Institute and Faculty of Actuaries

28 January 2021

FCA CP20/19 General insurance pricing practices market study IFoA Response

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The IFoA believes it is vitally important that the home, motor (and wider general insurance) markets work well and deliver good outcomes to consumers. We therefore support the FCA's proposals to tackle price walking.

The FCA proposes a package of remedies. Where aspects of the proposals are less straightforward to implement than others, some thought could be given to lengthening the implementation timetable, or introducing components of the package on a phased basis, if appropriate. Any phasing-in of package 'components' may also facilitate a more successful implementation.

Although the proposed pricing remedy could mean that some consumers face higher premiums, the remedy should lead to fairer premiums by tenure which is welcome, thus mitigating harm to those currently penalised by price walking. The pricing remedy could also lead to less switching by consumers. A reduction in the level of switching could see less 'churn' and lower frictional costs associated with switching (which are often passed to consumers).

The UK motor market is already exceptionally competitive, with challenges in profitability. The package of pricing remedies may drive some insurance firms out of the market, reducing competition.

We believe there should be better communication to policyholders at renewal of alternative products and/ or channels which might be more appropriate for the consumer. More generally, we support the principle of requiring insurance manufacturers/ intermediaries to set out the overall value and wider benefits offered by their products, including whether they are likely to meet the needs of the intended target market.

The IFoA supports the FCA's desire to remove unreasonable barriers to consumers on exiting auto-renewal of their insurance policies. However, auto-renewal does give policyholders great peace of mind that they will not accidentally find themselves uninsured. Making auto-renewal easier to exit therefore needs to be balanced with the risk of consumers inadvertently becoming uninsured.

We recognise that reporting metrics are important for the FCA to assess whether its pricing remedies are effective in reducing consumer harm. We suggest that the pricing remedy concept of the Equivalent New Business price should feature in the reporting requirements, as it may be helpful in showing that the remedies are achieving their objectives.

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1. Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the FCA's Consultation Paper CP20/19, General insurance pricing practices market study. We believe that it is vitally important that the home, motor and wider general insurance markets work well and deliver good outcomes to consumers, particularly to those who are vulnerable.

2. In developing our response, we have drawn upon input from a wide range of members working in the home, motor, and wider general insurance markets. We have reflected on relevant previous submissions we sent to the FCA, including consultations on the fair treatment of vulnerable customers, the insurance distribution chain and the earlier consultation on the FCA's market study, MS18/1.2.

3. We found the published slides and document following the FCA's Q&A feedback sessions on the proposed pricing remedies very useful. This helped focus our attention on additional areas where the FCA was seeking feedback, and we have also considered this wider material when drafting this response. We are encouraged that earlier feedback provided by the IFoA has been reflected in the FCA's latest proposals. *As an aside, we would recommend the FCA consider seeking and publishing similar feedback in any future material, and complex, consultations.*

4. It is important to note that, as for any IFoA response, we have considered the FCA's proposed package of pricing measures from an independent, public interest perspective.

5. We would be delighted to discuss this response, and otherwise provide further insight to the FCA prior to the implementation of the pricing remedies. We believe that the IFoA has an important role in providing direction and/or education to members in the new pricing rules being implemented.

Proposed Remedies: Key Considerations

6. As we mention above, the IFoA believes it is vitally important that the home, motor (and wider general insurance) markets work well and deliver good outcomes to consumers. We note the scale of the harm referred to in the FCA's final report MS18/1.3, including the point that 6 million policyholders paid high prices in 2018 - saving £1.2 billion had they paid the average for their actual risk. We also acknowledge the costs to consumers, either through being 'price walked' or through the time and effort of searching for a better deal. Therefore, the IFoA certainly supports efforts to address the loyalty penalty/ price walking, and associated harms in insurance.

7. As set out in CP20/19, the FCA propose a package of measures to tackle price walking:

   - (A) a pricing remedy (restriction of the renewal premium to the Equivalent New Business Price, [ENB Price]);
   - (B) enhanced product governance;
   - (C) easier cancellation of auto-renewal polices;
   - (D) allied to remedy (B), additional reporting requirements.

