	0.0065
	(0.3560)	(0.0106)	(0.0046)
MAS leaflet	-0.0682	0.0124	-0.0006
	(0.3553)	(0.0106)	(0.0045)
Last year's premium	-0.1838	-0.0100	0.0058
	(0.2909)	(0.0087)	(0.0036)
Reminder E-mail	-0.3800	-0.0038	0.0013
	(0.4930)	(0.0146)	(0.0069)
Reminder Letter	0.3934	-0.0195	0.0063
	(0.4921)	(0.0147)	(0.0065)
Reminder SMS	-0.3124	-0.0135	0.0024
	(0.4529)	(0.0136)	(0.0071)
Constant	***	***	-0.0099***
	(0.2378)	(0.0071)	(0.0029)
Observations	29,020	29,020	29,020
R-squared	0.000	0.000	0.000
F-test	0.404	2.237	1.022
p-value	0.750	0.0818	0.382

	Firm C		
	(4)	(5)	(6)
	Age (year)	Male	Price change
Bullets and Banner	-0.3101	-0.0023	0.0041
	(0.2696)	(0.0148)	(0.0045)
Shopping Around Banner	-0.1554	0.0207	0.0012
	(0.2632)	(0.0147)	(0.0046)
Last Year's Premium	0.0602	-0.0176	-0.0028
	(0.2658)	(0.0147)	(0.0041)
Constant	***	***	0.0494***
	(0.1901)	(0.0105)	(0.0032)
Observations	9,178	9,127	9,176
R-squared	0.000	0.001	0.000
F-test	0.977	3.514	1.478
p-value	0.376	0.0298	0.228

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A 5 - Treatment effects at Firm A

This table shows the effects of the treatments on whether consumer i) cancelled or negotiated, ii) cancelled and iii) negotiated at Firm A. OLS regressions with robust standard errors are used. The constants for some regressions have been obscured due to commercial sensitivities.

	Combined insurance		
	(1)	(2)	(3)
	Cancelled or negotiated	Cancelled	Negotiated
Glossary	-0.0028	-0.0014	-0.0015
	(0.0034)	(0.0029)	(0.0021)
MAS	0.0040	0.0045	-0.0005
	(0.0034)	(0.0030)	(0.0021)
Last Year's Premium	0.0322***	0.0227***	0.0094***
	(0.0036)	(0.0031)	(0.0022)
Simplification	-0.0102***	-0.0010	-0.0091***
	(0.0034)	(0.0029)	(0.0020)
Constant	0.18-0.28***	***	***
	(0.0024)	(0.0021)	(0.0015)
Observations	140,835	140,835	140,835
R-squared	0.001	0.001	0.001

	Contents insurance		
	(4)	(5)	(6)
	Cancelled or negotiated	Cancelled	Negotiated
Glossary	-0.0039	-0.0044	0.0005
	(0.0030)	(0.0027)	(0.0015)
MAS	-0.0001	0.0006	-0.0007
	(0.0031)	(0.0027)	(0.0015)
Last Year's Premium	0.0038	0.0026	0.0013
	(0.0031)	(0.0028)	(0.0015)
Simplification	-0.0021	-0.0024	0.0003
	(0.0030)	(0.0027)	(0.0015)
Constant	0.8-0.18***	***	***
	(0.0022)	(0.0019)	(0.0010)
Observations	99,574	99,574	99,574
R-squared	0.000	0.000	0.000

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A 6 - Treatment effects at Firm B and Firm C

This table shows the effects of treatments on whether consumer i) cancelled or negotiated, ii) cancelled and iii) negotiated at Firm B and on whether consumers cancelled at Firm C. For Firm C, the sample of customers who did not claim in the previous year was used due to randomisation issues. OLS regressions with robust standard errors were used. The constants for some regressions have been obscured due to commercial sensitivities.

