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## **Legally Privileged and Confidential**

22 October 2021

### **Re: Differential Pricing Consultation – AIG response to specific questions**

Dear Sir/Madam,

AIG Europe S.A. (Ireland Branch) (**AIG**) welcomes the Central Bank of Ireland's (**CBI**) Final Report and Public Consultation following its Review of Differential Pricing in the Private Car and Home Insurance Markets (**Consultation**). We support the responses submitted by Insurance Ireland to the Consultation however AIG would like to see some additional clarification regarding the proposed changes to Pricing Practices.

Accordingly, AIG wishes to make a specific submission in respect of question 7.

### **Pricing Practices**

#### **7. Do you foresee any practical difficulties arising as a result of prohibiting price walking? Please set out these practical difficulties in detail.**

AIG would welcome clarification regarding our interpretation of the proposal, as we consider that some difficulties would arise due to the complexity of the calculations required. Our concerns are predominantly around the capping of price increases at first renewal. In order to ensure premiums lower than the 'Equivalent First Year Renewal Premium' (**EQFRP**), insurers would need to calculate for every policy what the equivalent new business price was one year ago net of discounts, then calculate the equivalent first year renewal technical premium, and then apply the capping based on the equivalent new business price from 1 year to arrive at EQFRP.

We believe this will result in the insurance industry being less likely to cap policies at year 1 renewal leading to higher rate increases for some consumers. The knock-on effect of this will be lower retention for insurers and thereby increasing costs to consumers. Ultimately, it would create higher dissatisfaction with insurance prices and lower confidence by consumers in the Irish insurance industry. In our view, this may also deter insurers from putting in rate changes as they know a rate change will negatively affect retention which could potentially reduce competition in the insurance market.

AIG would further welcome clarification from CBI regarding the calculation of new business discounts and specifically whether the difference between a new business premium and the EQFRP will be treated as a new business discount.

In addition, we would be grateful if the CBI could clarify:

- If the EQFRP should be calculated for every new business policy.
- Should the full difference be displayed as a new business discount.
- In instances where EQFRP is lower than the new business price, including where an online new business discount might still apply, how should such pricing differences be displayed?

We look forward to receipt of the above clarifications and will continue to engage with the CBI in its analysis of the private car and home insurance markets.

Kind regards,

*Angela Teeefey*

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