8. The IFoA supports the FCA's proposals to tackle price walking. We understand that the remedies (A) - (D) are being implemented as a package, with the underlying components complementing the other measures. In our view, some aspects of the proposals could be less straightforward to implement than others, and so the FCA should give some consideration to either lengthening the implementation timetable, or introducing components on a phased basis if appropriate. In particular, aspects of the reporting proposals may be onerous to produce (and potentially less useful for the FCA's purposes). We suggest some alternative approaches to reporting requirements later in our response.

9. We also note that, together with the proposals (A) - (D), a number of wider initiatives have been introduced in recent years, which, combined with the FCA's proposals in CP20/19 should hopefully make it harder for firms to continue with price walking practices.

10. The proposed pricing remedy (A) of restricting the renewal premium to an ENB price could result in higher premiums for some consumers, as acknowledged by the FCA in the Q&A feedback sessions. Although consumers who currently switch regularly at renewal could face higher premiums, mitigating harm to those consumers who are currently penalised by price walking would lead to fairer premiums by tenure, which is welcome.

11. The FCA's cost benefit analysis suggests that the overall package of remedies could see a reduction in premiums due to the effect of increased competition, with a consequent transfer from insurers to policyholders. In practice however, the pricing remedies/ increased competition may not reduce premiums in some cases. Potentially they could also have the opposite effect, or lead to some insurance firms exiting the market. For example, the UK motor market is already exceptionally competitive with challenges in profitability. These package pricing remedies may drive some insurance companies out of the market, creating less capacity and may increase premiums in some cases.

12. The proposed pricing remedy could lead to a range of other knock-on consequences. In CP20/19 (paragraph 1.12), the FCA notes that maintaining the incentive to switch [and other factors] helps drive competition. However, the pricing remedy could lead to less switching by consumers (or when they switch, they find that the savings are now lower). Less switching in insurance could also potentially see less focus on insurance by Price Comparison Websites, with more of their attention diverted to other sectors where switching becomes compulsory (such as the energy market).

13. On the other hand, a reduction in the level of switching could see less 'churn' and lower frictional costs associated with switching (which are often passed to consumers). A counterpoint is that less switching could increase other frictional costs; for example, advertising by insurance companies may need to increase. Overall however, a potentially good outcome would be less need to switch (or less frequent switching), consequently reducing frictional costs and reducing premiums.

14. The IFoA notes that the FCA is not proposing auto-switching to equivalent products with lower prices, or products which better suit the needs of the customer, as a remedy for price walking. We understand that auto-switching has been discounted due to associated practical challenges. We do recognise some of these challenges (such as identifying suitable 'like for like' products), and we prefer *facilitated* rather than *auto-switching*, as switching should take place with the consumer's permission.

15. We suggest that if auto-switching is not developed, then there should be better communication at renewal of alternative products and/or channels which might be more appropriate for the consumer; such communication would be one step towards facilitating switching. However, this would need to have regard to who 'owns' the customer relationship (insurer cf broker). We note further that Insurtech, Artificial Intelligence and Open Finance could all be catalysts for the facilitation of switching.

Consultation Questions

Question 1: Do you have any comments on the proposed implementation period?

16. As we mention above, implementing all of the proposed remedies (A) - (D) at outset and to the proposed timescales, could prove problematic for some firms, given the significant change to pricing practices, and the degree of granular reporting required. For example, the pricing remedy (A) and reporting requirements (D) could have significant IT implications for some firms. However, we note that individual firms will be better-placed to comment on the feasibility of implementation to the proposed timelines from their own perspective.

17. If there are widespread concerns over the overall implementation of the package, we suggest the FCA could give some consideration to either lengthening the implementation timetable, or introducing some components (A) - (D) on a phased basis if appropriate. Any phasing-in of components (A) - (D) may also facilitate a more successful implementation. Where some elements are to be phased-in, a revised firm implementation timetable would obviously be useful for firms to aim for.

18. We also note that since 2018, several conduct measures have been introduced by the FCA and more widely which, combined with the various components (A) - (D), will make it harder for firms to continue with price walking practices. These include the FCA's value measures, the Insurance Distribution Directive and the ABI/ BIBA Guiding Principles and Action Points for General Insurance Pricing.

Question 2: Do you have any comments on the possible impact of our proposals on people with protected characteristics under the Equality Act 2010?

