Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Review of Differential Pricing in the Private Car and Home Insurance Markets

Final Report and Public Consultation

July 2021

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1. Executive Summary

Insurance serves a critical role in reducing uncertainty by protecting people and businesses against the risks of future events. Consumers rely on insurance to provide support in the event of loss or serious accident, to plan for retirement, to enable them to confidently invest in and run their businesses and more. A financial services system that sustainably serves the needs of the economy and consumers therefore needs functioning and trustworthy insurance markets and insurance providers.[1]

A financial services system that sustainably serves the needs of the economy and consumers therefore needs functioning and trustworthy insurance markets and insurance providers.

As with the financial services system as a whole, innovation in the insurance industry brings with it the possibility of improved products and offerings for consumers. However, the advances in computing power, data analytics and modelling techniques also increase the risk that pricing practices could result in unfair outcomes for some consumers.

The Central Bank of Ireland's (the Central Bank) role is to deliver effective and purposeful supervision that protects the interests of consumers and supports a robust insurance sector. Financial services providers are responsible for providing products that meet their customers' needs both now and into the future, and doing so fairly. The Central Bank will intervene where we have reason to believe that unfair practices are occurring which take advantage of consumer behaviours and habits. We launched our Review of Differential Pricing in the Private Car and Home Insurance Markets (the Review) for this reason.

Differential Pricing Explained

Differential pricing is where customers with a similar risk and cost of service are charged different premiums for reasons other than risk and cost of service. It includes a range of techniques that combine information about expected claims experience and customer behaviour - for example, the tendency to renew or shop around.

Differential pricing is where customers with a similar risk and cost of service are charged different premiums for reasons other than risk and cost of service.

The practice of differential pricing is widely used across a range of markets, and can bring benefits for consumers. For example, it can encourage competition and innovation and facilitate market access for consumers who might be unable or unwilling to pay a uniform price. However, differential pricing can also cause harm to consumers, particularly if it is used to increase the prices of policyholders by stealth, or if it affects vulnerable groups or those with differing abilities, time or willingness to search for better offers.

1 For the purpose of this report, 'insurance provider' includes non-life insurance undertakings and insurance intermediaries including Managing General Agents.

Evidence and Findings

We undertook the Review to assess how differential pricing is used in the private car and home insurance markets in Ireland and its impact on consumers. We focussed specifically on these markets because of their importance to consumers and to society more generally. Moreover, these products lend themselves to the application of differential pricing techniques because of the large volumes of customers, significant premiums and the levels of customer inertia associated with them.

Our Review focussed on the most significant forms of stealth pricing practices applied by insurance providers in the market. These include price walking, where customers are charged higher premiums relative to the expected costs the longer they remain with an insurance provider, and the closely related practice of treating the pricing of new business and renewal customers differently for reasons other than risk and cost of service, which is known as dual pricing.

We examined the extent to which the use of these pricing practices lead to outcomes consistent with the Consumer Protection Code 2012 (the Code). We also sought to identify the drivers of consumer behaviours, including how consumers engage with the insurance industry, and assessed the adequacy of the governance and oversight of differential pricing as exercised by insurance providers.

The Review incorporated a market analysis of the 11 insurance providers in scope, including 44 inspections, quantitative analysis of almost 11 million individual policy records and the gathering of consumer insights based on a survey of circa 5,500 consumers.[2] Following our market analysis work, we issued a Dear CEO letter to the insurance sector in September 2020 setting out our initial observations and requirements. This was followed by an Interim Report in December 2020 which concluded that the majority of firms apply some form of differential pricing.

The Review is now complete. Our analysis shows that some of the practices identified could result in unfair outcomes for some consumers in the private car and home insurance markets. As a consequence of these practices, the premiums paid by certain policyholders deviate significantly from the expected costs of the policy to the insurer.[3] The price relative to the expected costs also increases the longer a customer remains with their insurer. We also found that oversight of pricing practices is lacking and that the automatic renewal processes, which is a common feature of the insurance market, lacks transparency. Accordingly, we are proposing a

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2 For the purpose of this report, the 11 insurance providers in scope of the Review are referred to as 'firms'.

3 For the purpose of this report, non-life insurance undertakings are referred to as 'insurers'.

series of reforms to strengthen the consumer protection framework, while ensuring that consumers retain the opportunity to avail of premium discounts.

Our first core proposal is to ban price walking in the motor and home insurance markets for personal consumers.

The practice of price walking is unfair and could result in unfair outcomes for some groups of consumers in the private car and home insurance markets.

