

## Central Bank of Ireland Review of Differential Pricing in the Private Car and Home Insurance Markets

### Introduction

Chill Insurance is Ireland's largest independent online personal lines insurance intermediary. We are members of Brokers Ireland and have been providing insurance since 2007. Chill has multi-channel distribution capabilities, offering high-quality service, whole of market choice through a panel of 14 major insurance carriers to bring the best insurance solutions direct to its consumers. Chill employs 250 staff and we pride ourselves in keeping the consumer at the heart of everything we do and what we offer. Our contribution to this consultation process is based on our aim to provide the consumer with the best available insurance options and enhance and develop pricing policies in the market to achieve this. We would be happy to engage further with the CBI in relation to the points made in this submission.

### Submission:

The following outlines Chill Insurance's responses to the public consultation on the proposed measures to address differential pricing.

#### A. Home and Motor Insurance Pricing

- 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.**

#### Response:

We agree in principle with the proposal to ban price walking on the basis the practice of penalising consumers for their loyalty will no longer be permitted however, new business discounting can be maintained thus providing competition in the market for consumers.

There is a risk that the proposals could result in insurers charging higher new business and first renewal premiums where flexibility to raise prices for subsequent renewals may be limited. Therefore, non-price aware (and vulnerable) consumers could be worse off in the long run and prevent price aware consumers from getting more and better deals over their lifetime.

Finally, in our opinion, the definitions of "Renewal Price" and "First Renewal Price" should be clarified in relation to brokers so as to avoid a disproportionate impact which might unduly restrict their ability to vary or discount their fees which benefit the consumer and cover their operating costs.

- 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**

#### Response:

We agree that private motor and home insurance are the products most likely to be subject to price walking and therefore agree that the products in scope of the proposed ban are appropriate.

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

#### **Response:**

The proposals should give consumers greater certainty over insurance premiums from subsequent renewals onwards on the basis non-risk based premium increases will not be allowed. The proposals should also help to level the playing field so consumers will choose providers based on their brand promise and culture, including service levels. This is good for the consumer and good for the industry players who are genuinely looking to provide value to the consumers.

For the market, it may make pricing for profitability more predictable as pricing should be more aligned to risk and insurer retention rates are likely to be higher.

However, given the significance of the proposals, it may be prudent for a follow-up assessment to be undertaken after a period of time, post implementation, in order to assess outcomes.

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

#### **Response:**

For consumers, the proposals could result in higher new business prices where new business discount levels are likely to be reduced as insurers will be unable to spread costs over longer periods. They could also result in consumers who shop around each year may not realise the same level of savings from switching. Furthermore, the lack of a timely data set on market performance means that it may be difficult to assess or measure the impact of these proposals on the consumer and indeed on the market into the future.

For the market, if new business discounting reduces as a result of banning price walking, consumers may be dis-incentivised to shop around at renewal as cheaper quotes may not be readily available. This could result in increased retention and the market may not be attractive for new entrants or smaller firms. The proposals could become a barrier to entry for new insurers as it may become more difficult to build a book of business due to practical limitations on new business discounting. Some insurers may see the pricing rules as being too restrictive and may result in profitability issues for these insurers on existing business.

### **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.**

#### **Response:**

We have highlighted potential unintended consequences elsewhere in this submission but overall it is difficult to be definitive on what unintended consequences may arise at this time. Certainly, in our opinion, the proposals as they stand could be a barrier to entry, resulting in higher insurance premiums for consumers and be a disincentive for consumers to shop around.

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**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**

**Response:**

If the proposals are implemented as planned then they are likely to have a significant impact on brokers commercially and ultimately on the consumer, reasons include:

- The rationale behind the proposal that discounts can only be applied on the basis of a request instigated by the consumer needs to be explained. This is likely to result in the consumer paying higher prices.
- The proposals could make the insurance market less attractive to new entrants, who may not be able to sufficiently discount new business to build a book of business.
- Some insurers may see the pricing rules as being too restrictive and feel there is not sufficient opportunity to underwrite profitably and leave/not actively compete in the market.
- Brokers ability to increase and discount fees will be restricted if they are included in the Central Bank's definition of renewal price and subsequent renewal price.

Overall, we believe the proposals would ultimately have a negative impact on the market and consumers and we would urge the Central Bank to review, clarify scope and amend proposed actions to address the matters above.

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

**Response:**

In terms of practical difficulties, implementation is likely to have a significant impact on systems, processes, documentation and pricing models. Lead in time therefore needs to reflect that reality. Clarification of some of the points raised in our response to Q6 would be helpful in ensuring that the requirements are implemented and applied in line with Central Bank expectations.

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**8. 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?**

**Response:**

- With regard dual pricing, closing the disparity between direct channels and broker would arrest a lot of the disparity – particular for new business where an insurer may offer a premium for substantially less in the direct channel compared with the broker channel, which can create a poor experience for the consumer.
- If more publicly available market pricing data or information could be collected to help provide greater transparency on pricing for the consumer.
- Conduct a review of the application of proposals after a period of operation.
- Clarify the desired outcomes the Central Bank is aiming to achieve with these proposals along with the measures of success.

**9. 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**

**Response:**

The channel pricing discrepancy will remain, therefore, the same product may be sold by two or more suppliers for sometimes vastly differing premiums. This could cause frustration for consumers and may lead to consumers unnecessarily and inappropriately distrusting the “industry” in implementing the necessary reforms.

### **B. Questions – 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.**

**Response:**

We agree that it makes sense to review pricing policies annually including consideration of the impact on consumers and would expect that to form part of product governance policies to protect the consumer’s best interests. However, the scope of the proposals may need to be clarified in order to reflect the different roles played by insurers and brokers in the pricing process.

**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.**

**Response:**

We agree with the focus of the review in this regard.

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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

**Response:**

We agree that the proposals in relation to maintaining appropriate governance arrangements around material pricing decisions and their likely impact on consumers is an important step. We believe it will enhance consideration of consumer outcomes from pricing practices as well as facilitating Board oversight.

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

**Response:**

We don't foresee any practical difficulties implementing the annual review and record keeping.

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

**Response:**

The proposals represent good practice and should be ultimately beneficial for the consumer if implemented effectively.

### C. Questions – 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.

**Response:**

We fully support any measures proposed that better inform and strengthen transparency for the consumer around automatic renewal processes. In our opinion, the positive aspects of automatic renewal outweighs any negative experiences for some consumers.

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- 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**

**Response:**

Providing enhanced transparency for the consumer of the automatic renewal process may be a more effective approach. There is already a lot of information sought from and provided to the consumer so if they are presented with a further consent option it may confuse and frustrate some consumers and may not have the desired effect.

- 3. Are there any further details that should be included? If yes, please explain your answer.**

**Response:**

The requirements set out in the proposals are comprehensive.

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

**Response:**

All of the measures proposed should aid transparency for the consumer around automatic renewal.

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

**Response:**

We are supportive of any steps taken to minimise risks to consumers from automatic renewal. Aside from our response to Q2 above, if the proposals are implemented as they stand then the proposed cancellation of automatic renewal requirements seem appropriate.

- 6. 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**

**Response:**

We agree with the products in scope for the automatic renewal proposals.

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

**Response:**

We do not foresee any difficulties in implementing this proposal.