CBI Review of Differential Pricing in the Private Car and Home Insurance Markets

Response from Allianz Ireland

22nd October 2021

Table of Contents **Page Number**

1 Executive Summary

Allianz Ireland, as a provider of home, motor, pet, marine, and commercial insurance to customers in Ireland for many decades, is absolutely committed to delivering fair outcomes for customers. This ethos is carried through in all aspects of our operations from our engagement with communities across Ireland, our support for individuals, causes, and teams, to our day-to-day customer and consumer interactions.

Customer fairness is central to all activity within Allianz Ireland, including pricing decisions impacting Allianz Ireland customers. The Central Bank of Ireland (CBI) report found that loyal customers were penalised however while this may be a market finding, it is not the case for Allianz Ireland customers. Allianz Ireland does not use customer behaviour models to increase premiums and real time price optimisation is not a practice that we use. Beyond the unwind of new business discounts Allianz Ireland does not continue to charge higher prices for longer tenure customers. We welcome the CBI report and consultation on differential pricing. It is a further positive step forward that Allianz Ireland supports as we continue to bring customer centric outcomes to the home and private car insurance market. We view the proposals as a positive development to ensure that all market participants operate in a consistent and consumer friendly manner.

In the context of this CBI request and Allianz Ireland's response, our customer focus is brought to bear on the operationalisation of pricing models through governance of our pricing model design and implementation. This pricing governance embeds an ethos of continuous improvement, and runs from front-line to Board of Management and Board of Directors for Allianz Ireland. The ethos is supported through training, systems design, pricing review forums, and consumer research to inform our consumer centric approach.

Within our reply we have included detailed responses to the questions raised and look forward to discussing these with the CBI as part of this process. By way of overview, there are some overarching recommendations and suggestions which we ask the CBI to consider to ensure the proposals actually attain their desired impact – that of enhancing consumer protection and consumer fairness. In particular we request the CBI to consider the following important amendments to the proposals:

1. Extending the lead times for firms to implement the required changes. Appropriate lead times are critical to ensure the correct and consistent application of the provisions by all parties . We recommend a lead time of at least 12 months from date of announcement and clarification of the final provisions relating to pricing practices, with a further 6 months to activate the automatic renewal provisions.

2. The proposal to allow the continuation of new business discount and customer-initiated negotiation on price at renewal do not, in our view, go far enough and will have unintended consequences that will negatively impact some consumers if implemented as currently envisaged. We would welcome the opportunity to work with you and share more detail to aid the design of provisions that will be more consumer centric in outcome and help to avoid these unintended consequences.

3. The likelihood of 'price shock' arising from the significant increase that consumers could experience at their first renewal after availing of a new business discounted premium must be avoided, as it will simply serve to further erode trust between insurers and

consumers. As a mitigation measure to avoid this risk, we ask that you consider specifying an upper limit for new business discounts as this will create a more even competitive landscape and drive a focus on brand, service, product, and innovation, all of which will greatly benefit consumers in the long term.

4. We would ask that the CBI considers eliminating customer-initiated negotiation at renewal stage and recommend that the best price is proposed first time, since we know from research that customers do not like to have to negotiate at renewal. This research shows that the best price first time is the primary factor influencing trust in the insurance sector. We have concerns that allowing customer-initiated negotiation would exclude certain consumers and therefore increase inequity and actually lead to further deterioration of trust in the sector.

5. The proposal to require permission in writing for automatic renewal consent has the potential to leave some consumers unintentionally uninsured for their homes and cars, with the impact that mortgages could be delayed, or drivers could inadvertently break the law. In fact, it was to avoid that risk that the automatic renewal facility was introduced. A simpler model is possible and already in practice in other insurance markets and products and this simpler model should be adopted here, as set out in our detailed response below.

6. Having considered the proposed changes in detail and being extremely supportive in principle, we also believe that some clarification is required in relation to the in-scope products so as to ensure a fair and consistent application of the provisions by all market participants. In particular, clarification on “personal” motor being a product covered by the provisions is needed as the definition of ‘personal’ could be subject to misinterpretation given that different pricing structures apply to some categories of motor cover.

