



Society of Actuaries in Ireland

Non-Life Insurance

Amendments to the Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007

Response to Central Bank of Ireland Second Consultation Paper (CP 124)

September 2018

Preface

The Society of Actuaries in Ireland (“Society”) is the professional body representing the actuarial profession in Ireland.

We welcome the opportunity to submit this response to the Central Bank of Ireland Second Consultation Paper CP 124, “Non-Life Insurance: Amendments to the Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007”.

We would be happy to respond to any questions on this response – please contact Philip Shier, Actuarial Manager, at Philip.Shier@actuaries.ie.

Response to consultation questions

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.

Response:

The Society of Actuaries agree that it would be of assistance to include the previous year's premium paid by the policyholder in renewal documentation. However, it would need to be done in a manner that facilitates the customer's understanding of the premium. This would allow consumers to easily compare the premium being sought on renewal with that which was paid last year.

There are various reasons for changes in premiums between one renewal date and the next. The Society believes that solely providing the previous year's premium, with the provision of no other explanatory information, could potentially lead to the policyholder being uninformed as to the reasons for the changes. The Society believes that the inclusion of the following could provide the policyholder with further relevant information:

- Any changes in the cover, benefits or policy terms being offered; and
- Any changes in the premium paid during the course of the year (due to a mid-term adjustment).

In cases where insurers do not currently provide this information, it should be noted that there will be costs involved such as amending IT systems and revising documentation. The benefits of this should be weighed up against the costs of implementation before proceeding with the legislation.

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.

Response:

The Society of Actuaries agrees, for the same reasons as outlined in our answer to question 1, that it would be of assistance to include the previous year's premium in renewal documentation for other classes of non-life insurance that fall within scope of S.I. No. 74.

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.

Response:

We note that the intention of Recommendation 2 of the CIWG report is to improve transparency for the customer. The option selected should be chosen to achieve this intention. Whilst there are situations where the options outlined may achieve this aim, there are also situations where the options may be overly simplistic to provide transparency for the policyholder, as follows:

- Option 1: It may be difficult for consumers to make comparison as the cost of the mid-term adjustments is likely to be proportionally adjusted for the remaining exposure until next renewal. A direct comparison cannot be made as it is not reflecting 12 months of premium.
- Option 2: Customers may get confused as the annualised premium figure is higher than the premium adjustment they paid at MTA.

Option 2 is probably preferable in many cases as consumers are able to make a like with like comparison based on 12 months premium at renewal.

Note that insurance companies typically use the phrase “inception” in referring to the time the policy was originally taken out by the policyholder. In some instances, this could be many years ago. As the purpose of the legislation is to compare against last year’s premium, the definition of the term “inception” should be clarified in the legislation.

Question 4:

Is there any other appropriate manner of disclosing last year’s premium where a midterm adjustment occurred that would provide consumers with an accurate comparison? Please outline the reasons for your view.

Response:

There are numerous reasons for a customer’s premium to change from one year to the next. The main reasons are as follows:

1. Premium rating changes due to changes in the insurer’s premium rates during the year. This may be an increase or decrease in rates. An identical risk calculated using a different set of rates will give different premium.
2. Premium changes due to changes in the risk being covered. This could be due to choices explicitly made by the customer such as changing their car or adding a driver to the policy. However, the risk could also change due to factors that are not explicitly changed by the customer, such as the ageing of drivers and of the vehicles, the driver gaining one year’s additional discount on the NCD scale, the increase or reduction in penalty points etc.
3. Premium changes due to changes in the cover or benefits being offered. For example, the customer may have added windscreen cover to the renewal quote.

In order for the customer to get a clear understanding of the movement in premiums from one year to the next they would need the changes separated to those changes that are driven by premium rating changes and those that are due to changes in their individual risk and in the cover selected. In practice this is very difficult to achieve and could be judgemental and could cause confusions to consumers. It would also add further complexity for insurers and the increase in cost will ultimately be borne by consumers.

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.

Response:

Consultation would be needed with the market, including broker organisations, to gauge how long would be needed to implement the proposed changes. The Society has not investigated this question.

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Clanwilliam House
Clanwilliam Place
Dublin 2, D02 AV90,
Ireland
Tel: + 353 1 634 0020
Fax: +353 1 634 0039
Email: info@actuaries.ie
Web: www.actuaries.ie