Our analysis showed that long-term customers (those who stayed with the same insurer for nine years or more) pay, on average, 14% more on private car insurance and 32% more on home insurance than the equivalent customer renewing for the first time.

On this basis, we propose to ban price walking by insurance providers. This means that at the point of renewal, insurance providers cannot charge personal consumers who are on their second or subsequent renewal a premium higher than they would have charged them if they were a year one renewal consumer at that point in time.

This approach would allow insurance providers to continue to provide discounts for new business customers and ensure that personal consumers retain the opportunity to get a better-priced premium through switching insurance provider while removing the loyalty penalty for those consumers who do not switch insurance provider regularly.

Our second core proposal is to require providers of motor and home insurance to personal consumers to review their pricing policies and processes annually.

This would ensure that insurance providers maintain focus on their pricing practices and the impact of such practices on their customers, while also ensuring adherence to new pricing provisions and the fair treatment of consumers.

Our third core proposal is to introduce new consumer consent and disclosure requirements to ensure the automatic renewal process is more transparent for all personal non-life insurance products.

Automatic renewal is the practice where an insurance contract allows for a policy to be automatically renewed, unless the customer tells the insurance provider otherwise before the renewal date. This proposal would ensure that consumer consent was required for the renewal of their

Three core proposals:

Ban price walking in the motor and home insurance markets for personal consumers.

Require providers of motor and home insurance to personal consumers to review their pricing policies and processes annually.

Introduce new consumer consent and disclosure requirements to ensure the automatic renewal process is more transparent for all personal non-life insurance products.

insurance contract on an automatic basis and allow personal consumers to make more informed decisions.

Along with these specific policy measures, we are also considering a number of additional measures in relation to complaints resolution, vulnerable consumers and customer engagement and transparency. These will inform the separate review of the Code (the Code Review) that is currently under way and will be published in the coming months.[4]

The Review also considered the likely costs and benefits of potential solutions to the risks identified, conducting analysis of potential market and consumer price effect. Our recommendations and proposals for change are focussed on the issues that have the potential to cause the greatest harm for consumers and are based on the evidence gathered as part of the Review.

The series of proposed policy measures would, in our view, strengthen the consumer protection framework and ban practices that directly lead to some consumers paying more for private car and home insurance policies based on how long they are with their current insurance provider.

This report incorporates a public consultation on our proposals to address risks to consumers arising from price walking, oversight of pricing practices, and automatic renewals.

Next Steps

This report incorporates a public consultation on our proposals to address risks to consumers arising from price walking, oversight of pricing practices, and automatic renewals (as set out in the Public Consultation Process section of this report, Section 6). The consultation seeks views from all relevant stakeholders on the proposed policy measures. The consultation sets out the proposed provisions and a series of questions, seeking views on the specific issues identified. We welcome evidence to support views provided in response to this consultation.

The public consultation process will run until **22 October 2021.**

The public consultation process will run until **22 October 2021.** Any submissions received after this date may not be considered. Please submit any submissions by e-mail to **consumerprotectionpolicy@centralbank.ie**.

Taking into account the views of stakeholders in response to this consultation, we intend to finalise these measures early next year and that they will apply to insurance providers from **1 July 2022**.

[4] A consultation in relation to the Code Review is expected to be launched in Quarter 4, 2021.

As set out above, our proposals in relation to complaints resolution, vulnerable consumers and customer engagement and transparency as appropriate will be consulted on separately as part of the Code Review.

We will also complete supplementary analysis to better understand customer engagement in the private car and home insurance markets and explore how customer engagement might be improved, including by way of enhanced transparency measures and the application of insights from behavioural science.

2. Summary of Proposals

The proposals for change are focussed on the issues that have the potential to cause the greatest harm for consumers and are based on the evidence gathered as part of the Review.

We propose to strengthen the consumer protection framework through amendments to the Code. Our core proposals concern the areas of price walking, oversight of pricing practices, and automatic renewals, while further work will be undertaken in the areas of complaints resolution, vulnerable consumers and customer engagement and transparency. The proposed provisions are set out in the Public Consultation Process section of this report and can be summarised as follows:

Price Walking

We propose to add a number of new provisions to the Code in respect of motor and home insurance pricing for personal consumers in order to address the worst effects of price walking.