2 Pricing Practices

2.1 Do you agree that banning price walking from subsequent renewal is the appropriate solution for the Irish market and its consumers? Please outline the reasons for your view.

We welcome the proposals as a positive step forward and to ensure consistent application of the guidelines by all firms to deliver favourable customer outcomes.

For reasons outlined in more detail in subsequent sections, and to ensure consumer fairness, there are some pricing practices not explicitly prohibited by the proposals but which may have unintended consequences that could negatively impact consumers. In that context, we would ask the CBI to:

- Reconsider its intention to allow customer initiated negotiated renewal discounts to continue as we believe this could disadvantage consumers who are unwilling or unable to engage in negotiation at renewal;
- Consider introducing an upper limit on new business discounts to limit price shocks for consumers at renewal when the new business discount has expired.

2.2 We believe there is a basis for banning price walking in the motor and home insurance markets for personal consumers. Do you agree the products in scope of the proposed ban are appropriate? Please outline the reasons for your view.

We believe that the scope as laid out requires further clarity and would present significant challenges with the current definition of "personal consumer" for Motor products, which is open to interpretation.

The data gathering exercise, detailed analysis, and results presented in the final report were solely based on" ***Private***" Motor and Home Insurance products.

The relationship between price and tenure found for these products in the CBI review may not be present for all ***Personal*** Motor products. Specifically the heterogeneity of some motor policies/portfolios such as Fleet and Commercial Van, and the experience-based rating used for pricing such policies, may not support the consistent application of these guidelines and thereby cause confusion which could unintentionally impact some consumers in a negative manner.

We believe that clarification in this regard is required to ensure that the new provisions are applied consistently across the industry and so that the desired outcome for personal consumers is achieved. Specifically we would suggest that Private Car, Private Motorbike (including tricycles) and Campervan are the appropriate ***Personal*** motor products to be in scope for this proposal in addition to Home Insurance products.

2.3 What do you see as the positive implications, for consumers and the market, if the proposed intervention were introduced?

The CBI report showed that the APTP (Actual Price Technical Price) ratio of ***the market*** for home and motor policies increased by tenure. We welcome the introduction of the proposals as it will ensure that all market participants are treating their customers fairly and there is a level playing field for firms to compete based on product, service, trust and fair pricing.

While the CBI reported that they did not find evidence that vulnerable customers are disproportionately impacted by price walking, Allianz Ireland nevertheless advocates that a positive implication of the provisions is that they will provide a level of protection for some vulnerable customers who may find it difficult to shop around at renewal. Implementing this enhanced protection, albeit potentially an unnecessary extra measure based on the evidence of market practice as outlined in the CBI report, is a welcome step and something that Allianz Ireland supports.

More generally the ban on price walking should increase consumer confidence that they are being treated fairly at renewal. However, this increase in consumer confidence could be diluted by some of the negative implications we note below in sections 2.4, 2.5, 2.6. Customer research has shown that obtaining the best quote upfront is the most important factor for influencing trust in general in insurance undertakings. The adaptations to the proposals that we are recommending the CBI to consider aim to ensure that those proposals help to build trust between the insurance sector and consumers.

2.4 What do you see as the negative implications, for consumers and the market, if the proposed intervention were introduced?

We welcome the proposals as a positive step forward. However some pricing practices not explicitly prohibited by the proposals may have the following negative implications and we ask that the CBI consider these in its design of the proposals:

Negative implications of not prohibiting customer-initiated renewal negotiations

- Independent research shows that the majority of consumers do not like to initiate renewal negotiations (or haggling) and we know some customers may also not be able to. By not prohibiting customer initiated negotiations, only those who can / do engage in haggling will be able to avail of discretionary discounts and this may not address the lack of trust in the sector which we know is an issue;
- This means that the proposals may see renewing customers who do not negotiate paying more than similar renewing customers who do negotiate, even though the risk and cost to serve was the same when the price was calculated. We believe, in the interest of fairness for all customers, that this should be reconsidered.

