

## What is Differential Pricing?

Differential pricing differentiates between customers on considerations other than the expected cost of claims and expenses. It describes a range of techniques that combines information about claims experience and expected customer behaviour, for example, the tendency to renew or shop around. Differential pricing techniques are widely used across many industries, for example airlines, hotels, telecoms and on-line retail sites.

The Central Bank has initiated a review into differential pricing focussing on motor and home insurance. The purpose of the review is two-fold:

- 1) To seek to establish the impact of differential pricing on consumers while at the same time establishing the drivers of consumer behaviours, including how consumers engage with the insurance industry.
- 2) To assess the extent to which these pricing practices lead to outcomes that are consistent with the Consumer Protection Code.

## How is my car/home insurance premium calculated and why can it increase or decrease?

An insurance premium is the amount paid to an insurance provider to cover a risk for example relating to a car or home. An insurance premium is calculated by considering a number of individual factors and combining these along with the insurance provider's costs and a margin for profit to determine a price. These factors may be external or personal.

External factors may include the level of awards for injury claims and the cost of replacement parts for a car. Personal factors may include the type of car you drive, the age of your car, the number of bedrooms in your home and your claims history. An insurance premium may be higher or lower based on both these external and personal factors.

## How does Differential Pricing affect how much I pay for my car/home insurance?

Firms may consider customer characteristics or behaviour patterns - for example, how likely a customer is to switch provider - in calculating an insurance premium. These differential pricing mechanisms can result in higher premiums for some customers and lower premiums for others. Why is the Central Bank reviewing Differential Pricing?

The Central Bank is conducting a review to establish the impact of differential pricing on consumers and to understand the drivers of consumer behaviours, including how consumers engage with the insurance industry. The review will also assess the extent to which differential pricing practices lead to outcomes that are consistent with the [Consumer Protection Code 2012](#) (The Code), particularly the requirement for insurance providers to act honestly, fairly and professionally in the best interests of their customers.

## What insurance products will be looked at as part of the review?

The review will look at the private car and home insurance markets as these are two of the most commonly held insurance products in Ireland.

## What is the current status of the review?

The review is divided into three phases. Phase one of the review is completed and it involved an assessment of the market to establish how insurance providers are using differential pricing.

The Central Bank issued a letter to insurance providers in September 2020, [highlighting our initial observations, outlining our next steps and setting out our expectations of firms.](#)

An [interim report](#) was published in December 2020, providing a progress update on our work. It includes initial observations arising from our market analysis (Phase 1) and from the commencement of our in-depth data analysis and consumer research (Phase 2), where significant further work is ongoing.

The second phase of the review is progressing; this involves a detailed data analysis of private car and home insurance policies. As part of this phase we will conclude our consumer insights survey of 5,500

private car and home insurance consumers to further develop our understanding of how consumers engage with insurance providers.

Once this work has concluded, we will publish a report and/or consultation on proposals for reform, as appropriate, in 2021.

### **As the Central Bank are undertaking this review, do I still need to renew my insurance?**

Yes. You should continue to renew your insurance policy as it falls due. It is important to protect yourself should you have a car accident or should something happen in your home. Car insurance is a legal requirement if you want to drive your vehicle in a public place and home insurance is generally required by all mortgage providers as part of securing a mortgage.

### **When taking out or renewing a car/home insurance policy, how can I ensure I am getting best price and cover?**

Consumers are encouraged to shop around when taking out or renewing their policy. This can be carried out by contacting insurers directly or through an insurance intermediary. It is important that consumers seek to ensure they are obtaining the most suitable policy with features and benefits that meet their needs at the most competitive price.

### **What is the Central Bank's role in regulating the Irish insurance market?**

The Central Bank is responsible for the prudential supervision and conduct of business supervision of insurance companies and insurance intermediaries established in the State.

It is also responsible for supervising the conduct of business of insurance companies and insurance intermediaries established in other EU countries providing services to Irish consumers.

The Central Bank is not permitted to introduce prior notification or approval of proposed increases in premium rates; however, insurance providers must ensure their pricing practices lead to outcomes that are consistent with the [Code](#).

## Has the Central Bank taken any other action to protect consumers of insurance products?

In November 2019, the Central Bank [introduced](#) new regulations to provide greater price transparency to customers and to help them make more informed decisions when purchasing motor insurance.

These new regulations require insurers to provide individual policyholders with details of the premium paid for private motor insurance renewals in the previous year. This information must feature prominently on the same page as the renewal premium. Motor insurers must also now provide a quotation for each policy option available to the customer such as comprehensive, third party fire and theft cover, or third party only.

In addition, insurers must also extend the renewal notification period from 15 to 20 working days for motor, health, damage to property and general liability insurance to allow policyholders more time to seek comparison quotes.

## What can I do if I am unhappy with how my insurance provider has dealt with my concerns/queries in respect of my premium?

If you are unhappy with how your insurance provider has dealt with your concerns/queries, you are entitled to make a complaint. The insurance provider must handle the complaint in accordance with the relevant complaints handling provisions of the [Code](#). The [Code](#) requires firms to handle complaints speedily, efficiently and fairly.

For more information read our advice on [how to make a complaint about a financial services provider](#).

If you are not happy with the response you receive from the firm, you are entitled to escalate your complaint to the [Financial Services and Pensions Ombudsman \(FSPO\)](#), who has the statutory powers to investigate complaints against financial services providers.

Please be aware that the FSPO will only consider a case once the internal complaints procedure within the firm concerned has been followed.