These proposals require:

- A ban on price walking by insurance providers meaning they cannot charge personal consumers who are on their second or subsequent renewal a premium higher than they would have charged them if they were a year one renewal consumer at that point in time.
- Where new customers are offered a lower price to attract their business, it should be clearly disclosed to them that this represents a new business discount.[5]

Oversight of Pricing Practices

We propose to add a number of new provisions to the Code requiring oversight and review of motor and home pricing practices for personal consumers, including the requirement to assess adherence with the proposed new pricing provisions.

These proposed new provisions require:

- Insurance providers to carry out an annual review of their motor and home pricing policies, processes and models and:
    - Rectify any deficiencies identified; and
    - Retain a written record of the review and actions taken to rectify any deficiencies found.

Our core proposals concern the areas of price walking, oversight of pricing practices, and automatic renewals.

Further work will be undertaken in the areas of complaints resolution, vulnerable consumers and customer engagement and transparency.

5 This provision will be developed further and form part of the consultation on the Code Review later this year.

Automatic Renewals

We propose to add a number of new provisions to the Code in respect of automatic renewals in the non-life insurance market, in order to provide greater transparency around this practice and allow consumers make more informed decisions based on clear information provided by the insurance provider.

These proposed new provisions require:

- Written consent from a personal consumer prior to entry into an automatic renewal process.
- A personal consumer to have the right to cancel the automatic renewal.
- Notification to be issued to a personal consumer in advance of the automatic renewal date, requiring certain information to be set out relating to:
  - When the policy will automatically renew and how to cancel the automatic renewal;
  - Any changes in terms, fees and charges;
  - Reference to the Competition and Consumer Protection Commission's website relating to switching; and
  - A statement advising consumers to keep their arrangements under review as there may be suitable alternatives in the market.

Complaints Resolution

The Review raised concerns that firms may not be classifying, categorising and recording complaints appropriately to effectively analyse and identify trends, potentially leading to customer pricing issues not being identified, escalated and considered appropriately.

To address these concerns, our analysis in relation to complaints resolution will be considered as part of the Code Review. This will include proposals to enhance recording and logging of complaints and frequency of conducting complaints analysis.

Vulnerable Consumers

While we did not find evidence that vulnerable consumers are specifically adversely impacted by differential pricing, firms do not specifically consider pricing outcomes with respect to vulnerable consumers, thus potentially giving rise to a risk of poor consumer outcomes and unintended consequences for vulnerable consumers. In addition, the level of vulnerable consumer training varies across firms.

In the Code Review currently under way, there will be a dedicated focus on vulnerable consumers and related concerns, including proposals on improved processes and training.

Engagement and Transparency

The Central Bank has made a number of enhancements in respect of customer disclosures in recent years and transparency remains key to ensuring consumers have appropriate information to assist them in making more informed decisions. It is also important that the information disclosed is relevant and balanced in order to avoid information overload, thus ensuring the information provided assists the consumer with their decision-making.

We believe that the proposed pricing measures would address concerns that consumers may not be aware that they are being subjected to price walking in respect of their annual premiums. The new consent requirements on automatic renewals would ensure the process is more transparent for consumers and would allow consumers to make more informed decisions, based on clearer information being provided.

We will also undertake further analysis to better understand customer engagement in the private car and home insurance markets, exploring how customer engagement might be improved, including by way of further transparency measures and the application of insights from behavioural science, and consider any further action required.

3. Introduction

The practice of charging customers who have a similar risk and cost of service different premiums for reasons other than risk and cost of service is known as differential pricing. We launched our Review of differential pricing in the private car and home insurance markets because of the potential risks to consumers arising from this practice.

3.1 The Need for a Trustworthy System

Insurance serves a critical role in reducing uncertainty by protecting people and businesses against the risks of future events. Consumers rely on insurance to provide support in the event of loss or serious accident, to plan for retirement, to enable them to confidently invest in and run their businesses, and more. A financial services system that sustainably serves the needs of the economy and consumers therefore needs functioning and trustworthy insurance markets and insurance providers.

The practice of charging customers who have a similar risk and cost of service different premiums for reasons other than risk and cost of service is known as differential pricing.

Financial services providers are responsible for providing financial products and services that meet their customers' needs both now and into the future, and doing so fairly. They must embed effective cultures building on shared values such as professionalism, honesty, integrity, and accountability, and set standards for themselves and their staff.

For a variety of reasons, consumers do not always take the time to shop around and tend to make assumptions when purchasing financial products and services. The ability to shop around and negotiate over price can be difficult for some consumers. Consequently, we expect that all financial services providers treat their customers fairly.