	Firm B		
	(1)	(2)	(3)
	Cancelled or negotiated	Cancelled	Negotiated
Simplification	-0.0035	0.0126	-0.0161*
	(0.0112)	(0.0095)	(0.0094)
Bullets and Banner	0.0038	0.0050	-0.0011
	(0.0111)	(0.0094)	(0.0095)
MAS	-0.0201*	-0.0098	-0.0103
	(0.0111)	(0.0093)	(0.0094)
Last Year's Premium	-0.0105	-0.0023	-0.0082
	(0.0091)	(0.0077)	(0.0078)
Reminder E-mail	-0.0165	-0.0091	-0.0074
	(0.0151)	(0.0126)	(0.0129)
Reminder Letter	0.0105	0.0150	-0.0044
	(0.0152)	(0.0130)	(0.0129)
Reminder SMS	0.0079	0.0115	-0.0036
	(0.0141)	(0.0121)	(0.0121)
Constant	0.4715***	***	***
	(0.0074)	(0.0062)	(0.0063)
Observations	29,020	29,020	29,020
R-squared	0.000	0.000	0.000

	Firm C
	(4)
	Cancelled
Bullets and Banner	0.0070
	(0.0126)
Shopping Around Banner	-0.0045
	(0.0124)
Last Year's Premium	-0.0158
	(0.0123)
Constant	0.2311***
	(0.0089)
Observations	9,178
R-squared	0.000

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A 7 –Last year premium heterogeneous treatment effects at Firm A

These tables show last year's premium treatment effects on whether consumers cancelled or negotiated and tests for statistically significant differences between consumer sub-populations, including previous renewal groups and age bands. It also tests interaction effects of last year's premium with relative price change and absolute price change. OLS regressions with robust standard errors were used.

OLS	(1) Cancelled or negotiated	(2) Cancelled or negotiated	OLS	(3) Cancelled or negotiated	(4) Cancelled or negotiated
Last Year's Premium	0.0358***	0.0016	Last year's premium	0.0341***	0.0059
Previous renewals	(0.0093)	(0.0097)	**Age**	(0.0129)	(0.0068)
1	0.0143*	-0.0137	40-49	0.0078	0.0015
	(0.0085)	(0.0084)		(0.0108)	(0.0070)
2	0.0334***	-0.0007	50-59	0.0305***	0.0157**
	(0.0094)	(0.0088)		(0.0102)	(0.0071)
3-4	0.0106	0.0082	60-69	0.0492***	0.0275***
	(0.0083)	(0.0082)		(0.0100)	(0.0070)
5-8	0.0056	0.0075	70-79	0.0677***	0.0385***
	(0.0085)	(0.0080)		(0.0102)	(0.0070)
9+	-0.0037	0.0079	80+	0.0103	0.0220***
Interactions	(0.0087)	(0.0086)	**Interactions**	(0.0104)	(0.0072)
1 * Last year's premium	0.0009	0.0199	40-49 * Last year's premium	0.0111	0.0019
	(0.0126)	(0.0125)		(0.0160)	(0.0103)
2 * Last year's premium	-0.0029	0.0033	50-59 * Last year's premium	-0.0093	-0.0024
	(0.0137)	(0.0129)		(0.0151)	(0.0104)
3-4 * Last year's premium	0.0067	-0.0071	60-69 * Last year's premium	0.0132	-0.0052
	(0.0123)	(0.0119)		(0.0150)	(0.0101)
5-8 * Last year's premium	-0.0026	0.0006	70-79 * Last year's premium	-0.0135	-0.0135
	(0.0125)	(0.0116)		(0.0152)	(0.0102)
9+ * Last year's premium	-0.0280**	-0.0002	80+ * Last year's premium	-0.0102	0.0092
	(0.0126)	(0.0124)		(0.0154)	(0.0108)
Constant	***	***	Constant	***	***
	(0.0063)	(0.0066)		(0.0086)	(0.0046)
Insurance type	Combined	Contents	Insurance type	Combined	Contents
Observations	54,367	38,896	Observations	54,342	38,879
R-squared	0.003	0.000	R-squared	0.005	0.001