19. We note that there could be potential issues in determining the Equivalent New Business (ENB) price where renewal is invited for an existing customer that would not normally be offered to new customers due to age, claims experience, or relevant conviction. For example, in relation to motor insurance, it is plausible that a customer aged 82 could renew their policy; but the same 82 year old driver looking to take out a new policy with the corresponding provider may not by quoted for by the insurer. We also understand that the ENB price is a hypothetical concept, and may not be the price the customer would necessarily see if they went out into the open market.

Question 3: Do you have any comments on our proposal to apply the rules on which we are consulting to firms based in Gibraltar and firms in the temporary permissions regime?

20. We support the FCA's proposals here - and the rationale behind them - i.e. that insurance customers receive an appropriate degree of protection, irrespective of where their insurer is based.

Question 4: Do you have any comments on our proposal to ban price walking?

21. The IFoA supports the FCA's proposals to eliminate the effects of price walking. We recognise that although some consumers could face higher premiums, the proposed pricing remedy should lead to fairer premiums by tenure which is welcome, thus mitigating harm to those consumers who are currently penalised by price walking. *We discuss further points in relation to the potential impact on premiums in response to the FCA's cost benefit analysis, later in this response.*

22. We note that under the proposed pricing remedy, firms would need to calculate an Equivalent New Business (ENB) price. It is important that the ENB price calculated could reflect any changes in a

customer's risk profile, together with any revision to the insurer's pricing margin or pricing model where applicable to new/ existing business, and we welcome this flexibility.

23. We understand from the FCA's Q&A feedback session (forum 1) that insurers will be able to use sensor data in subsequent renewals, in relation to insurance using sensor-based products. This is relevant to telematics devices in motor insurance, or the wider use of sensors in home insurance, for example. We also welcome this, as being able to modify the ENB price for sensor data does not invalidate the principle behind the pricing remedy, and is important for the insurer (and policyholder's) risk management.

24. More generally, as insurers move towards more individual risk-pricing, there may then be a future point where the ENB price ceases to be meaningful. Therefore, some consideration should be given on how to future-proof the pricing remedy.

25. We note that the ENB price would be calculated assuming that the customer has approached the firm through the *same* distribution channel, and is using the same payment method as when they first bought their policy. We believe using the original channel could be problematic, and insurers could 'game' this by converting a renewal policy to a new policy on renewal, such as what may happen when a consumer switches products but uses the same insurer when using a Price Comparison Website. This could thus perpetuate harm by ongoing price walking.

26. In relation to the definition of tenure, we also note that if a broker re-brokes between different insurers, then to that broker, the customer is a renewal, whereas to the insurer, it is a new business customer.

27. There may also be potential challenges in determining an historic, original channel, although feedback from individual insurance firms will be useful on this point in understanding whether this is a practical issue.

28. The FCA's Q&A feedback session (forum 1) noted that mid-term premium adjustments were out of scope of the pricing remedy. This may need further thought as mid-term adjustments are potentially quite significant for motor insurance, as people change cars, add and remove drivers and, most notably during the prevailing COVID-19 circumstances, amend their miles driven.

29. In some cases charges apply to customers which are not technically deemed to be premiums (as they do not attract insurance premium tax). These can take the form of both initial set-up charges and renewal charges. If such charges fall outside the scope of the pricing remedy, this could potentially open up a way for insurers to charge renewing and new customers different costs; however, customers may regard such charges a component of the their overall 'premium'.

30. CP20/19 usefully acknowledges that more than one firm may be responsible for setting a renewal price; it also notes that firms should take reasonable steps to ensure the relevant other firms have followed the pricing rules, such as by seeking verification from them. Whilst it is important that all relevant stakeholders follow the implemented pricing rules, we believe there is a key role for the FCA to ensure that all firms it regulates follow the FCA's rules. We can foresee difficulties if individual firms have an obligation to ensure another firm it works with are following the rules; such as in relation to an insurer and broker, where the net (of commission) price is set by the insurer, but the customer price is set by the broker after adding their commission. Often the insurer does not know the final customer price charged to the consumer and/or the policy add-ons the broker has sold.

31. A further example of potential split responsibilities relates to delegated authority schemes. Insurers could face challenges in monitoring and enforcing underwriting changes, especially if they are based outside of the UK.

