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Cost of Living – Crisis or Constant

Speakers: Stuart Riddell, Sophy Lauritzen and Alan Newton

21 April 2023

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The challenges resulting from the cost-of-living crisis

Customer focus



Insurer focus



- From a customer perspective, the crisis has increased financial vulnerability. This has meant that customers must now look for greater value for money in their insurance products. Scams prey on this vulnerability, which has resulted in a need for greater fraud protection. Similarly, as savings dwindle, the demand for flexible insurance options has significantly increased as customers try to protect against the unexpected.
- Insurers are also under financial pressure as claims costs continue to rise alongside premiums to hurt profits across the sector. Reductions in savings have compounded this issue by increasing outflows and shifting the business mix from low cost accumulation policies to high cost decumulation work. Whilst this has heightened the need for competitive pricing, new fair pricing reforms have made this difficult.
- In terms of opportunities, factors such as stagflation can actually have a positive impact on the sector, as more money is spent on private health insurance. Solvency II reforms also offer a further boost through their ability to release capital that can then be spent on new products and technology. Given the growing influence of AI, data and InsurTech solutions, this ability to invest in new processes will be key in defining the impact of the crisis on insurers across all areas of the market.



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General Insurance

With 2023 set to continue to present increasing cost of living pressures, the PRA have stressed the importance of adapting appropriately.

In particular, the PRA have noted that UK General Insurers will likely continue to experience pressures on claims inflation and claims settlement costs.

General Insurers should take extra consideration of general and social inflation risk drivers in underlying pricing, reserving, business planning and capital modelling.

In addition, the FCAs "Dear CEO letter to General Insurers" highlighted various expectations.

Fair customer treatment is at the core of their expectations; especially treatment of **vulnerable customers** and providing appropriate service levels.

The importance of **fair value** is also stressed; with **Premium Finance** and **Multi-Occupancy Buildings Insurance** highlighted in particular.

Over the next two slides we will briefly explore some expectations of General Insurers.



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Expectations of General Insurers (1)

- **Customers in vulnerable circumstances**
 - Ensure customers have the appropriate information and products to deliver good consumer outcomes
 - Be wary of fraud and scammers without introducing unnecessary additional processes
 - Product flexibility e.g. premium holidays
- **Underinsurance**
 - Working to avoid cancellation of necessary cover
 - Offering help to understand the level of cover e.g., third party, fire and theft vs comprehensive motor insurance
- **Premium Finance**
 - Including in the fair value assessment
 - Demonstrating the relationship between price and quality of product
 - Clarity to consumer about costs and appropriateness of products for their needs



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Expectations of General Insurers (2)

- **Service levels and claims**
 - Be sensitive of claim delays, increased claim costs and fraudulent claims
 - Maintain and improve customer service especially in light of cost cutting
 - Ensure no unreasonable barriers for consumers
 - Offer consumers flexibility e.g. systems to easily stop auto-renew or make a claim
- **Multi-Occupancy Buildings Insurance**
 - Considering actions to aid consumers in difficulties and leaseholders
 - Consider leaseholders in fair value assessments e.g., leaseholders may be unable to shop around due to owning properties with flammable cladding
 - Pricing systems must be reflecting the risk fairly and appropriately
 - Possibility of cross-industry risk pooling

Other Regulator Communications

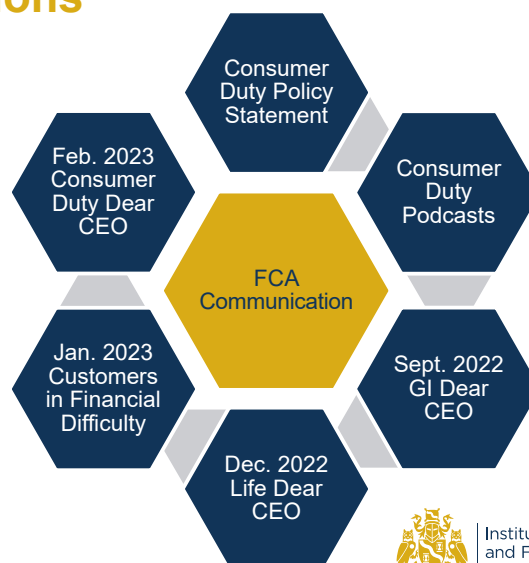
Under the new **Consumer Duty** standard, firms need to put customer outcomes at the heart of everything they do. The FCA has been consistently raising the link between the cost-of-living pressures this higher standard of care through a range of communications.