	(5) Cancelled or negotiated	(6) Cancelled or negotiated		(7) Cancelled or negotiated	(8) Cancelled or negotiated
Last year's premium	0.0168**	-0.0059	Last year's premium	0.0144***	-0.0021
	(0.0078)	(0.0038)		(0.0050)	(0.0033)
Relative price change	0.4505***	0.0652**	Absolute price change	-0.0000***	0.0000
	(0.0355)	(0.0266)		(0.0000)	(0.0000)
Relative price change	0.1300**	0.1378**	Absolute price change	-0.0000	0.0000
* last year's premium	(0.0592)	(0.0362)	* last year's premium	(0.0000)	(0.0000)
Constant	***	***	Constant	***	***
	(0.0048)	(0.0028)		(0.0033)	(0.0021)
Insurance type	Combined	Contents	Insurance type	Combined	Contents
Observations	53,736	38,368	Observations	54,367	38,896
R-squared	0.014	0.002	R-squared	0.002	0.000

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A 8 – Reminder treatments for Firm B and Interactions with price increase for Firm B and Firm C

These tables show email and SMS reminder treatment effects on the samples of customers who actually received emails and SMS's from their insurer (as not everyone had email addresses or phone number registered with their insurer). Equation 3 and 4 show last year's premium treatment effects on whether consumers renewed at their quoted price or not by the percentage price increase from last year's price. OLS regressions with robust standard errors were used.

	(1)	(2)
	Cancelled or negotiated	Cancelled or negotiated
Reminder email	-0.0175	
	(0.0154)	
Reminder SMS		0.0221
		(0.0182)
Constant	0.4774***	0.5034***
	(0.0075)	(0.0095)
Sample	Have emails	Have mobile phone no.
Observations	5,769	3,818
R-squared	0.000	0.000

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Firm B

	(3)	(4)
	Cancelled or negotiated	Cancelled or negotiated
Last year's premium	-0.0151*	-0.0155*
	(0.0087)	(0.0090)
Relative price change	0.7344***	
	(0.0365)	
Relative price change	-0.0647	
* last year's premium	(0.0436)	
Absolute price change		0.0007***
		(0.0001)
Absolute price change		-0.0001**
* last year's premium		(0.0001)
Constant	0.4788***	0.4861***
	(0.0071)	(0.0074)
Observations	13,533	13,533
R-squared	0.081	0.033

Firm C

	(5)	(6)
	Cancelled	Cancelled
Last year's premium	-0.0146	-0.0173
	(0.0127)	(0.0125)
Relative price change	0.2828***	
	(0.0514)	
Relative price change	0.1115	
* last year's premium	(0.0828)	
Absolute price change		0.0006***
		(0.0001)
Absolute price change		0.0004*
* last year's premium		(0.0002)
Constant	0.2115***	0.2161***
	(0.0089)	(0.0088)
Observations	4,830	4,830

Table A 9– Treatment effects of last year premium by quartile of price increase at all firms

These tables show last year's premium treatment effects on whether consumers renewed at their quoted price or not by quartiles of price increase from last year's price and renewal offer. OLS regressions with robust standard errors were used. The constants for some regressions have been obscured due to commercial sensitivities.

	(1)	(2)	(3)	(4)
	Firm A Combined Cancelling or negotiating	**Firm A Contents** Cancelling or negotiating	**Firm B Motor** Cancelling or negotiating	**Firm C Motor** Cancelling
Last Year's Premium	0.0119**	-0.0098*	0.0067	-0.0089
	(0.0060)	(0.0055)	(0.0167)	(0.0226)
2nd quartile	0.0469***	0.0009	0.0911***	0.0115
	(0.0063)	(0.0055)	(0.0196)	(0.0233)
3rd quartile	0.0695***	0.0096*	0.2290***	0.0617**
	(0.0064)	(0.0057)	(0.0201)	(0.0246)
4th quartile	0.1204***	0.0273***	0.3870***	0.1029***
	(0.0068)	(0.0059)	(0.0194)	(0.0248)
2nd quartile * Last Year's Premium	0.0112	0.0090	-0.0430*	-0.0280
	(0.0091)	(0.0078)	(0.0242)	(0.0319)
3rd quartile * Last Year's Premium	0.0348***	0.0093	-0.0478*	-0.0293
	(0.0095)	(0.0080)	(0.0247)	(0.0335)
4th quartile * Last Year's Premium	0.0355***	0.0385***	0.0092	0.0455
	(0.0098)	(0.0087)	(0.0238)	(0.0362)
Constant	***	***	0.2968***	0.1878***
	(0.0042)	(0.0039)	(0.0135)	(0.0159)
Observations	53,736	38,368	13,533	4,614
R-squared	0.017	0.004	0.092	0.016