Negative implications of not limiting pricing differential between new and existing customers

- New business discounts will likely still be the main approach to generate new business and switching as opposed to promoting product, service, trust or pricing (risk selection) innovation;
- Not limiting the pricing differential between new and existing customers maintains a cross subsidy between new and existing customers i.e. It is possible that longer tenure customers may pay more over time in order for the insurance market to fund the new business discount as the main approach to generating new business;
- Not limiting the pricing differential between new and existing customers also raises the potential for significant price shocks at first renewal as the CBI proposal does not limit the new business discounts.
- We therefore ask that you consider specifying an upper limit for new business discounts as this will create a more even competitive landscape and drive a focus on brand, service, product, and innovation, all of which will greatly benefit consumers in the long term.

2.5 Do you have any views on what, if any, unintended consequence, may arise in prohibiting price walking? Please outline the reasons for your view.

Potential unintended consequence of prohibiting price walking

We welcome the proposals on balance as they benefit customer fairness, however there are some potential unintended consequences which could inhibit innovation, such as;

- The proposals as written will mean that new business discounts will likely remain the main approach to generate new business as opposed to promoting product, service, trust or pricing (risk selection) innovation.
- The current proposals may also serve to deter insurers deploying new pricing tailored to customer needs (for example as a result of a new claims models) as the existing book would undergo significant price changes. This may lead to less innovation in statistical claims modelling which ultimately may disadvantage both customer and insurer as premiums may not be as closely aligned to underlying insured risks anymore. There will be limited ways to get them more closely aligned without leading to price shocks at renewal.
- The introduction of new questions/rating factors becomes difficult, for the same reason as above.

Potential unintended consequence of not prohibiting customer initiated renewal negotiations

The proposals risk the outcome of lower prices remaining available only to those willing and able to shop around and negotiate (haggle) because:

- Only those customers who are motivated and have the ability both to shop around at renewal for alternative new business prices and/or to haggle for discretionary discounts will receive lower prices. As a result, some vulnerable customers will be disadvantaged as an unintended consequence of the proposals;
- It may also mean that the level of trust between consumers and the industry is unlikely to improve which is contrary to what the proposals are seeking to achieve;
- APTP may continue to increase by tenure as a result of consumers' behaviour with lower tenure customers more likely to ring to negotiate.

Potential unintended consequence of not limiting pricing differential between new and existing customers

The impact of the change to require the removal of the full new business discount at first renewal is uncertain, however it may lead to the following outcome:

- A premium shock for the consumer at first renewal if a high new business discount must drop off. Consumers shop around for more competitive premiums and this results in lower retention rates which in turn means that the costs of acquiring new customers to replace lost business will be factored into prices.

Potential for inconsistent interpretation by all firms due to wording

Some provisions require further clarification or re-wording to ensure consistent application by all firms and to avoid unintended interpretations:

- Regulation 2(2)(a) states that when calculating the equivalent first renewal price, an insurance undertaking or insurance intermediary shall assume that the personal consumer is using the same channel as they used when they first renewed the insurance policy concerned. As written, this would be interpreted, for example, that if a customer is about to renew for their 4th year in an online channel even though they might have had their 1st renewal in a telesales channel, that the equivalent price that they should be compared against should be the telesales channel. This doesn't seem to make sense. It would seem more appropriate for the equivalent first renewal price to be based on the latest renewal channel, latest mid-term alteration channel or the current renewal channel whichever is most appropriate dependent on the insurer/intermediary's pricing process. (i.e. the customer might get issued a telesales renewal offer as that was their latest renewal or interaction, but they might wish to renew online in which case the equivalent 1st renewal price should change from telesales to online).

- Provisions 1(1)(b) & 4 & 6 all implicitly imply that add-ons, commission, broker fees, direct debit fees, should all be considered when considering the equivalent year 1 renewal price. However, to ensure consistency of application by all firms it would be beneficial to explicitly require that commission write offs, broker fees write offs, cashback, direct debit fees, promo codes, free period(s) of cover, retail vouchers, loyalty scheme points, other cash equivalent incentives and other new business discounts to the premium must be included in the equivalent first renewal price calculations.

