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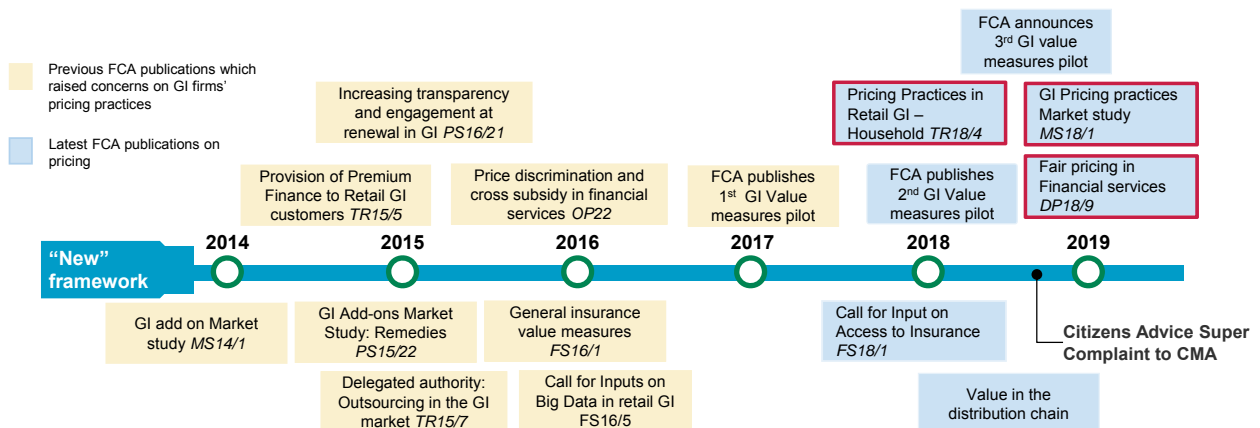
Fairness in Pricing

Chloe Paillot, Kevin Wenzel
IFoA GI Standards & Consultations Committee



14 June 2019

What has the FCA looked at so far?



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Latest FCA Publications – Key Highlights

Pricing Practices in Retail GI – Household TR18/4

- Ineffective and inadequate **strategies, governance, control, and oversight** of pricing practices.
- Inability to reliably assess and prove whether customers are **treated fairly**.
- **Differential pricing**: same risk and customer characteristics, but one group paying significantly higher prices than the other group.
- Risk of discriminating against consumers through **use of rating factors** in pricing based (directly or indirectly) on data.

Citizens Advice
Super Complaint
to CMA
Sep 2018

Fair Pricing in Financial Services DP18/9

- Public debate on fairness on certain pricing practices, especially:
 - Price discrimination
 - Loyalty or inertia pricing
- Responses submitted by 31 January 2019.

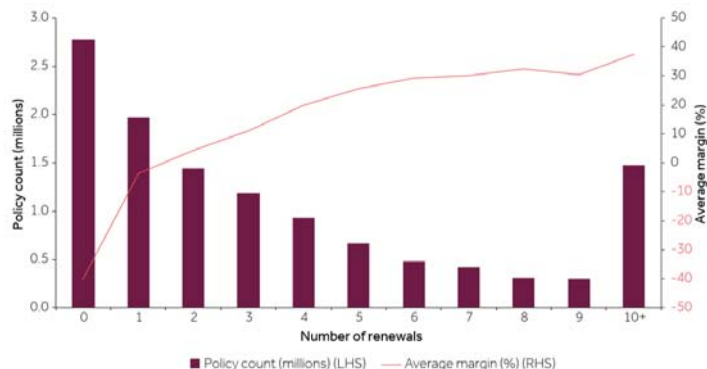
GI Pricing Practices Market Study MS18/1

- What is the harm of pricing practices and what is driving it?
- Are pricing practices fair?
- What is the impact on competition?
- Interim report due in Summer 2019, final report by end of 2019

What does fairness mean?

- Not that easy to define
 - Fairness in process: are contract terms fair and is the representation of product true?
 - Fairness for consumers or firms?
 - Treatment of vulnerable groups – insurance or policy making?
 - Customer disengagement

Loyal vs New Customers – household insurance



Source: General Insurance Pricing Practices: Terms of Reference MS18/1.1

- Higher margins from loyal customers help subsidise the low margins from new customers.
- What level of differential is acceptable?



How is the industry responding?



Considerations

- Extent of pricing transparency

- Responsibilities of customers to find the best price

- Quality and adequacy of the cover
- Are products too complex?

Is capping prices an option?

- May have unintended consequences
- What level of difference between New Business and renewal prices is acceptable?


What could firms consider now?

- Have you got your governance sorted?
- Is MI appropriate and well understood by stakeholders?
- Think about vulnerable customers

- New data
- New technologies
- Leading to new products?



IFoA response background

- IFoA response to consultations – the Public Interest approach
- Key messages:
 - Concept of cross subsidy in a group of policyholders is fundamental to insurance
 - Uniform price for all  highly individualised price
 - Societal benefits of insurance noting affordability impacts take up
 - Time poor vs cash poor but vulnerable customers/access to best deals/level risk aversion
 - New vs Renewal – different risk & spread cost of acquisition
 - FCA has 3 objectives (**securing protection for consumers**, protect/enhance integrity of financial systems, **promoting effective competition**)



IFoA response to proposed remedies

- Degree of pessimism on demand-side
 - Support greater transparency: price, freedom to move provider, discounts;
- Concerns on supply-side:
 - Relative price cap or no price discrimination – directly addresses issue but leads to higher new business prices for all (inc. cash poor and vulnerable); reduces competition (?); what is fair differential / cap?
 - Removing auto renewals leading to uninsured (drivers, home owners, travellers etc.)
 - Breaking up packages leads to less coverage
 - Simplifying tariffs doesn't stop the price differentiation issue
- Other remedy of addressing through improved culture and transparency at firm



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ABI activity

- 2016 – Code of Good Practice to help vulnerable customers at renewal
- 2018 – ABI and BIBA Guiding Principles:
 1. do not support excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.
 2. will not support excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.
 3. The ethos and approach to better outcomes for long-standing customers will be given Board or senior management level priority and formally incorporated into firms' procedures for determining the premium at renewal.
 4. should review their pricing approach for customers who have been with them longer than five years and assess whether this approach delivers a fair outcome.
 5. review their pricing approach for customers who have been with them longer than five years and assess whether this approach delivers a fair outcome.
 6. publish a report in no more than two years' time that demonstrates how members have sought to tackle excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.



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Wider regulatory context

- Is the FCA a regulator of price?
 - April 2017: requirement to show current and new premiums on renewal documents
 - 10th April 2019: [thematic review](#) (TR19/02) of the GI distribution chain, [proposed guidance](#) for manufacturers and distributors (GC19/2) and a [Dear CEO letter](#)
 - 3rd year of value measures; consulting (CP19/8) to extend to further products
 - Insurance Distribution Directive: **duty to act in customers' best interests**; no longer implementing a "Duty of Care": stating that "IDD is a game changer"
 - 7th June 2019 FCA announced reforms to fix dysfunctional overdraft market
 - 12th June 2019 FCA bans back dated interest on Buy Now Pay Later loans
- What will interim report in the summer say?



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Questions

Comments

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