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A 10 – Treatment effects on shopping around and recall for Firm A

This table shows the treatment effects on outcome measures, including whether consumers shopped around, correctly remembered this year's premium and correctly remembered last year's premium at Firm A. OLS regressions with robust standard errors were used.

	Firm A - Combined Insurance		
	(1)	(2)	(3)
	Shopped around	Correctly remembered this year premium	Correctly remembered last year premium
MAS	0.0134	-0.0121	-0.0059
	(0.0376)	(0.0408)	(0.0344)
Last Year's Premium	0.0195	0.0345	0.0305
	(0.0365)	(0.0406)	(0.0343)
Simplification	0.0170	-0.0588	-0.0497
	(0.0380)	(0.0402)	(0.0332)
Constant	0.2564***	0.2766***	0.2045***
	(0.0265)	(0.0292)	(0.0246)
Sample	All		
Observations	1,137	972	1,126
R-squared	0.000	0.006	0.005

	Firm A - Contents Insurance		
	(4)	(5)	(6)
	Shopped around	Correctly remembered this year premium	Correctly remembered last year premium
MAS	0.0002	0.0587	0.0162
	(0.0391)	(0.0545)	(0.0467)
Last Year's Premium	-0.0325	0.0283	0.0157
	(0.0344)	(0.0491)	(0.0431)
Simplification	-0.0059	0.0281	0.0408
	(0.0374)	(0.0512)	(0.0458)
Constant	0.1436***	0.2924***	0.2167***
	(0.0261)	(0.0349)	(0.0308)
Observations	692	642	691
R-squared	0.002	0.002	0.001

Table A 11 – Treatment effects on shopping around and recall for Firm B

This table shows the treatment effects on outcome measures, including whether consumers shopped around, correctly remembered this year's premium and correctly remembered last year's premium at Firm B. OLS regressions with robust standard errors were used.

	Firm B		
	(1)	(2)	(3)
	Shopped around	Correctly remembered this year premium	Correctly remembered last year premium
Simplification	0.0585*	-0.0064	-0.0330
	(0.0349)	(0.0404)	(0.0328)
Bullets and Banner	0.0582*	0.0909**	0.0619*
	(0.0350)	(0.0421)	(0.0348)
MAS	0.0237	0.0392	-0.0179
	(0.0357)	(0.0411)	(0.0334)
Last Year's Premium	0.0728**	0.1044**	0.0164
	(0.0346)	(0.0423)	(0.0339)
Reminder E-mail	0.0251	0.0383	-0.0299
	(0.0506)	(0.0607)	(0.0467)
Reminder Letter	0.1057**	0.0110	0.0289
	(0.0479)	(0.0606)	(0.0502)
Reminder SMS	0.0961	-0.0550	0.0035
	(0.0591)	(0.0736)	(0.0606)
Constant	0.6658***	0.3593***	0.2663***
	(0.0246)	(0.0280)	(0.0231)
Observations	1,953	1,542	1,953
R-squared	0.005	0.009	0.005

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Annex 2: Treatments

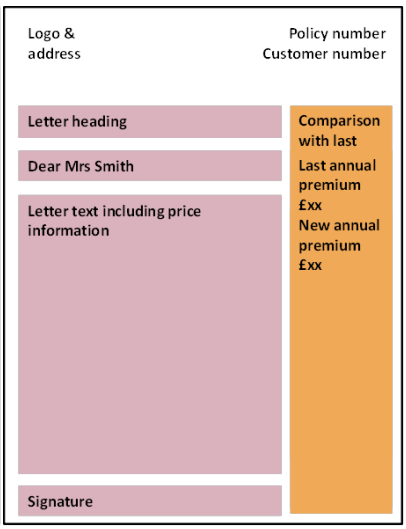
Stylised versions of the treatments and their presentation on the first page of renewal notices at each firm.