- Regulation 8(d) implies that the level of negotiated discount available shouldn't be based on the increase in premium since new business or last renewal as this would be a proxy for tenure but to ensure consistency in application by all firms and to avoid any customer detriment it might be worthwhile specifically including this as an example.

2.6 Do you have any views on what, if any, unintended consequence, may arise if both dual pricing and price walking were prohibited? Please outline the reasons for your view.

A ban of both dual pricing and price walking may lead to the following unintended consequences:

- May make it more challenging for a new entrant to build share;
- For some customers, particularly those who are vulnerable due to low income levels and who rely on the ability to shop the market to limit their spend on insurance, if the changes result in a restriction of new business offers in the market these customers may experience a negative outcome relative to today's market.
- If customer initiated renewal negotiations can continue, the unintended consequences of this noted in section 2.5 would also apply.

2.7 Do you foresee any practical difficulties arising as a result of prohibiting price walking? Please set out those practical difficulties in detail.

The proposed date of application of the new provisions poses a significant issue. The final guidelines are not expected to be published until January 2022. Significant changes to systems will be required, including changes to intermediary systems. There is also a significant lead in time for changes to renewal rating to be allowed for depending on the channel involved. We strongly recommend a lead in time of at least 12 months from the date of publication of the final guidelines. We also note that the Financial Conduct Authority (FCA) underestimated the extent of the changes required and subsequently extended their implementation date. They originally published their consultation guidelines in September 2020 with an October 2021 expected implementation date which was subsequently pushed to 1st January 2022 as it wasn't feasible.

We also suggest a phased approach to the implementation of the Pricing Practices and the Automatic Renewal sections, see related response to question 4.5.

As per the potential unintended consequences outlined in response 2.5, the practicalities of implementing tariff refreshes will become challenging as it will no longer be possible to moderate the impact of premium changes on policies to the same extent.

The ability to make price comparisons across renewals and between renewal books (if a book is closed to new business) may be difficult for non-private car personal motor business e.g. special vehicle types, fleet rating.

Provision 2(2)(a) is not practically implementable based on its current wording, i.e. it would not be always possible to know the 1st renewal channel of all historic policies. As per comments in relation to clarification of some provisions in answer 2.5 it makes more sense from a consumer perspective that the equivalent 1st renewal price is calculated with the most recent or current renewal channel used by the consumer.

2.8 Do you foresee any practical difficulties arising if both dual pricing and price walking were prohibited? Please set out those practical difficulties in detail.

No additional practical difficulties other than those already outlined in previous question.

2.9 Do you have any alternative proposal(s) that would address the concerns arising from differential pricing practices in the Irish private car and home insurance markets?

We recognise that every proposal will have pros and cons and there is no single solution available that will resolve all issues but in Allianz Ireland we are supportive of initiatives to ensure fairness for customers as outlined in our responses above.

2.10 Do you see dual pricing and/or price walking practices as posing a reputational risk to the insurance industry? Please outline the reasons for your view.

We agree that both dual pricing and price walking pose a reputational risk to the industry, and this is evident in the low level of trust between customers and the insurance sector.

It would appear that current market practices by some firms lack transparency and are not intuitive for customers. This is demonstrated by the CBI's consumer research which shows that a significant number of customers are unaware of the practices in place by some firms in the market.

The proposals are a positive step towards improving the level of trust between consumers and the industry but we would welcome the CBI's consideration of the limitations we have identified in relation to some of the current proposals and the ability for them to address the ongoing issue of trust in this sector.

3 Pricing Practices: Annual Review and Record Keeping

3.1 Do you agree with the proposed requirement on insurance providers to carry out an annual review of their pricing policies and practices? Please outline the reasons for your view.

We welcome the continued emphasis from the CBI on all insurers improving governance, control and oversight of pricing practices. At Allianz Ireland we review and strengthen our practices, policies and procedures on an ongoing basis. Our Board approved pricing philosophy is fully embedded in Allianz Ireland's product oversight and governance framework. Customer impact is considered up front, influences our decisions, and is at the core of the pricing governance we already have in place in Allianz Ireland. This particular proposal by the CBI should provide additional protection and assurance for customers by ensuring that all market participants act in a fair and consistent manner with the appropriate level of oversight, and that is something that we welcome.