Differential pricing can be associated with benefits and costs for consumers.

As highlighted in our Financial Stability Note published in November 2020, the practice of differential pricing is widely used across a range of markets, and can bring benefits for consumers. For example, it can encourage competition and innovation and it can facilitate market access for consumers who might be unable or unwilling to pay a uniform price. However, differential pricing can also mean higher costs for some consumers, particularly those with differing abilities, time or willingness to search for better offers.

On this basis, the Central Bank undertook the Review of pricing practices of private car and home insurance in a number of the largest non-life insurance providers operating in the market to understand the prevalence and specific impact of differential pricing on consumers, and to determine the potential for consumer risk and harm arising from these practices.[6]

3.2 The Prevalence of Differential Pricing

Differential pricing includes a range of techniques that combine information about expected claims experience and customer behaviour - for example, the tendency to renew or shop around. Differential pricing is not unique to the insurance sector; similar techniques are widely used across many industries, such as airlines, hotels, telecoms and on-line retail sites. The advances in computing power, data analytics and modelling techniques within the insurance industry increase the risk that pricing practices could result in unfair outcomes for some customers.

Our Financial Stability Note found that:

> *"From a policy perspective, price differentiation can be associated with benefits and costs for consumers, which may require a trade-off between different policy goals (OECD, 2018). For example, it can encourage customers to try new products or providers to avail of lower prices, it can promote new business growth and competition as firms attract customers away from existing providers, it can facilitate expanded market access for consumers who could not afford to pay a single undifferentiated price, and it can promote innovation among firms (CMA, 2018). On the other hand, differential pricing can have an unclear effect on distributional equity (OECD, 2018)".*[7]

Consumers may not always be aware that differential pricing is being applied or, even if they are, may not have the search and negotiation techniques or knowledge to avoid it. This could result in adverse effects for some consumers, particularly those who are vulnerable e.g., due to age, income or financial capability, or those with behavioural biases who are less likely to negotiate or look for alternatives.

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6 It should be noted that, in the context of its mandate, the Central Bank is not permitted to introduce prior notification or approval of proposed increases in premium rates, except as part of a general price control system.

7 Byrne, S. and McCarthy, Y. (2020) 'Differential Pricing: The Economics and International Evidence', 2020(10), pp. 1 [Online]. Available at: Financial Stability Note

3.3 Scope and Aims of the Review

The Review focussed specifically on the private car and home insurance markets. This is because of their importance to consumers and to society more generally. These products lend themselves to the application of differential pricing techniques because of the large volumes of customers, significant premiums and the levels of customer inertia associated with them.

Private car and home insurance products are two of the most commonly held insurance products in Ireland and offer consumers financial protection in the event of accident or loss, playing an important role in providing consumers with peace of mind. Private car insurance is a legal requirement, with minimum cover of third party required in order for an individual to drive a private car on public roads. While home insurance is not a legal requirement, it is perceived by homeowners and renters to be an important purchase, and is often required by lending institutions in order to secure a mortgage. These products account for a significant proportion of the personal insurance market.

The Review examined the pricing practices of a number of the largest non-life insurance providers operating in the private car and home insurance market.

There are approximately 2.2 million private car insurance policies and 1.3 million home insurance policies in the market. We estimate that the Review covers more than 90% of these policies.[8]

There are approximately 2.2 million private car insurance policies and 1.3 million home insurance policies in the market. We estimate that the Review covers more than 90% of these policies.

The aims of the Review were to:

- Establish the impact of differential pricing on consumers;
- Assess the extent to which these pricing practices lead to outcomes consistent with the Code;
- Identify the drivers of consumer behaviours including how consumers engage with the insurance industry; and
- Assess the adequacy of the governance and oversight of differential pricing.

8 Total market size estimate based on data from the 2019 Conduct of Business Returns submitted by insurers to the Central Bank.

3.4 A Multi-phased Approach

The Review was conducted in three phases and the purpose of each phase was to:

Phase 1 — **Market Analysis**

- Establish the extent to which differential pricing is in operation in the Irish private car and home insurance markets and if it does exist, to establish how it is being carried out.

Phase 2 — **Quantitative Analysis and Consumer Insights**

- Examine the degree of differential pricing among private car and home insurance policies through analysis of data provided by each firm in scope for this Review.
- Conduct a consumer insights survey to gain insight on the wider population of insurance customers.

Phase 3 — **Conclusions and Recommendations**

- Informed by the findings in Phases 1 and 2 of the Review.
- Deliver a report or consultation on proposals for reform, as appropriate.