The stylised templates below are what the first page of renewal notices look like for the three firms we worked with. Our treatment letters modified the sections highlighted by the orange-coloured areas to either improve the salience of key features of the letters, inform consumers of last year's premium or direct consumers to additional information contained in the renewal packs. For Firm B we also provide stylised versions of the reminders consumers received.

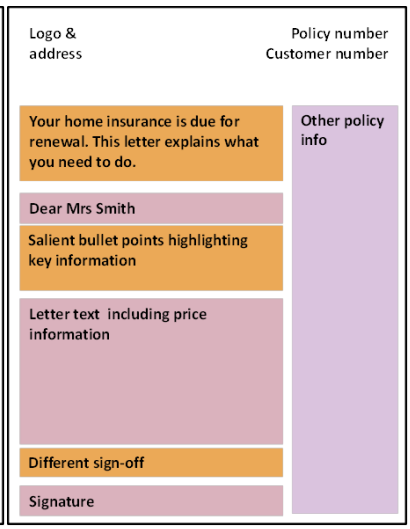
Firm A

Control

Last year's premium



Salient bullets



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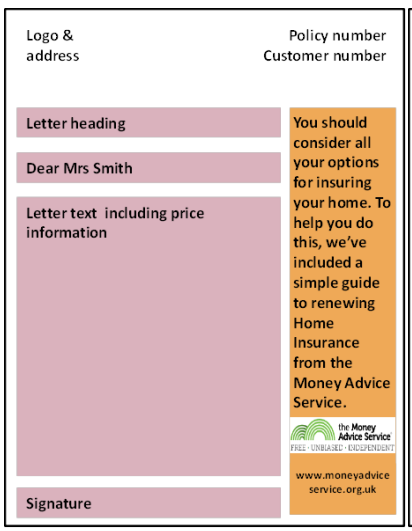
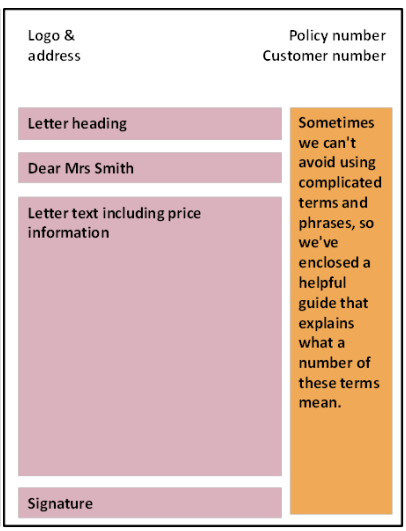


