Price Discrimination in the Insurance Market

A Submission to the Public Consultation on Differential Pricing in the Private Car and Home Insurance Markets

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On behalf of Sinn Féin

Introduction

Sinn Féin welcomes the opportunity to make this its submission to the Central Bank's public consultation on its proposals in response to its Review of Differential Pricing in the Private Car and Home Insurance Markets.

Sinn Féin have been engaged with this policy area since 2019, with our submission of a complaint to the Central Bank in October 2019 regarding price discrimination in the insurance market and the introduction of the *Insurance (Restriction on Differential Pricing and Profiling) Bill* to prohibit the use of of dual pricing in the insurance market and related measures.

Both are are together with this submission.

Sinn Féin broadly welcomes the proposals of the Central Bank regarding pricing practices in the insurance market, in particular measures to protect consumers and enhance transparency in the automatic renewal process.

We also welcome measures to restrict differential pricing in the insurance market, while holding concerns regarding the efficacy and consequences of this measure by prohibiting price walking with reference to the year one renewal price.

We look forward to further engagement with the Central Bank regarding its proposals and the issues raised in what follows.

Pricing Practices

In its Review the Central Bank found that price walking, or dual pricing, could result in unfair outcomes for consumers in the private motor and home insurance markets.

In its analysis the Central Bank found that new business customers have a renewal rate of 60 and 68 percent for private car and home insurance, respectively. In addition, analysis found that renewal rates increase with tenure, such that 87 percent of customers that remain with the same insurer with 9 years or more renew.

As a consequence, the majority of insurance customers are impacted by the practice of dual pricing.

This impact is evident from the variation between technical premia and actual premia charged by insurers depending on tenure. For example, the analysis found that all renewing customers are charged premia greater than the amount needed to cover the expected costs of their policy – the technical premium.

It was found that renewing customers are paying, on average, between 9 and 25 percent more for their private motor insurance than the actual servicing costs of their policies. For home insurance, renewing customers are paying up to 35 percent more than the actual cost of servicing their policies.

As the analysis concludes, the factors contributing towards longer tenure include age, but they also include other characteristics such as financial resilience and level of formal education. As was noted by Citizens Advice, "*Particular vulnerable groups… are particularly likely to struggle with shopping around and switching… and are likely to experience the financial impact of the loyalty penalty disproportionately*."

To ensure that consumers are not treated unfairly, the Central Bank is proposing to ban price walking but only from the date of subsequent renewal; prohibiting insurers from charging a subsequent renewal price for private motor and home insurance that is higher than the equivalent year one renewal price.

While we welcome the proposal to restrict dual pricing through a ban on price walking from the date of subsequent renewal, the proposal essentially employs the year one renewal price as the base year. We have concerns that the proposal as designed may have unintended consequences that could negatively impact all renewing customers while failing to apply downward pressure on prices more generally.

By using the year one renewal price as the base year, insurers could implement the proposal in a cost-neutral manner. While they would be banned from charging a subsequent renewal price that is different from the equivalent year one renewal price, they would still be permitted to charge renewal prices more generally they differ significantly from new business prices.

In order to ensure that the proposal is cost-neutral, insurers could significantly increase year one renewal prices to offset the impact of reducing subsequent renewal prices. In effect, this could result in substantially higher APTP ratios for year one renewal prices to offset revenue lost as a result of the policy's impact on subsequent renewal prices. This higher APTP ratio could then be reflected in subsequent renewal prices.

For example, while a customer would no longer see increases in their subsequent renewal prices relative to the year one renewal price, they could see a greater increase between their first insurance price as a new customer and their year one renewal price than would otherwise have been the case, with that greater increase then reflected in all subsequent renewal prices.

The implications of this would be threefold:

- Greater levels of customer switching after year one;
- An increase in first year renewal prices for customers;
- No overall downward pressure applied to average prices.

In contrast, the Financial Conduct Authority in their pricing rules to protect consumers and increase fair competition will require renewal prices to be no higher than the equivalent new business price, as opposed to the year one renewal price.

In their simulation model, the FCA estimated that their pricing remedy would result in a reduction in average prices as a result of increased competition between insurers for market share, with a direct transfer from firms to consumers in the region of between £4.2 and £11.2 billion. Furthermore, the FCA simulation model projects a reduction in inefficient switching with savings for consumers and reduced costs for firms.

It is notable that the Central Bank review and policy proposal provided for no such cost-benefit analysis as a result of the policy proposals being implemented.

However, by banning price walking with year one renewal as the base year rather than a wider ban of dual pricing, we would be concerned that the proposal would result in higher APTP ratios in the year one renewal price, with that price passed onto subsequent renewal prices and no downward pressure on average prices.

While we welcome the proposals to restrict dual pricing through a ban on price walking on subsequent renewal prices, we believe it necessary for the Central Bank to carry out a cost benefit analysis of the proposals with reference to both a ‘no policy change’ scenario and a scenario in which a broader ban on dual pricing was adopted.

Annual Review and Record Keeping

The Central Bank's review assessed the adequacy of the governance oversight structures relating to pricing practices among firms.

Among the proposals is the requirement for insurance providers to undertake an annual review of pricing practices and policies to ensure that they comply with the new pricing rules, with deficiencies found during the annual review being rectified with records retained and records kept of material decisions made to rectify such deficiencies.

While this is to be welcomed, greater requirements can and should be made of how insurers price insurance policies in response to the new proposals.

In particular, sections 4 and 6 of the *Insurance (Restriction on Differential Pricing and Profiling) Bill* proposed obligations on both insurance providers and the Central Bank to ensure customer awareness of pricing practices and compliance among firms of new pricing rules.

In particular, Section 4 would require, within a reasonable time after concluding a contract of insurance or when inviting a renewal of a contract of insurance, insurance providers would be required to outline the particulars of any rating factors applied to the calculation of a premium and of any amount payable as a result of those factors.

These requirements would inform consumers of the factors used to calculate premiums; in particular, any factors that are unrelated to the underlying risks associated with servicing the expected costs of the policy. Given the remedies proposed by the Central Bank, we believe these requirements remain desirable, given the ability of insurers to apply rating factors relating to likelihood to renew for year one renewal prices.

Similarly, Section 6 required the Central Bank to present an annual report to the Minister for Finance assessing the compliance by insurance providers with provisions that restrict dual pricing, with recommendations made to the Minister regarding legislative provisions in light of the Report's findings. While it is recognized that such a requirement would necessitate legislative change, they would, we believe, ensure the effectiveness of the pricing rules and increase compliance by firms.

Automatic Renewal

As part of its review the Central Bank also considered the practice and prevalence of automatic renewal for private car and home insurance policies.

It is clear that in some instances customers can be discouraged from engaging with their insurance provider or shopping around as a result of the automatic renewal process, leading to higher costs for customers.

We welcome the proposals to introduce new consumer consent and disclosure requirements to ensure that the automatic renewal process is more transparent so that customers can make informed decisions. We also welcome the decision to broaden the application of these requirements to all other non-life insurance policies, such as health insurance.