3.5 Summary of Interim Findings

We published our Interim Report in December 2020, providing a progress update on the Review and detailing some of our market analysis and preliminary insights from the quantitative analysis and consumer-led research. At the Interim Report stage, we had identified a number of pricing practices that led to customers with a similar risk and cost of service paying different premiums for reasons other than risk and cost of service. We found that, on average, renewing customers pay a higher amount relative to the expected costs of their policy when compared to new business customers.

We also found that, on average, the longer a customer remains with their insurance provider, the higher the amount they pay in excess of that required to cover the expected costs of the policy.

The Interim Report highlighted that, as a result of these practices, those consumers who do not switch insurer on a regular basis or proactively negotiate a discount at renewal are often paying a higher premium relative to the expected costs than those who do. The consumer research, which took the form of a survey (the Consumer Survey), identified that most consumers have a limited knowledge of how insurance pricing operates, which can discourage more active engagement. The Consumer Survey also highlighted a tendency on the part of some consumers to feel it is better and easier to stay with their current insurance provider than switch.

While the Interim Report noted that the practice of differential pricing is widely used across a range of markets, and can bring benefits for consumers, it also highlighted concerns that firms were not adequately considering the impact of differential pricing models on their customers.

3.6 Work Completed Since the Interim Report

Since the publication of the Interim Report, we have completed further analysis to better identify the drivers of differential pricing outcomes.

We have also continued to supervise firms on the implementation of the requirements set out in our Dear CEO letter – which covered governance and control criteria, culture and conduct and consideration of customer impact. Our objective is to ensure that insurance providers understand the impact of their pricing practices on their customers, and that they have fully embedded consumer protection risk management frameworks to drive positive behaviours.

While this is the final report on the Review, it is not the end of our work on differential pricing. We will continue to develop our policy consideration of proposed measures to address the risks identified in the Review and implement them upon conclusion of our public consultation. We will continue to supervise firms to ensure they meet our requirements as set out in the Dear CEO letter. In addition, we will monitor developments in the private car and home insurance markets to better understand customer engagement in these markets and identify how it might be improved.

4. Methodology

This section summarises the various information sources and techniques used to conduct our analysis. Supervisory judgement was applied to inform our findings and proposals. The process involved appropriate peer review to ensure the rigour of the approach and to challenge judgements formed. The methodology is outlined in full in the Technical Annex to this document.

4.1 Detailed Methodology

4.1.1 Market Analysis

The Market Analysis phase of the Review involved analysis of more than 2,000 documents submitted by firms in respect of their pricing practices. A series of 44 inspections across firms was also completed to obtain a detailed understanding of the pricing practices in place, the governance and oversight of the pricing processes, and how each firm considered the consumer as part of their pricing practices. This information was overlaid with our quantitative analysis of the data gathered from firms.

Approximately 6.7 million private car records and 4.1 million home records were reported by firms in aggregate across the three years.

4.1.2 Quantitative Analysis and Consumer Insights

The second phase of the Review included quantitative analysis and direct consumer research to better understand the views of individual consumers with respect to the private car and home insurance markets. We examined data for all private car and home insurance policies written by firms in 2017, 2018 and 2019 (the Dataset). The Dataset included information on policy and policyholder characteristics, and a breakdown of the premium charged to the policyholder, divided between risk and non-risk based components.

Approximately 6.7 million private car records and 4.1 million home records were reported by firms in aggregate across the three years. Based on a review of the 2019 data, we estimate that the collected policy records cover more than 90% of the policies issued in the private car and home insurance markets.

The Consumer Survey focussed on private car and home insurance, treating the two markets as distinct. The Consumer Survey sought to identify insights into the drivers of consumer behaviours, including how consumers engage with both markets. Consumers were asked a broad range of questions relating to their interactions with insurance providers and the market in general. The Consumer Survey collected information about the socio-economic, demographic, behavioural, and attitudinal characteristics of respondents, along with information relating to respondents' experiences and patterns of engagement across both markets.

The Consumer Survey sought to determine whether particular consumer types are more exposed to differential pricing than others. It also examined how differential pricing affects policyholders with different characteristics across subgroups of the private car and home insurance consumer population.

The quantitative analysis and consumer insights work was broadly split into four sections:[9]

1. An initial analysis using the Dataset to investigate the market structure, the overall level of differential pricing in the market and how differential pricing varies with certain policyholder characteristics. Some key results from this work were included in the Interim Report, and these results together with further insights are outlined in this report.