32. Although a point relevant to reporting, we also think it is important that the data the FCA requires should be focussed on what each entity is doing, and that data submissions should relate to what the relevant firm can measure and control.

Question 5: Do you have any comments on how our proposal would apply to products that are no longer actively marketed?

33. The FCA's proposals in relation to products that are no longer marketed are reasonable. It is helpful to acknowledge that for some firms, they will just have closed books (at least for motor/ home insurance), and the proposed requirement to consider any discrimination by tenure is pragmatic.

34. CP20/19 also usefully notes that firms should consider the value offered by products - whether an equivalent marketed product or the closed (to new business) policy without a direct equivalent. This is an important consideration, and we believe it is relevant not only to closed business books, but also actively marketed business. We believe the assessment of the suitability of a product should take a broad view of the overall value for money offered, including the corresponding benefits; price should not be the sole consideration.

Question 6: Do you have any comments on our proposals to address practices that aim to frustrate the intended outcomes of the pricing remedy?

35. We support the FCA's proposals in relation to potential practices aiming to circumvent the wider pricing proposals. It is in the public interest that firms meet the FCA's final pricing regulations in spirit, as well as to the letter, including the development of appropriate internal processes to monitor/ ensure compliance.

Question 7: Do you have any comments on our proposal to require senior manager confirmation that the firm is complying with the pricing remedy?

36. The IFoA supports the FCA's proposals here. We believe that it is very important that insurers have appropriate, robust governance procedures in relation to product pricing. In particular, it is crucial that senior insurance stakeholders are aware of how their teams and models determine premiums, and that pricing practices comply with evolving FCA requirements.

Question 8: Do you have any comments on our proposal for firms to retain documentation to show how they are satisfied that their pricing model complies with our rules?

37. We believe this proposal is sensible. Retention of documentation should be of benefit to firms in demonstrating compliance with the FCA's pricing/ product governance requirements.

Question 9: Do you have any comments on our proposals for multiproduct discounts?

38. The FCA's proposals in relation to multiproduct discounts seem sensible. Such discounts are commonplace between home and motor insurance from the same provider, and it is helpful that the proposed practices allow discounts to continue.

39. In respect of individual new business discounts, we note the FCA's Q&A feedback session (forum 1) clarifies that whilst cash discounts would need to be reflected in the ENB price calculation, non-cash

discounts would be allowed. In our view, we do not think it is inappropriate to offer new business cash discounts if it should be very clear to the consumer that the discount will not apply at renewal. Removing the ability to discount new business could potentially be a barrier to new entrants.

40. However, the use of non-cash discounts is not very far removed from a cash saving via a lower new business premium, and so clarity of communication is crucial here. There is also the danger of a proliferation of such incentives.

Question 10: Do you have any comments on our proposal to apply the pricing restriction rules to all stages of the price setting chain?

41. In principle we support the application of the same pricing restrictions across the price setting chain: where there is an obligation on insurers, equivalent obligations should also apply to distributors to achieve the aim of the requirement. This is particularly important where the distributor has primary responsibility for setting the final insurance premium.

Question 11: Do you have any comments on our proposal to apply the pricing restriction rules to additional products?

42. We support the FCA's proposals in relation to additional products sold in conjunction with home and motor insurance. As mentioned in the CP, it is important that any associated additional products also offer fair value to customers, together with the corresponding 'primary' insurance policy.

Question 12: Do you have any comments on our proposal to enhance the product governance requirements concerning product value?

43. In general terms, we believe that it is very important that insurance manufacturers and intermediaries have robust and meaningful product governance and oversight in place.

44. We also support the principle of requiring insurance manufacturers/ intermediaries to set out the overall value and wider benefits offered by their products, including whether they are likely to meet the needs of the intended target market. Within this, it is also important that a broad view of product value is taken, and whether a product provides overall value for money to the consumer, rather than focussing primarily on price. The overall benefit/ value for money offered by a policy is particularly pertinent on home and other forms of insurance that have many variations in covers and excesses.

45. As part of the relevant wider regulatory framework, CP20/19 helpfully makes reference to the Insurance Distribution Directive (IDD), and the development of the PROD Sourcebook rules. Expanding on our comments above and wider points made in previous consultation responses, we believe there is merit assessing the effectiveness of the IDD and additional governance/ reporting remedies before deciding whether it is necessary to implement the proposed pricing remedy.