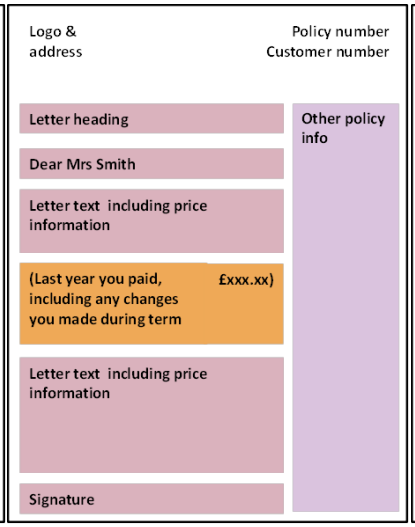
Glossary of Terms



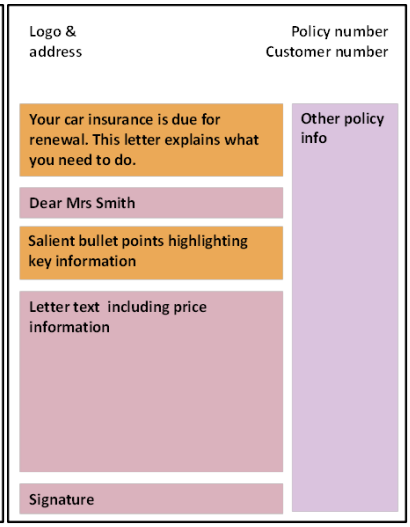
Firm B

Control

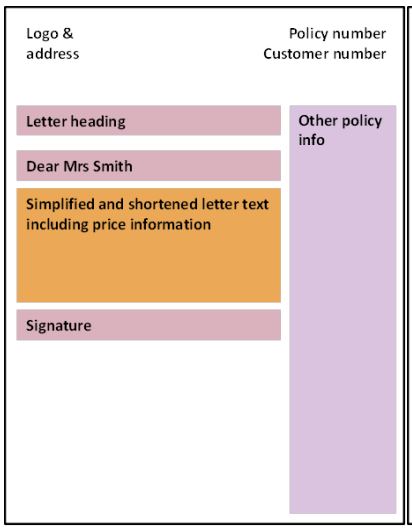
Last year's premium



Salient bullets



Simpler language



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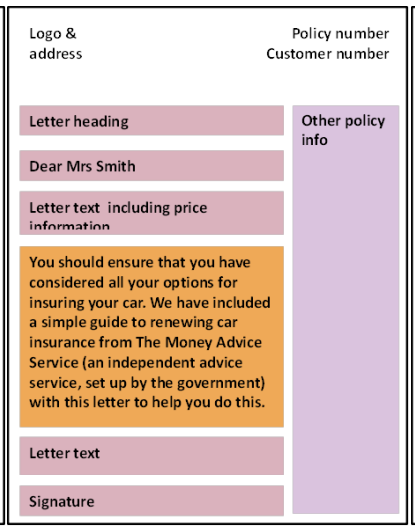
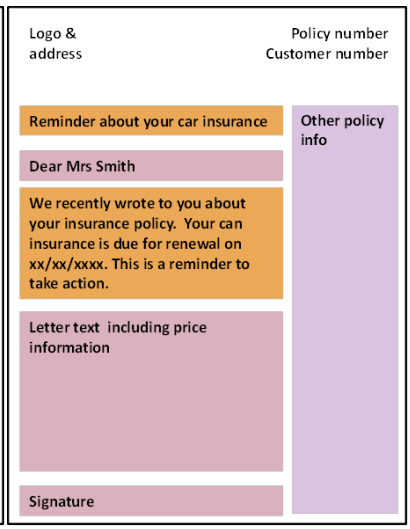
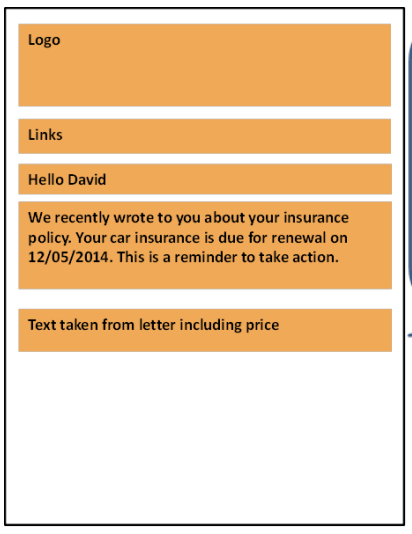