While Consumer Duty's origins pre-date the cost of living crisis, the issues the standard looks to address are more relevant than ever.

The regulator's recent consultation on insurance guidance for the **support of customers in financial difficulty** also highlights the need for greater consumer care throughout the cost-of-living crisis.

It includes a repackaged COVID-19 measure to help all customers of non-investment insurance policies who are in financial difficulty to manoeuvre.

Life insurers have also had expectations set around **communication, product flexibility** and **fraud/scams**.



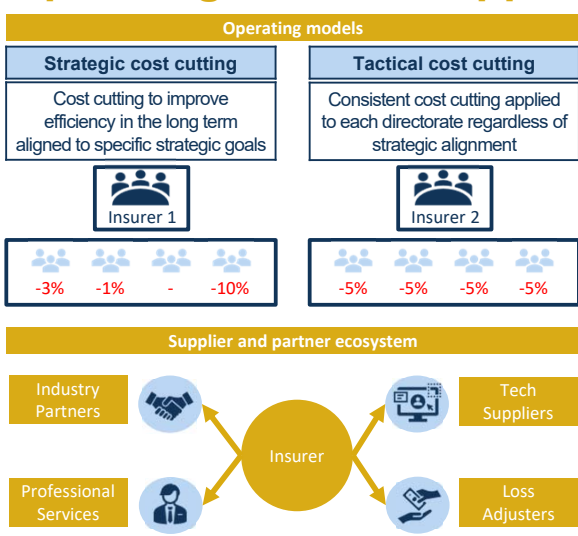
Implications for the wider enterprise (1) Product Design



- Trade bodies, including the Association of British Insurers (ABI), have been working proactively to both understand how best to support customers and educate individuals on how to effectively manage their insurance spend. A number of insurers have now set up support initiatives, but it remains to be seen whether these will be delivered appropriately and within an adequate timeframe
- Regulation also has a large role to play, as is evidenced through new General Insurance pricing reforms and recent Consumer Duty legislation
- Many of the same considerations that applied to the COVID-19 pandemic are equally relevant to the cost-of-living crisis
- In terms of product design, an ideal product is tailored to the needs of the individual with a range of different levels of cover available. This is a test of both the agility and technological capability of insurers
- As insurers strive to improve their product design, an acceleration in channel choice decisions may occur e.g. offering simple products direct to customers, with more tailored solutions and advice available through approved intermediaries



Implications for the wider enterprise (2) Operating Models, Suppliers & Third Parties



- The current cost environment may incentivise firms to examine their cost base and reduce expenditure through an updated operating model
- A strategic approach looks at the longer term picture and considers the varied impact of cuts from a strategic perspective
- A tactical approach will often apply a typical 5% to 10% cut across all directorates
- Taking the time to fully understand the cost levers at play will be beneficial. A zero based budgeting approach can be useful here
- Insurers operate in a complex ecosystem of suppliers and partners. In the face of increasing costs, insurers will need to strike a balance around accepting additional cost. Whilst accepting cost can create short term financial pressure, rejecting could put strategic relationships in jeopardy
- Insurers will need to make these decisions by gauging the importance of each relationship, how well it supports the operating model and the extent to which each contract has been subject to ongoing commercial review
- Relationships that rely on a partnership or shared enterprise basis may endure more successfully than transactional models



Questions

Comments

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