Question 13: Do you have any comments on our proposal to apply the product governance rules to products regardless of when they were launched?

46. Given that price walking is a long-standing problem, we believe it is logical that the relevant PROD rules need to consider products regardless of when they were launched or whether they are actively marketed.

Question 14: Do you have any comments on how we propose to apply the product governance rules to non-investment insurance products and products sold as part of a package?

47. When insurance is sold as part of a wider transaction - a package proposition - the consumer is likely to consider the value of the insurance in the context of the wider package. Therefore, in relation to such package propositions, we believe the primary focus should be on the aggregate position, where this is the most relevant perspective taken by the consumer.

Question 15: Do you have any comments on our proposals for ongoing product reviews and remedial actions firms must consider where it is identified that the product is not providing fair value?

48. In principle, we support the FCA's proposals for regular product reviews (and remedial action where necessary). In an era of significant technological change, and particularly in the light of COVID-19, rapidly evolving societal expectations, it is important that insurers ensure their products offer fair value to their relevant target markets, and meet customer needs.

49. In respect of annual product reviews, we believe this could be potentially onerous (and disproportionate) if applied to all relevant products. We suggest that, in the light of the first product reviews, subsequent reviews should be targeted where most appropriate. Products selected could be chosen based on materiality, risk triggers and the outcome of the previous review. Conversely, we believe it is appropriate to review actively-marketed products on an annual basis. We also believe 'problematic' products should be monitored more frequently or on an ad-hoc basis, where they are thought to cause greater harm, as is proposed.

Question 16: Do you have any comments on our proposed requirements for product distributors?

50. We understand the intention behind the proposal that insurance distributors should understand the corresponding product manufacturer's value assessment, so that they can distribute the product accordingly. An informed view of the wider value of a product is important in ensuring good customer outcomes. However, our view is that aspects of the review proposals could potentially be quite onerous; providing input to support manufacturer product reviews may not be straightforward for example. We note that insurance firms and distributors should be able provide a perspective here.

51. We strongly support the proposal that distributors should amend their processes where they identify harm to consumers; this should also extend to appropriate remedial action.

Question 17: Do you have any comments on our proposals for premium finance?

52. As we note in Q11 above, we support the FCA's proposals in relation to additional products generally, and in particular, also in relation to premium finance. Again, it is important that any associated additional products also offer fair value to customers.

Question 18: Do you have any comments on our proposals for senior manager responsibility for compliance with our proposed remedies?

53. We believe that it is very important that insurers have appropriate governance procedures in relation to product pricing. In particular, senior management should understand the pricing processes employed, should be aware of compliance with FCA requirements, and more generally, whether their insurance products meet the needs of their target markets. We consider it would be appropriate to

have a Senior Management Function that is accountable under the Senior Management and Certification Regime.

Question 19: Do you have any comments on our proposals to require firms to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing?

54. We certainly support the FCA's desire to remove unreasonable barriers to consumers on exiting auto-renewal of their insurance policies. However, auto-renewal does give policyholders great peace of mind that they will not accidentally find themselves uninsured. Making auto-renewal easier to exit therefore needs to be balanced with the risk of consumers inadvertently becoming uninsured. This latter scenario could clearly give rise to significant consumer harm (and distress).

55. We note in the FCA's Q&A feedback session (forum 3) the suggestion that the FCA's proposals in relation to auto-renewal are not thought to increase the risk of under-insurance. The FCA's proposals would make it easier to *not* have auto-renewal, and so it is unclear to us that the risk of being uninsured would not change; the FCA's proposal once implemented would impact the current 'equilibrium'. Furthermore, it is interesting to consider the scenario of whether the ombudsman would accept *'my insurer made it too easy for me to switch off my auto-renew and that was the reason I ended up not being insured when I had the accident'* as a valid argument for having insurance cover re-instated.

Question 20: Do you agree with our proposed rules and guidance in relation to auto-renewal?

56. In our view, one of the difficulties with insurance policy renewal is not auto-renewal, but silent-renewal. We believe that transparent communication before renewal is important, so that the policyholder can decide if they need to take action. The FCA's proposals in relation to the application of auto-renewal and its implications for the consumer are therefore helpful. As noted elsewhere, we believe it is also important to communicate alternative products and/or channels to the policyholder, in advance of renewal.

