

CP143 - DIFFERENTIAL PRICING PUBLIC CONSULTATION

Liberty Seguros Compania de Seguros y Reaseguros SA (Liberty Insurance) Response

Liberty Insurance welcomes the CBI's Final Report (the "Report") and Public Consultation in respect of the Differential Pricing review carried out in the Private Car and Home Insurance Markets. We are grateful for the opportunity to provide feedback on this Consultation. Please see below our responses to the respective questions posed within the consultation paper.

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

In principle, Liberty Insurance accepts the proposed solution to ban price walking from subsequent renewal within the Irish market.

The importance of highlighting the different pricing structures for new business and renewals is recognised, however, more clarity is required on the expected technical basis for developing the renewal price to ensure customer impact is minimised and best customer outcomes are achieved.

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 would agree that the proposed price walking ban for personal consumers should be applied to the motor (private car and motorcycle) and home insurance markets.

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

If introduced the proposed interventions may provide greater transparency for customers in respect of the pricing components of their insurance product. In turn this increased transparency to consumers could act as a step towards improving consumer trust.

The proposed interventions will reinforce the focus on the quality of cover for consumers. This will facilitate and may accelerate quality insurance offerings for consumers all round that combine exemplary customer service, smooth purchasing journeys, and reliable claims experiences. These customer experiences will be even more important differentiators going forward in the market.

Consumer trust, consumer confidence and retention will be imperative as this intervention may result in longer-term customer relationships with insurance companies who provide enhanced customer experiences.

The insurance industry will be required to continue to innovate and differentiate through enhanced products, underwriting / pricing sophistication, and customer care service to the customer. As an example, enabling consumers to buy only the insurance cover and product components that they need for their own particular needs and demands.

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

If introduced the proposed interventions may result in some consumers experiencing large insurance premium fluctuations at renewal due to the updating of models or full rate changes flowing through to a customer premium in one renewal.

If introduced the proposed interventions could potentially result in;

- increased customer inertia being experienced amongst policyholders, encouraging complacency as customers with one firm may now believe there is reduced need to shop around at renewal.
- Fewer new entrants into the Irish insurance market, reducing the options available for consumers to obtain cover and less competition.
- Potentially significant price fluctuations.

The current wording appears to prohibit controls on price increases relative to the customer's expiring premium. Subsequently, price fluctuations which have been managed year on year within pricing models presently will no longer be managed producing a potential worse customer experience than price walking for some customers, which could potentially impact market reputation.

The current wording notes that an insurance provider may agree a discount to customers in individual negotiations where such negotiations are at the initiative of a personal consumer. This could result in cohorts of consumers who fail to shop around being unfairly impacted, which could impact the most vulnerable. It also could be viewed to contradict the message of the report regarding price walking. This may also preclude the use of common market practice of marketing campaigns and calls to action which are offered to all consumers.

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

Below are some potential unintended consequences to consumers which may arise:

- If the proposal applies to in-force policies without any transitional implementation period, it may cause significant upward and downward premium dislocations on current in-force policies.
- Increased inertia amongst consumers, encouraging complacency as they may now believe there is reduced need to shop around at renewal. This could be detrimental to the market as a whole and ultimately policyholders as such inertia could inadvertently reduce competition in the market.
- The "discount" disclosures in relation to New business, may offer commercially sensitive insight into the insurer's basic pricing and as to its strategy for competing for new business in the market. This may pose a competition risk.

An appropriate lead in time to overhaul current business and pricing models will be required, and some firms may have to increase/invest in additional resource in the pricing functions.

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

Liberty Insurance has not considered the unintended consequences arising if both dual pricing and price walking were prohibited as a ban on dual pricing does not form part of the proposed provisions in the Consultation.

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

The way insurance quote processes operate for insurance products, may in practice mean there could be differences by the very nature of quotes being New Business or Renewal. The timing of introducing consumer beneficent price model changes may have an impact.

The change to pricing models may result in increased workload requiring additional resource. This may result in higher premiums to cover the risk and cost of service.

