

## **Aviva Response to the Second Consultation on amendments to Statutory Instrument No. 74 of 2007 (CP124)**

As we set out in our response to CP114 we are supportive of amendments to regulations which increases the level of information provided to consumers which will assist them to make more informed decisions when taking out and renewing insurance policies. We believe informed consumers make better decisions and this can lead to stability in the insurance market, particularly the motor insurance market which has seen volatility in recent years.

### **Section 2 – Options 1 & 2**

We believe that there is only marginal benefit in the development the proposed changes for customers. In the UK the aim of the FCA's ICOBS 6.1.12A providing the previous years premium was to encourage customers to shop around and therefore promote switching and competition. More than a year after the implementation customer behaviour has not changed dramatically<sup>1</sup>. The number of motor customers who shopped around at renewal increased by 1% to 85.1% for renewals after the FCA's rules took effect on 1 April 2017.

Our understanding is that the changes implemented in the UK impacted insurance classes only related to Personal Lines products (predominately home, private motor and travel insurance). The renewal regulations currently apply to the following classes of business;

1. Class 1 - Accident
2. Class 2 - Sickness
3. Class 3 – Land Vehicles
4. Class 7 – Goods in Transit
5. Class 8 – Fire and Natural Forces
6. Class 9 – Other Damage to Property
7. Class 10 – Motor Vehicle Liability
8. Class 13 – General Liability

Amendments applying to all the above classes would have the effect of applying this requirement on the majority of products written in Ireland including all commercial business insurance. This requirement has a very serious impact on the ability to deliver such a change to systems at a very significant cost. Although the outcome of the proposed change is customers who have access to further information the expected increase in switching and shopping around has not materialised significantly in the UK experience. There is no reason to believe it would be dramatically different here. The delivery of this change may impact on delivery of other changes both within Aviva and at an

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<sup>1</sup> Consumer Intelligence Report, 06/04/2018, William Davies.

[https://www.consumerintelligence.com/articles/one-year-on-from-renewal-price-disclosures-has-anything-changed?utm\\_campaign=Insurance%20Newsletter%20Internal&utm\\_source=hs\\_email&utm\\_medium=email&utm\\_content=62044751&hsenc=p2ANqtz-66c2O97Lpr\\_T15xgYOyeWlfaUNwXyxHjhayvaYAx9m-HBee6kC4oPZ2gFb1b6dfNyr2pHsg5ycbukvwyw-C0i-SoVQ&hsmi=62044751](https://www.consumerintelligence.com/articles/one-year-on-from-renewal-price-disclosures-has-anything-changed?utm_campaign=Insurance%20Newsletter%20Internal&utm_source=hs_email&utm_medium=email&utm_content=62044751&hsenc=p2ANqtz-66c2O97Lpr_T15xgYOyeWlfaUNwXyxHjhayvaYAx9m-HBee6kC4oPZ2gFb1b6dfNyr2pHsg5ycbukvwyw-C0i-SoVQ&hsmi=62044751)

industry level e.g. MTPL (supporting the latest Road Traffic Act aiming to reduce the number of uninsured motorists in Ireland).

Aviva would have a significant challenge in its ability to deliver option 1. Option 2 is a more realistic option to deliver however this development would take approximate 24 months to deliver across our various product lines and systems at a cost we have not been able to estimate at this point.

***Question 1: Do you agree that insurers should include the premium paid by the motor policyholder for the previous year in renewal documentation for comparison purposes? Please outline the reasons for your view.***

We believe that there is only marginal benefit in the development of such a change for customers. With the 1% increase in renewal shopping around experienced in the UK it begs the question whether implementing this proposed change will have the desired benefit for Irish customers and whether they will act differently. Moreover, in accordance with IDD, customers will now also receive an IPID document in each renewal pack, the purpose of which is to also enable them to shop around. It is arguable that the inclusion of the IPID document will be a more effective driver in encouraging a customer to shop around at renewal as by outlining the main covers and exclusions on the policy the customer will be better informed as to whether the product still meets their needs. Price, while important will be a potential driver of change only where the premium offered at renewal is not acceptable to the customer. The inclusion of the previous years premium is unlikely, in our opinion, to make much difference to a customer's decision if the premium at renewal is not acceptable to them.

Providing the previous years premiums to commercial customers could create significant confusion due to the level of complexity attaching to such policies and the risks that are covered. The current years exposure and/or covers may bear no resemblance to the previous year due to, for example, changes in business requirements, risk management changes, exposures etc.

Many commercial products are on a non-adjustable/annual declaration which may mean the premium will not change to reflect changes in risk or such risk changes are only advised at the renewal. This means that the previous years premium cannot be directly linked to the renewal premium this year and this does not support the objective of informing customers of relevant information to encourage them to shop around.

Given the above we believe that the cost benefit for such a development suggests that other changes should be supported by the industry such as the development of the MTPL project which would be put at risk if this requirement was to move forward.

***Question 2: Do you agree that last year's premium should also be provided in renewal documentation for other classes of non-life insurance that fall within scope of S.I. No. 74? Please outline the reasons for your view.***

As outlined above, we would suggest that this proposal is introduced for private motor only.