Question 21: Do you agree with our proposal to apply the auto-renewal measures to all types of general insurance?

57. As in answer to Q19 above, we support the FCA's desire to remove unreasonable barriers to consumers on exiting auto-renewal of their insurance policies; there should not be unnecessary barriers, regardless of the insurance class. However, we reiterate our concern over increasing the potential risk of under-insurance.

58. We believe it could be optimistic to expect that those who switch off their policy auto-renewal will be more engaged, and less likely to end up becoming uninsured. Policyholders' circumstances can change, such as being in hospital/ on holiday around the time their policy renews, and thus less able to engage. One approach would be to facilitate customers cancelling their policy easily mid-term without penalty if they are on auto-renewal, and to move to another insurer if they are unhappy with what happened on auto-renewal. The requirement to do a needs assessment could mean that 'not engaging' at renewal becomes less of an issue.

Question 22: Do you agree with our proposed scope for the reporting requirements?

As well as scope, we make some wider comments on the reporting requirements in response to this question.

59. The IFoA recognises that reporting metrics are important for the FCA to assess whether its pricing remedies are effective and reducing harm in the home and motor insurance markets. Reporting should be appropriate, targeted and proportionate, to be effective from both an FCA and insurance firm perspective.

60. The proposed reporting requirements appear quite onerous for firms to set up. Although insurers will be in a better position than the IFoA to assess this, aspects of the reporting could perhaps be trimmed back, particularly after any initial reporting has taken place, and a risk-based approach is taken regarding which aspects need to have further / more frequent regular reporting. We do however agree with the FCA's assessment that providing transactional level pricing information would not be proportionate. *Note our response to Q23 which refers to alternative reporting, which may reduce the reporting burden.*

61. Consistency of reporting may also be difficult, and some reporting could be open to misinterpretation. For example, price rises by tenure could be due to changing risk mix over time.

62. Given that the FCA is proposing that a senior manager confirms they are complying with the FCA's pricing rules, we suggest the reporting requirements could be complemented by requiring firms to provide a short report to the FCA, showing how the senior manager has been able to give the confirmation. Such a report would provide the FCA with additional qualitative and quantitative information that would be firm-specific and may not be captured in the prescribed reporting templates.

63. Where reporting is required for a core insurance product, we agree that the reporting should also apply to add-ons to those products. If not, then the reported data my not identify where the remedies are not being followed. This extension of the reporting requirements is quite important as, arguably, this may be where the residual harm might lie.

Question 23: Do you agree with our proposed reporting granularity?

64. We note that the proposed reporting requirements in CP20/19 are designed to complement the FCA's wider insurance value measures (such as claims frequencies, claims acceptance rates and claims complaints as a percentage of claims). The value measures rules are designed to indicate the value consumers receive from their insurance product. We believe that customer understanding of the wider value of their insurance policy is very important, particularly prior to policy renewal. Together with these claims measures, we also think it would be helpful to consumers if some reporting/ monitoring data were published; for example to demonstrate which firms have fair pricing by tenure.

65. The proposed reporting requirements in CP20/19 expand on the FCA's separate insurance product value measures, but are designed to monitor the effectiveness of the FCA's price walking remedies. However, if the granularity of the value measures do not meet the FCA's requirements for insurance product value measurement, then the value measure requirements could be modified, rather than developing additional such measures as part of the separate price walking remedy.

66. We suggest that the pricing remedy's concept of the Equivalent New Business (ENB) price should feature in the reporting requirements. If the FCA required firms to report information on the difference

between last year's price, current price and the ENB price by tenure, this may be helpful in showing that the remedies are achieving their objectives. Reporting on the ENB price could potentially remove the need for other reporting metrics proposed.

67. There may be benefits in firms reporting on ENB price before requiring it to be built into pricing algorithms. This would allow firms to road test the new processes they will need to implement in order to calculate the ENB price for each customer before it impacts the premium being set in the market.

Question 24: Do you agree with the list of metrics we propose to ask firms to report?