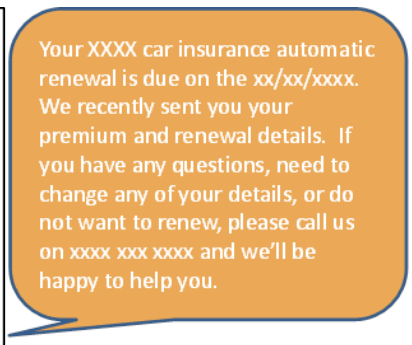
Reminder letter



Reminder email



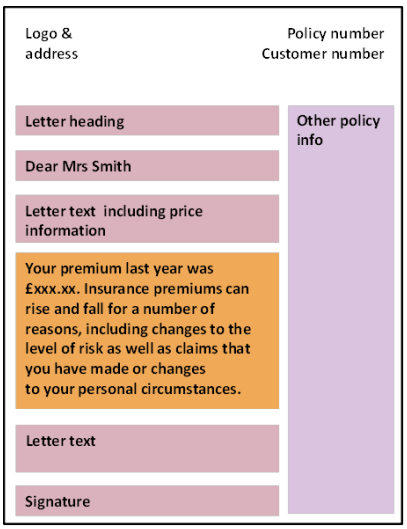
Reminder SMS



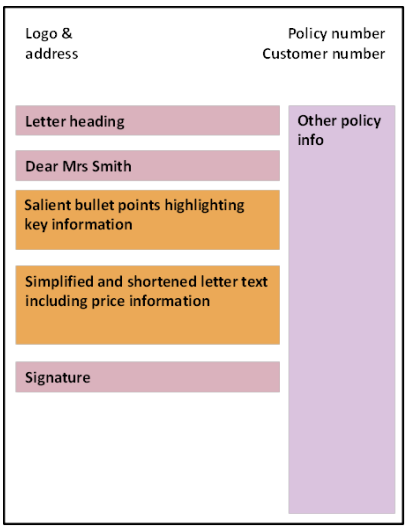
Firm C

Control

Last year's premium



Salient bullets



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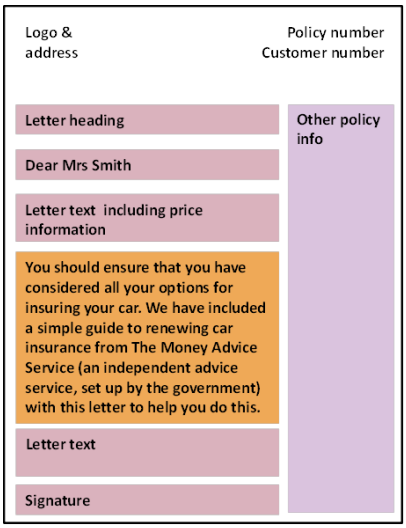

The Money Advice Service (MAS) treatment - a renewal guide leaflet sent with renewal letters

A guide to renewing car insurance

the Money Advice Service

You're about to renew your car insurance policy.

Before you commit – read through this simple guide brought to you by the **Money Advice Service** (an independent advice service, set up by government) to make sure you've got a policy that's right for you.

1 Check your existing policy

Check your renewal documents in case your cover needs have changed since taking out the policy.

Can you reduce your renewal quote by:

- paying annually rather than monthly?
- making your car more secure or changing your driving habits?

2 Work out what cover you need

Make a list of the type of policy, level of cover and features you are looking to renew.

If you bought any add-ons, they are likely to renew alongside your policy. Check the price and cover these give you and whether you can get the product elsewhere. Add-ons can be added or removed from your policy at renewal.

3 Shop around

There are many ways to shop around for car insurance

The main ones are:

- comparison sites
- insurers' own websites
- banks and building societies
- supermarkets and department stores
- insurance brokers or independent financial advisers

Don't shop on price alone as the cheapest policy isn't always the best cover for your needs. Always get alternative quotes. Consider how to protect any No Claims Discount you have built up.

4 Compare like with like

Make sure that the features you are comparing — such as excess amounts — are identical.

Make sure all the policies you are comparing offer all the benefits you need.

5 Renew with confidence

Go back to your current insurer and ask them to beat your best quote.

You have the right to change your insurance provider at renewal.

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online, over the phone and face-to-face.

We give advice, tips and tools on a wide range of money topics.

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Or call our Money Advice Line on
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Typetalk
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If you would like this guide in Braille, large print or audio format please contact the Money Advice Service on the above numbers.

*Calls to 0300 numbers are free if you have free or inclusive call minutes as a part of the contract you have with your landline or mobile phone provider. If you don't have free or inclusive call minutes then calls to 0300 numbers will be charged at standard rates for UK geographic numbers (eg UK numbers starting with 01 or 02). To help us maintain and improve our service, we may record or monitor calls.

Information correct at time of printing (July/August 2014).

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