

## Review of Differential Pricing in Private Car & Home Insurance Markets

### Aviva Insurance Ireland DAC Response

#### Part 1 - Pricing Practices

- 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**

Aviva is broadly supportive of a ban on systematic increases in customer premiums based on tenure from subsequent renewal. We believe this proposal will generally reduce the level of cross-subsidisation across tenures and will help to promote consumer confidence in the market overall.

We support the approach taken by the Central Bank in the proposed regulations to apply restrictions on the subsequent renewal price that is proposed to the customer rather than applying it to margins within the price setting process. We believe this approach to be simpler for consumers to understand and indeed less complex for insurers to implement consistently, while still delivering on many of the key objectives of the Central Bank.

It is important to note that the regulations, as proposed, will not entirely prohibit the use of some differential pricing techniques (e.g. price elasticity modelling, retention/lapse modelling or conversion rate modelling and/or the use of caps/collars). These practices can result in consumers paying higher or lower prices than they otherwise would. However, the proposed regulations limit the extent to which these differential pricing techniques can be used to set prices higher than they otherwise would have been, including prohibiting the application of 'loyalty penalties' to longer tenure customers. In our view, some of these techniques such as caps/collars can be valuable tools that, when properly managed and with appropriate oversight, can enable management of better customer outcomes – e.g., when used to limit the scale of price change that individual consumers will see year to year. However, to ensure consistency of application and a level playing field, we propose that the Central Bank should set clear expectations for the standards of oversight as part of the Pricing Practices governance framework and annual review requirements (see Part 2, Question 2).

We also support the implementation of the ban on price walking through legislative measures that will apply consistently across the Irish market. The ability of any one insurer to move in isolation is significantly curtailed as it would potentially compromise financial stability and/or impact some customer segments that benefit from the current market conditions. Insurers are also prevented from acting together due to the restrictions arising from competition laws.

- 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.**

Yes. However, we would note that while the Central Bank's review of pricing practices focused on *private* car and home products, the regulations, as proposed, may include additional products not considered by the Central Bank during their review but which will fall into the scope of the proposed regulations.

The main examples are van and motor fleet products that are *generally* not sold to personal consumers (but rather to non-consumers or consumers operating in a business capacity). However, in some cases, these products can be sold to personal consumers to meet particular needs in line with the Consumer Protection Code. We would like to draw the Central Bank's attention to this fact, as the scope of the regulations may be broader than the Central Bank intended, extending beyond the traditional private motor and home products which were the subject of the review; we would therefore request that the Central Bank be clear as to the intent in this regard and if the scope is indeed intended to be broader than standard private home and motor policies.

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

(TEXT REDACTED)

Price sensitive consumers, some of whom may be more likely to be financially vulnerable, will still be able to shop around to avail of new business discounts. Indeed, such customers will also be able to continue avail of discretionary discounts that may be available at renewal if they proactively engage with their distributor and choose to negotiate their price. The continuing availability of new business discounts will also support competition in the personal insurance market.

Ideally, the proposals should provide for increased transparency and trust in the insurance market. However, in this respect, the communication around the new requirements by the Central Bank and the management of public expectations is critical to ensure that realistic expectations are set in the first place. Due to the impact of competition laws on insurers, the role of the Central Bank is particularly important in this regard. We would propose that the Central Bank may want to consider how to effectively communicate the changes to the consumer public in a balanced way. For example, it will be important for the CBI to explain that imposing a limit for subsequent renewal price such that it cannot be more than the equivalent first renewal prices does not mean the premium at subsequent renewal will be the same as that paid at first renewal. If not clearly explained this could be the general interpretation which would be counterproductive for all key stakeholders.

Finally, assuming the regulations ultimately introduced are unambiguous and supported where relevant by clear guidance, the overall outcome will be a more equal playing field amongst insurers, providing consistent levels of pricing disclosure and transparency for customers, while retaining incentives for innovation and competition.

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

(TEXT REDACTED)

**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 .**

We contend that there are a number of considerations in this regard:

**a) (TEXT REDACTED)**

Consumers may not understand the proposed regulations in general, for example they may interpret the rules to mean that their price cannot increase over time for subsequent renewals. This could lead to reduced trust in the insurance market.

On the other hand, some consumers may feel a sense of security as a result of the new regulations which may mean they shop around less that they might otherwise have done.

**b) (TEXT REDACTED)**

- c) Further clarification is needed on the definition of 'channel' used in the proposed regulations in order to avoid the potential for inconsistent application and to ensure a level playing field. While the Technical Annex document separately defines 'distribution channel' (direct or intermediary) and 'sales channel' through which the policy was sold (online, telesales, branch) the regulations are not clear what exactly is meant where there is reference to the 'channel' used by the personal consumer.

Without clarity in this regard, there is a risk that insurers will choose the most favourable interpretation in particular scenarios, ultimately leading to inconsistency of application which is contrary to the objectives of the regulations.

