

21 November 2019

**Re: Central Bank of Ireland review of differential pricing in the motor and home insurance industries**

Dear CEO

The Central Bank of Ireland (the 'Central Bank') serves the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy. Our consumer protection role is underpinned by the 2012 Consumer Protection Code (the 'Code'). Based on our supervisory and policy work, we have identified the practice of differential pricing (whereby customers with the same risk and cost to serve are charged different premiums) in the insurance industry as a potential risk to consumers.

In order to assess that risk, particularly given the increasing sophistication of big data and modelling techniques within the insurance industry, the Central Bank is conducting a review of differential pricing in the motor and home insurance industries (the 'Review'), to examine the extent to which the practice of differential pricing is consistent with the Code.

The Central Bank expects insurance firms to adhere to the requirements in the Code to:

- Act honestly, fairly and professionally in the best interests of their customers and the integrity of the market;
- Act with due skill, care and diligence in the best interests of their customers; and
- Make full disclosure of all relevant material information, including all charges, in a way that seeks to inform their customers.

Firms should assess whether their pricing practices conform to those requirements.

Boards should be aware of their firms' pricing policies and satisfied that they are implemented in a manner compliant with the Code. In addition, Boards should ensure that the requirement to treat customers fairly forms an integral part of their firms' corporate culture. This is in keeping with the Central Bank's wider expectations that firms are well governed, have an appropriate culture, effective risk management (including conduct risk management) and control arrangements in place, which are commensurate with their size, scale and complexity.

The Review will begin in January 2020 and will be conducted in three phases:

- i. Phase 1 – Market Analysis;
- ii. Phase 2 – Quantitative Analysis and Consumer Insight; and
- iii. Phase 3 – Conclusions and recommendations.

The initial Terms of Reference for the Review are appended to this letter. The Central Bank reserves the right to amend the Terms of Reference, as appropriate.

This letter should be read in conjunction with the Code and other regulatory obligations imposed on insurance firms.

Yours sincerely



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**Derville Rowland**  
**Director General Financial Conduct**

# Central Bank review of differential pricing in the home and motor insurance markets (the 'Review')

## Terms of Reference

### Purpose of the Review

The purpose of the Review is to examine the extent to which the practice of differential pricing (whereby customers with the same risk and the same cost of service are charged different premiums) is consistent with the Consumer Protection Code 2012 (the 'Code').

The Review will seek to:

- I. Establish the impact of differential pricing on consumers while at the same time identifying the drivers of consumer behaviours including how consumers engage with the insurance industry; and
- II. Assess the extent to which these pricing practices lead to outcomes consistent with the Code.

### The scope of the Review

The Review will focus on the motor and home insurance markets as these products are the most commonly held insurance products in Ireland.

The Review will examine the pricing practices of the Non-Life companies prudentially supervised by the Central Bank together with significant branches and intermediaries who have delegated authority for pricing.

### Specific issues the Central Bank will examine

#### *Industry assessment*

- The extent to which such pricing practices exist in the motor and home insurance markets in Ireland.
- The pricing strategies, models employed, and data used by firms that give rise to price differences for the same risk with the same cost of service.

#### *Consumer outcomes*

- The extent to which these pricing practices are in compliance with the Code and other relevant regulatory requirements.
- The groups of consumers that may be impacted, and their characteristics.

#### *Governance and culture*

- How firms take account of the Code when implementing differential pricing strategies.
- The extent to which Boards<sup>1</sup> have oversight of such practices including oversight of delegated authority given to third parties.

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<sup>1</sup> References to boards includes local management functions in firms not prudentially supervised by the Central Bank

### *Consumer insight*

- The drivers behind consumer behaviour – specifically how consumers engage with their insurance providers.
- The interventions that are likely to change consumer behaviour.

### **How will the Review be conducted?**

The Review will be split into three phases as follows:

#### ***Phase 1 – Market Analysis***

The purpose of this phase is to establish the extent to which differential pricing is in operation in the Irish motor and home insurance markets and if it does exist, to establish how it is being carried out by each firm in the scope of the Review. Observations from the Phase 1 Market Analysis will inform the breadth and depth of the data specifications required for the Phase 2 Quantitative Analysis.

The Market Analysis will take six months to complete.

#### ***Phase 2 – Quantitative Analysis and Consumer Insight***

The purpose of Phase 2 is to establish the impact that differential pricing is having on various groups of consumers, for example, does differential pricing only impact consumers that fail to routinely switch insurance providers or are there other groups of consumers that are impacted.

The Consumer Insight exercise will develop our understanding of how consumers engage with insurance providers.

The Phase 2 Quantitative Analysis and Consumer Insight will take six months to complete.

#### ***Phase 3 – Conclusions and recommendations***

The third phase will be informed by the findings in Phases 1 and 2 of the Review. The outputs of Phase 3 will be a report or consultation on proposals for reform, if appropriate.