68. As we mention in response to Q23, we believe the reporting requirements with respect to the price walking remedies should include reporting on ENB price as a key component of the MI required. If instead firms produce the extended reporting proposed (but have addressed historical pricing harms), then the data to be analysed might leave the FCA trying to find residual pocket of harm in large MI datasets.

69. We also have a number of observations against the metrics currently proposed:

- differences in expected clams costs and premiums by tenure may be due to different risk mix;
- the metrics considering expected claims ratios below average illustrates challenges around using 'snap shot premium' versus claims ratio measures, rather than premium measures (gross and net and risk) over time for groups of customers;
- however, we consider that comparisons of the ratio of risk costs to gross premiums at tenure n, relative to this ratio at tenure 0, will provide useful insight for the FCA;
- aggregate gross incurred claims ratio - this could be a challenge for intermediaries and insurers where one of the firms knows the retail premium and the other firm the aggregated claims cost but the aggregation is different, as the intermediary firm is using multiple insurers and the insurer is using multiple intermediaries;
- proportion of customers paying high and very high premiums: again, these metrics could be 'muddied' by changing mix of business.

70. We note in particular the proposed requirements to report on the total prior year's reserve releases and total prior year's reserve strengthening. Although these requirements are justified by the FCA on the basis that surplus can be released or reserves can be strengthened to manged incurred claims ratios, this reasoning is not consistent with our experience; nor is it consistent with the granularity at which firms typically make reserve release decisions. Accordingly, we would recommend that these particular metrics are not included in any reporting implemented.

71. We further recommend that the proposed metrics relating to incurred claims development are not included in reporting requirements. Such development metrics relate to how claims develop on the balance sheet after the premium has been set, and is not directly related to pricing.

Question 25: Are there any other metrics we should consider asking firms to report?

72. A key additional metric which should be carefully considered is to report on ENB price, as above.

Question 26: Do you agree with our proposals on reporting responsibility for insurers and intermediaries?

73. We have no objections with respect to the proposed responsibilities, but we can envisage pricing intermediaries having limited/ no access to claims ratio data. (Pricing intermediaries would likely know the net price provided by insurers, however).

Question 27: Do you agree with our proposals on reporting periods and frequency?

74. The proposed annual frequency of reporting seems appropriate, regardless of insurance policy duration. On the other hand, a reporting deadline of 31 March could prove onerous for many firms, given long-established annual financial reporting deadlines coinciding with timeline.

Question 28: Do you have any comments on our cost benefit analysis?

75. The IFoA does not have detailed comments on the FCA cost benefit analysis (and therefore we have just answered this question in this section of CP20/19). However, some high-level qualitative considerations are set out below.

76. The FCA's cost benefit analysis suggests that the overall package of remedies could see a benefit in the range of £4.2bn - £11.2bn in terms of lower premiums, due to the effect of increased competition. This benefit would transfer from insurers to policyholders. As we suggest earlier, the package of pricing remedies may not necessarily lead to lower premiums, and it is plausible in any equalisation of new and renewal business premiums that any transfer to policyholders could be limited: it could be argued that the pricing remedies remove the cross-subsidy between higher tenure and lower/ (zero) tenure policies. We recognise that uncertainty over the extent of this impact is reflected in the FCA's use of differing scenarios generating this range of impacts.

77. Where competitive pressures do reduce premiums (with consequent transfer to policyholders), some insurers may choose to exit the market if any consequent reduction in margin does not meet with the relevant shareholder expectations. For example, the UK motor market is already exceptionally competitive with challenges in profitability.

78. Conversely, if new business prices *increase* to balance reductions in renewal prices, this could reduce competition in the market.

79. It is also plausible that to the extent that the pricing practice package constrains insurers, it could stifle innovation. However, it also has to be acknowledged that with competitive pressure, insurers could seek to be innovative in other ways, such as providing greater product value beyond price.

80. Although we do not comment in detail on the FCA's projection of costs/ benefits, we note that the benefits are measured over a 10-year timescale. This could be considered a long time-horizon given the inherent uncertainties over the impact of the remedies. On a similar note, the 3.5% discount rate used in the projection may be considered to be relatively low given the degree of uncertainty.

Should you want to discuss any of the points raised please contact Steven Graham, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

Tan Suee Chieh
President, Institute and Faculty of Actuaries