Examples of some of unintended consequences are as follows:

- **(TEXT REDACTED)**
- This provision may restrict firms' ability to set business strategies that encourage customers to transact through certain sales channels, for example to move customers to renew via the internet or by telephone. Ideally the provision would be expanded to allow firms the ability to update the channel assumption to reflect the specific 'sales' channel through which the customer chooses to transact at subsequent renewal.

It is also proposed that expanding the regulation to allow firms the ability to update the channel assumption to reflect the sales channel through which the customer *chooses* to transact at subsequent renewal would be a beneficial addition.

- d) Proposed Regulation 1(2) only allows discounts to subsequent renewals where the negotiation is at the initiative of the personal consumer. It is important therefore that "at the initiative of the personal consumer" is defined clearly to ensure consistent application by insurers and intermediaries. Clarification is therefore sought regarding whether it is intended that consumers can be informed of the availability of discounts to subsequent renewal premiums through for example media advertising, emails, renewal invites etc. Without such clarification, there could be inconsistent practices in the market. Indeed, allowing such practices, may allow for targeting of specific customers with marketing to encourage them to avail of available discounts which in turn may run contrary to the objectives of the regulations.
- e) (TEXT REDACTED)
- f) The regulations themselves make no explicit reference to discounts to new business or first year renewal prices being allowed. It would be useful, for the avoidance of doubt to confirm that such discounts are also allowed.
- g) In relation to proposed Regulation 3 (Closed Books), in setting the equivalent first renewal price for a closed book the proposed regulations only allow for adjustments to the close matched product's price arising from differences in cover and benefits. We believe that, where the differences in cost to serve between the closed book and the close matched product are material, the equivalent first renewal price should be adjusted to reflect these differences. If this is not allowed for, then the closed book could become materially loss making as the true cost to serve cannot be factored into the price. Alternatively, the equivalent first renewal price could be materially higher resulting in a higher equivalent first renewal price and potentially higher subsequent renewal prices, all else being equal.

(TEXT REDACTED)

- h) With regard to Regulation 5, we believe the reference to 'jointly responsible' needs clarification, without which inconsistent application could arise in practice. As written, we do not interpret joint responsibility to apply to scenarios in which the intermediary is responsible for applying discretionary discounts, (whether through the use of models that facilitate the flexing of sales remuneration or otherwise), where they offer additional products, or where they may charge a fee for a service. In those scenarios, we would see the intermediary entirely responsible for the compliance status of their discount / fee arrangements and the insurer responsible separately for setting the renewal prices that are notified to the intermediary. It would be useful if the Central Bank could indicate examples of scenarios where joint responsibility arises.
- i) With regard to provision 2(3), we believe the reference to "the channel most commonly used by personal consumers of the regulated entity" needs clarification. We would suggest that the appropriate channel to use should be

the sales channel most commonly used by consumers of the same product within the same distribution channel. The current regulations could be interpreted as requiring insurers to assume a sales channel from a different product and/or distribution channel. This would not necessarily be the most appropriate assumption to make as the cost to serve in the channel where the personal consumer actually transacts may be materially different. There would also be a number of practical difficulties in applying this assumption in this way due to differences between channels including different IT systems, inconsistent data definitions and differences in product availability via different channels.

- 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.**

(TEXT REDACTED)

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

Regulation 14 indicates that the new regulations will apply to insurance providers from 1 July 2022. Our view is that, given the significant program of change necessary to implement the new regulations (operational, IT, governance, etc), achieving a 1 July 2022 implementation date is not realistic, especially given the regulations are not yet finalised. We would suggest a more reasonable timeframe to ensure safe and robust implementation would be to allow at least 12 months lead in time from the date the regulations are finalised. If timelines in this regard are not adequate, rushed or poorly executed change programmes may ultimately lead to errors, further remediation costs and ultimately poor customer outcomes.

Furthermore, the regulation as written could be open to interpretation in terms of how it applies to renewal business; it is important the regulations are clear that they will come into effect for:

- new business incepted from the regulation commencement date, and
- renewals where the period of cover commences from the regulation commencement date. As such renewal invites issued in advance of the commencement date for these policies will be expected to comply with the revised requirements.

- 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**

See answer 6.

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.**

(TEXT REDACTED)

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**

Yes, in so far as media commentators and policy makers often do not have a fully informed view of the complexities of new business and renewal pricing in insurance. It is evident from sustained and ongoing media and political commentary that the practices of dual pricing and price walking are perceived as sharp practices that apply loyalty penalties particularly for those more vulnerable and unable to shop around.

(TEXT REDACTED)

## **Part 2 - Pricing Practices – Annual Review and Record Keeping**

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.**

Yes. The proposals here are a continuation of the requests made in the Dear CEO letter of Sept 2020. While Aviva has developed a strong and robust Fair Pricing Governance Framework already, we welcome the move to include a defined, market consistent view of the appropriate governance and transparency frameworks for pricing practices within the regulations.

An annual review of policies and practices will ensure that they are kept up to date for changing market conditions and that standards are maintained over time.