We believe that it is important to place an onus on all insurers to have appropriate governance in place to ensure pricing practices are subject to due consideration by the Board and that the impact on their customers is fully considered in pricing decisions.

We believe that the requirements in relation to annual review and record keeping should help to increase focus within the industry on ensuring pricing practices provide fair consumer outcomes beyond tenure. This should reduce the risk of poor consumer outcomes and reduce reputational risk for the industry if applied consistently by all participants.

3.2 Do you agree with the focus of the review? In particular, do you see any gaps in the proposed content of the review? Please explain your answer.

Our interpretation of the guidelines is clear in that the CBI's intention that, in addition to assessing adherence to provisions 1 – 9, firms are also required to adhere to general principle 2.1 of the Consumer Protection Code. However, a firm could take the wrong interpretation that the review is just narrowly focused on adherence to provisions 1 – 9.

Equally the interpretation of provision 9(4) could be misinterpreted by a firm that, when implementing a material decision, that firms should just consider adherence to provisions 1 – 9. However clearly that isn't the intention.

We expect that the CBI plans to provide clarity as part of the upcoming changes to the Consumer Protection Code. However, we feel it is important to draw attention to this as further clarity and guidance will support the industry, and in turn support consumers, in terms of how undertakings can ensure continuing compliance with the provisions of the Consumer Protection Code which are already in effect (i.e. provision 2.1 of the Consumer Protection Code) and will also avoid diverging practices evolving.

3.3 Do you agree with the proposal that, prior to implementing a material decision, insurance providers will be required to retain a record of their consideration of the extent to which that decision is consistent with the new rules? Please outline the reasons for your view.

Yes we agree, however the record of a material decision should be more in depth than only consideration of adherence the new rules. We know this is not the CBI intention but it could be interpreted as so.

3.4 Do you foresee any practical difficulties arising as a result of the proposed measures? Please explain your answer.

We don't see any practical difficulties in principle but we believe that further guidance would support insurers demonstrating they comply with the spirit, not just the letter, of the new provisions. As outlined in response to section 3.2 above, we expect that the CBI plans to provide clarity and guidance as part of the upcoming changes to the Consumer Protection Code. However, we feel it is important to draw attention to this as this will support the industry in terms of how undertakings can ensure continuing compliance with the provisions of the Consumer Protection Code and any amendments thereto.

3.5 Do you have any views on what, if any, unintended consequences, may arise from the introduction of the proposed measures? Please explain your answer

The only unintended consequence that we can see is if there is misinterpretation by firms that the review and material decisions are only focused on adherence to provisions 1 – 9, resulting in inconsistency in how these proposals are implemented by firms. In this regard, as outlined in response to section 3.2 above, we would welcome further clarity and guidance from the CBI in respect of the application of the Consumer Protection Code in order to ensure continuing compliance with the provisions and to avoid any diverging practices evolving.

4 Automatic renewal

4.1 Do you agree that an insurance provider may not renew an insurance policy automatically unless a personal consumer has provided his or her written consent prior to first entering into the automatic renewal arrangement? Please outline the reasons for your view.

We agree that there is a need to ensure that all firms are being transparent in their customer journeys, processes, and documentation when it comes to customers who choose to pay for their insurance by instalments.

Where a policy is on automatic renewal it is critical that all customers are aware as part of their renewal documentation that the policy will automatically renew unless they inform the provider that they do not wish to renew.

The market analysis conducted by the CBI doesn't appear to identify any particular customer detriment with the exception that the documentation and transparency for some firms isn't at the level expected by the CBI.

We would have concerns that a potential unintended consequence of the proposed remedy by the CBI is the increased risk of consumers finding themselves inadvertently uninsured as a result of not opting in to automatic renewal.