The size, scale and cost of implementing this change across other classes of non-life insurance would be an enormous challenge to the industry and the ability to deliver this change on such complex

classes of business within our commercial system is questionable. This information may lead to confusion for commercial customers.

We do not believe this proposal is appropriate for commercial motor or other non-life classes where there is much more engagement and broker interaction on renewal premiums.

***Question 3: With regard to mid-term adjustments, do you consider that insurers should provide a policyholder with the premium paid at the inception of the policy and the amount of any mid-term adjustment, as set out at Option 1 above, or the provision of an annualised premium on renewal, as set out in Option 2 above? Please outline the reasons for your view.***

Option 1 would present significant delivery difficulties. Option 2 would be the preferred option notwithstanding the significant developments required.

***Question 4: Is there any other appropriate manner of disclosing last year's premium where a mid-term adjustment occurred that would provide consumers with an accurate comparison? Please outline the reasons for your view.***

No, we believe Option 2 is the best solution.

***Question 5: What do you consider to be an appropriate lead-in time for any necessary system changes in order to provide last year's premium? Please outline the reasons for your view.***

Aviva will need to undertake analysis of 17 personal lines products to be completed across 9 systems encompassing private motor, home and travel. Significant builds will be required to deliver such functionality both on Aviva and third-party systems. A summary of the analysis requirements is set out below to illustrate the scale of the work involved;

- Identify where we take the annualised figure from for each product.
- Check if this figure is stored on each system for each product.
- If premium value is not stored, then need to create a new field to store the figure.
- Ensure that this figure is maintained across all transactions across each product.
- Change each products renewal process to pull out the figure
- Pass to documentation management systems for printing.
- Development required by documentation management systems to output the value on the Renewal documents.
- Understand requirements for changes to EDI messaging.
- Understand requirement for integration of third party systems to support data enrichment and pricing satisfaction in which will allow for us to continue to hold annualised expiring premium on policies removed from Full Cycle.

1. Analysis period estimated at 2 - 3 months covering internal systems
2. Analysis and engagement with Third Parties estimated at 2 – 3 months
3. Development period unknown and is subject to completion of analysis
4. System testing period unknown and is subject to completion of analysis

5. Based on similar documentation testing in the past, estimated effort is up to 5 months

It is very difficult to provide any estimates at this point given the complexity of this change but at a minimum we believe that we could deliver this change within the next 34 months.

### **Section 3.1: Further premium breakdown for motor insurance**

We agree that private motor customers would benefit from this proposed change and would provide them with the information required to make informed decisions about their motor insurance policy both at policy inception and renewal and therefore we support this proposed change.

However, it must be clarified that the insurer will only provide premiums for the policy types which it is willing to offer that customer based on the risk. If a customer were presented with 3 premium prices for 3 policy types but only 2 were available to them, this would cause huge confusion to these customers. Where the insurance provider is not prepared to contract with the customer in relation to one or more policy options, a note stating that this policy cover is unavailable to that customer should appear in respect of that/those policy options.

In addition, it must be clarified that this proposed change will apply to private motor single vehicle policies and not to multiple vehicle policies or other classes of motor business. Given the complexity presented by multi-vehicle policies and commercial motor products we don't believe that it would be possible to provide such comparison information clearly and concisely for customers without causing un-necessary confusion. For example, a policyholder with five vehicles on a policy could be presented with 15 different premium options at a vehicle level if this proposed change applies to multiple vehicle policies. We do not believe this proposal is appropriate for commercial motor where there is much more engagement and broker interaction on submission of such risks for both new and renewal business.

On multi vehicle products various levels of cover will apply to each vehicle type on the policy, particularly in the case of Motor Fleet and Motor trade. If this requirement applied to such multi vehicle products the complexity of providing the various premium comparisons for the customer may mean that the product could no longer be provided to customers. Instead individual policies for each vehicle would have to be arranged increasing the administration and costs to both customer and insurer or the customer would be faced with many premiums to review confusing the position.

In conclusion we support this amendment for private motor insurance policies only which represents the main volume of motor insurance provided in the state and would;

1. minimise cost and administration for both customers and insurers
2. improve the ability for insurers to deliver the change
3. ensure no confusion for customers occurs
4. ensure customers who have multi vehicle policies continue to benefit from their availability in the market

### **3.2. Extension of renewal notification period for motor insurance; and**

### **3.3. Extension of renewal notification period for other non-life insurance classes**

We agree with most of the other respondents to CP114 regarding the complexities of implementing this change and the timeline required. The entire renewal run for each product impacted will require significant change to the renewal coding logic. We accept the change to the renewal period however we believe a lead in time of 12 months would not be unreasonable if it were not coinciding with large regulatory change projects currently in train. We ask the Central Bank to consider extending the timeframe to reflect the current burden on insurers with respect to regulatory change. We recommend the delivery be scheduled for the 12 month period after the completion of the MTPL project to ensure that the industry can meet the delivery dates already agreed with the various other departments.

We appreciate the opportunity to contribute to the second consultation and we look forward to the output.