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**

Overall, Aviva is supportive of the proposals with regard to annual review and record keeping. It is important however that the annual review of practices and policies is considered a component part of a broader Fair Pricing Governance Framework that ensures pricing activities are well controlled, governed and overseen within each firm. Such frameworks should include documented governance structures, risk and control processes, defined responsibilities and accountabilities and product governance rules.

It will also be important that there is consistency in how firms can reasonably demonstrate their compliance with obligations as set out in proposed Regulation 9(1) to their Boards and to the Central Bank. It would be advisable if the Central Bank could clarify the types and indeed potentially the acceptable ranges of Fair Pricing

Management Information (“MI”) that might support the assessment of compliance, particularly the obligation to ensure that personal consumers are not systematically discriminated against based on tenure.

Consistent MI reporting in this regard would assist the Central Bank in their supervisory activity and allow for more effective comparisons of practices across firms. We would therefore welcome further guidance in this respect from the Central Bank.

**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. This would seem to be a very reasonable requirement in our view.

The Central Bank may want to provide some guidance on materiality thresholds to ensure consistency of application.

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

We have a number of comments to make in this regard:

- We see no major difficulties with the review and record keeping requirements, however it may be helpful to understand for how long records would need to be retained.
- In Part 1 Question 7, we outline that there will be a requirement for a significant program of change within each firm to implement the new regulations. It is important that sufficient time is afforded to firms to ensure that the changes are implemented accurately and completely.
- Further to our answer to Question 2 in Part 1 of this response, as the scope currently extends to product lines such as motor fleet or van where they are sold to personal consumers, this may create practical difficulties in defining the scope of an effective review for those products including:
  - Identifying personal consumers amongst the customers of those products where this is not explicitly asked as a question at underwriting stage.
  - Where the price is wholly or partially set manually by an insurance underwriter, explicitly calculating and storing an equivalent first renewal price as part of the underwriting process.
  - Determining if any metrics which are used to assess if systematic discrimination is present can be credibly relied upon when the number of policies used to calculate the metric is potentially very small.

Again, we would therefore request that the Central Bank be clear as to the intention in respect of the applicability of the regulations in these scenarios.

**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.**

An overly complex review and record keeping process/framework introduced by a firm could become officious and time consuming. Central Bank guidance on expectations in this regard would be beneficial to ensure consistency of approach and that supervisory expectations are clear.

If the timelines allowed for change programmes are not sufficient or if implementation is rushed, there is a risk of errors in implementation that could impact customers and require remediation at a later stage.

### **Part 3 – Automatic Renewal**

**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 support a remedy that requires customers to opt-in to auto-renewal. We believe this will help ensure that the customer is fully aware of the feature at point of sale, will drive consistency of approach across all firms and become a standard part of the sales process. We also support the principle that the customer opt-out journey should be as simple as opt-in. This will give the customer control over their policy renewal options.

However, the requirement for 'written consent' needs to be re-considered given how business is transacted today over the phone with direct insurers/brokers and via websites. We believe customers should be given the opportunity to provide consent in relation to automatic rollovers verbally or via an online question. The confirmation of this consent can then be reflected in the insurer/brokers documentation that is subsequently issued to the customer; the customer can then withdraw from such consent if required in the future. A requirement for 'written consent' is not in line with how business is actually transacted and may be overly onerous on the consumer and create an unnecessary barrier in the customer journey. A method of proactive, informed, clear opt-in consent should be sufficient to provide a clear indication of consent.

**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.**

Yes.

However, with regard to regulation 12 1 (c), which only applies in respect of some classes of insurance – i.e. those not captured by the Consumer Insurance Contracts Act (“CICA”), the requirement is to confirm whether it is proposed that there will be *any*

changes to the terms of the contract; this will technically include a requirement to confirm where there are no changes.

The requirement for classes of insurance captured by CICA is different – it requires notification only where there are changes. We believe the requirement should be consistent across all classes of insurance, whether covered and or not by CICA. In this regard it is proposed that the regulation be amended for consistency with the existing CICA requirement.

**Are there any further details that should be included? If yes, please explain your answer. Are there details that should not be included? If yes, please explain your answer.**

In relation to proposed regulation 12(1)e, it is important that the relevant section of the Competition and Consumer Protection Commission's website (which we believe is: <https://www.ccpc.ie/consumers/money/insurance/getting-insurance-quotes>) is identified for insurers & intermediaries. In addition, this page will need to be consistently maintained by the CCPC and not removed/moved in order to ensure insurer/broker documentation remains valid over time. If this cannot be guaranteed, an alternative method to access the information should be included.

It is also important to note that websites may not be accessible to many customers including those some vulnerable customers or those without access to the internet. In this regard, it would also be helpful to provide alternative means to access the information (e.g. via a postal address).

**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.

**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.

**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.**

See answer 7 to Part 1 in relation to practical considerations relating to the proposed implementation timelines.

See answer 1 in Part 3 above relating to written consent creating an unnecessary barrier in the customer journey and our proposals in this regard.

**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**

Given the changes to the customer journey and the new requirements with regard to consent, there may be a risk of unintentional lapsing by the customer where consent has not been provided. Clear policy documentation and sales processes are required to ensure that the implications of not providing consent is made clear.