However, we do not agree with the proposed specific requirement for **written** consent as this has the potential for significant consumer detriment. Specifically:

- This would be the only aspect of the insurance journey that would require written consent and would mean that some customers would need to wait on average an additional 3-5 days to receive the written consent document and return it for processing.
- Practically this requirement would mean that some customers wouldn't be able to bring a newly purchased car home from a car dealership. Mortgage approval could be delayed, or homes left uninsured after customers acquire the keys to their new home.
- This will put customers at risk of being without insurance cover for Motor or Home products when they urgently need it, and will also impact the most financially vulnerable who rely on paying by instalments.
- In particular insisting on written consent doesn't take into account customers who are visually impaired or have poor literacy skills.
- An approach of written consent would be contrary to the shift to reducing paper in line with our environmental commitments on sustainability and those of the CBI.

We don't see any consumer value in insisting on a written consent when digital and verbal consent are established practices for all other aspects of the insurance customer journey and would see it as an additional burden on the consumer. For example, European Communities (Distance Marketing of Consumer Financial Services) Regulations 2004.

The provision needs to take into account the various ways in which a customer may enter into an insurance arrangement dependent on channel and the reference to the consent required should be consistent with this customer journey.

4.2 Do you agree with the information to be provided to the personal consumer prior to the automatic renewal of an insurance policy? Please outline the reasons for your view. Are there any further details that should be included? If yes, please explain your answer.

We agree that the information to be provided will ensure consumer clarity in a consistent way across the market.

We would question the practicality of "a hyperlink to, or website address of, the relevant section on the Competition and Consumer Protection Commission's website relating to getting insurance quotes" as it may be difficult to keep such a website link up to date.

4.3 Do you agree with the proposed requirements relating to the cancellation of an automatic renewal arrangement? Please outline the reasons for your view.

Yes we agree with the proposed requirements, however we believe provision 12(2) is already a requirement under SI 74/2007 Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007 as amended by SI 577/2018 Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) (Amendment) Regulations 2018 so it might confuse insurer's obligations in relation to pay in full customers.

4.4 Do you agree that these proposals should apply to the automatic renewal of all personal non-life insurance products? Please outline the reasons for your view.

Yes, given the customer payment process will be shared and consistent across all personal non-life insurance products.

However, it will cause additional practical difficulties in order to implement across a wider range of products. See response to 4.5.

4.5 Do you foresee any practical difficulties with the implementation of the proposed requirements on automatic renewal? Please set out those practical difficulties in detail.

We understand that the intention of provision 14 is that provision 10 will only apply to new policies incepted for the first time from the date of commencement of these provisions. We would appreciate if this can be clarified as 14(1) & 14(2) are difficult to interpret, and therefore open to interpretation and inconsistent application.

More specific requirements as to exactly what is expected by firms in relation to digital and verbal consent is required to ensure consistent treatment for customers by all firms. See related comments in relation to the practicalities of written consent in answer 4.1.

The requirements in relation to:

a) automatic renewal in terms of systems changes required across all customer facing applications to capture the CBIs specific requirements in relation to digital consent; and

b) the documentation changes required to comply with the specific CBI requirements set out in the provisions, are significantly more onerous than the Pricing Practices provisions 1 – 8.

We suggest staggering the implementation of Automatic Renewal provisions 10 – 14 to 6 months after the extended implementation date of Pricing Practices provisions 1 – 8. This will also enable any changes in documentation that could come from the Consumer Protection Code review to be implemented in parallel to avoid changing documentation packs twice.

We would also suggest that the initial implementation focus on the Personal Motor and Home products, and that additional time be allowed for implementation across the remaining non-life insurance products.

4.6 Do you have any views on what, if any, unintended consequences, may arise from the introduction of the proposed measures? Please explain your answer.

The potential for material customer detriment as a result of the proposed provisions could be very significant for those customers affected. Potential unintended consequences include:

- Customers finding themselves in a situation where they are uninsured at point of claim;
- Potential negative impact on a customer's mortgage if home insurance is cancelled as a result of new guidelines;
- Some customers may face conviction as a result of being uninsured accidentally as a result of the new guidelines;

The consent required should be consistent with the customer journey of an individual customer. This is of particular importance for vulnerable customers.