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

Liberty Insurance has not considered the practical implications arising if both dual pricing and price walking were prohibited as a ban on dual pricing does not form part of the proposed provisions in the Consultation.

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 do not have any alternative proposals in this regard.

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.

Renewing Customers may be expecting "lower" premiums following the implementation of this price walking rules, however, this may not be the case for all. This could lead to a lack of confidence in the industry whereby consumer expectation doesn't match the outcome.

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.

In principle, we agree with the proposal to carry out an annual review of our pricing policies and practices, as this supports our ethos of treating our customers fairly and always having a customer centric approach. Regular review is important to allow the identification and remediation of any deficiencies within pricing policies, processes, or customer outcomes from pricing models.

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.

We agree that the proposed review should be applied to the motor and home insurance products covering the pricing policies, processes, or customer outcomes from pricing models.

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.

We 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. For many in the insurance market this would enhance existing processes and procedures already required through existing regulations.

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

We do not foresee any practical difficulties, however to implement and address these measures adequate time and resourcing will be required within insurance firms.

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.

We do not have any views on unintended consequences.

Automatic Renewals

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 would object in principle to the requirement for customers to provide written consent for auto-renewal. We believe there are better customer friendly ways for making it clear and transparent to a customer that a certain product is auto-renewable.

The time and manner in which customer consent could be obtained should be considered carefully and clarified in order to treat all customers fairly. We believe it would be much better for the consumer and fulfil the CBI's aims of ensuring that the auto-renewal process is more transparent for customers, if, as an alternative to written consent, insurance providers are required to explain clearly to customers the meaning of auto-renewal and to provide "opt out" options for customers, as is the approach taken by the FCA as part of new rules they have put in place from January 2022.

The FCA in their Policy Statement "General insurance pricing practices market study, Feedback to CP20/19 and final rules" expressly acknowledged that they did not favour requiring auto-renewal to be offered on an opt-in basis only, because of the risk that it could lead to more consumers becoming inadvertently uninsured. We strongly consider that this is a significant risk with the CBI's proposal to require 'written consent', with the potential to negatively impact customers who may not actively engage with their insurance provider on renewal and prefer to rely on automatic renewal. As you will be aware, an inadvertent failure to have insurance could lead to a customer committing an offence or breaching a term of a property loan.

We also believe that requiring written consent for auto-renewal would add additional complexity for all customers in purchasing insurance through all channels, with the potential for heightened impact to vulnerable customers. Those vulnerable or other customers that need to or prefer to purchase products over the phone will speak to a call agent and at this point the verbal direct consent could be obtained of the customer to the auto-renewal of the product at point of purchase. If written documentation of this consent is also required, those considered vulnerable could be at most risk of not sending back written documentation by post.

The call recording process operated by insurers would hold details of consent obtained and point of sale documentation could be enhanced to provide additional clarity on the auto-renewal, and the consequences of selecting auto-renewal.

Should a physical written consent process rather than digital consent be required as a result of these proposals this would negate customer benefits from digital journey processes, the impact on environmental & sustainability changes and insurers may have to pass on additional costs to consumers.

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.

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

We agree with the information to be provided to the personal consumer as outlined in CBI proposal. This would reinforce the transparency of the auto renewal process at the time of renewal and enhance the customer journey.

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

We agree with the proposed requirements relating to the cancellation of an automatic renewal arrangement.

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.

We agree that these proposals should apply to the automatic renewal of all personal non-life insurance products. This would serve to treat all consumers in a fair and equal manner.

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.

Obtaining written consent from customers may be challenging should a physical document be required, see response to Question 1.

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.

Transparency around the implications of not accepting automatic renewals should be considered. Older drivers, vulnerable cohorts, and large proportions of insurers back books are used to having their policies automatically renewed. We want to ensure such legislation does not result in an increase in the number of uninsured drivers or customers left on the roadside without insurance. It is near impossible to have 100% response rates from communications with customer. This may result in vulnerable customer becoming more vulnerable.

For other unintended consequences see response to Q1.