2. Statistical analysis on the Dataset to estimate the contribution of specific policy-level factors (such as tenure, automatic renewal status, and sales channel) to the variation in pricing outcomes across policyholders.

3. The Consumer Survey captured the views of 5,466 policyholders, consisting of 2,969 private car insurance policyholders and 2,497 home insurance policyholders. The policyholders surveyed are a representative sample of the Dataset gathered from the firms.

4. Further statistical analysis based on the linking of the Consumer Survey (of 5,466 policyholders) to the Dataset (of almost 10.9 million policy records). This assessed the impact of differential pricing on certain groups of customers from the point of view of socio-economic status, financial sophistication and other policyholder characteristics of relevance to the Review.

The Consumer Survey captured the views of 5,466 policyholders, consisting of 2,969 private car insurance policyholders and 2,497 home insurance policyholders.

4.1.3 Analytical Approach

In order to analyse the level of differential pricing in the private car and home insurance markets, we compared the Actual Premium paid by the policyholder with the expected costs related to an individual policy.

> The Actual Premium is the amount paid by the policyholder. The Technical Premium is the insurer's view of the cost of providing an insurance policy. The APTP ratio therefore provides us with a view of the differences between the Actual Premium charged and the cost of providing the policy (Technical Premium).

[9] See the Technical Annex for more detailed explanation on each section including findings.

Throughout this report, we refer to the APTP ratio. Rather than look at the difference in absolute value between Actual Premium and Technical Premium, we have focussed on the ratio of the two values, i.e., the Actual Premium divided by the Technical Premium.

An APTP ratio of less than one means the Actual Premium received from the customer was less than the insurer's view of the expected costs associated with the policy, while an APTP ratio greater than one means the Actual Premium received from the customer was greater than the insurer's view of the expected costs associated with the policy.

5. Findings from the Review and Proposals

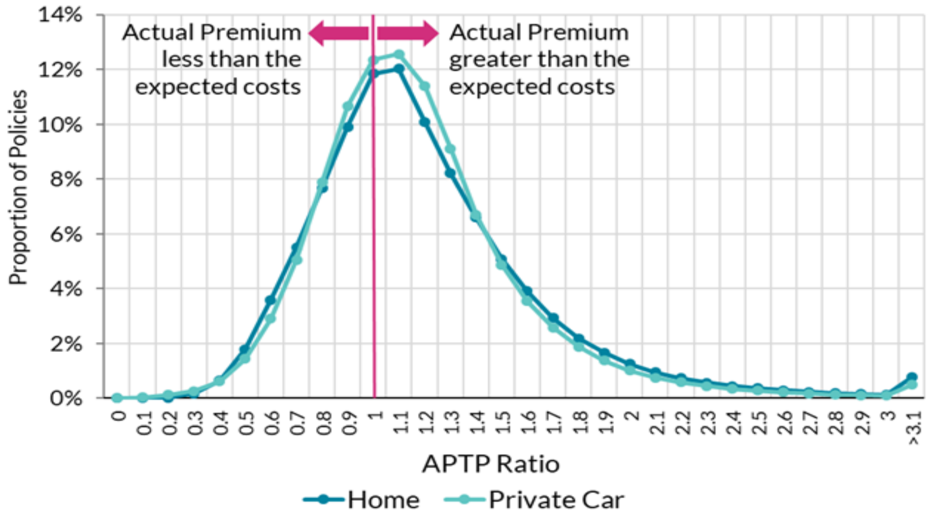
Our analysis shows that the premiums paid by certain policyholders deviate significantly from the expected costs. We also found that oversight of pricing practices is lacking and that the automatic renewals process, which is a common feature of the insurance market, lacks transparency.

5.1 Pricing Practices

As outlined in the Interim Report, we found evidence of differential pricing across the private car and home insurance markets. At an overall level, an insurance provider may receive a similar total premium across their portfolio. However, some policyholders are paying an amount in excess of that required to cover the expected costs of their policy. From the analysis completed, it is evident that insurance providers may subsidise the premiums charged for more price sensitive groups of consumers with that of less price sensitive consumer groups.

Figure 1 below shows the spread of the APTP ratio for private car and home insurance, highlighting the differences that customers experience between the cost of providing their policies and the Actual Premium paid. Based on the data provided by firms, there is significant variation in APTP ratios within the market.

Figure 1: Distribution of APTP ratio for private car and home insurance policies (2017-2019).



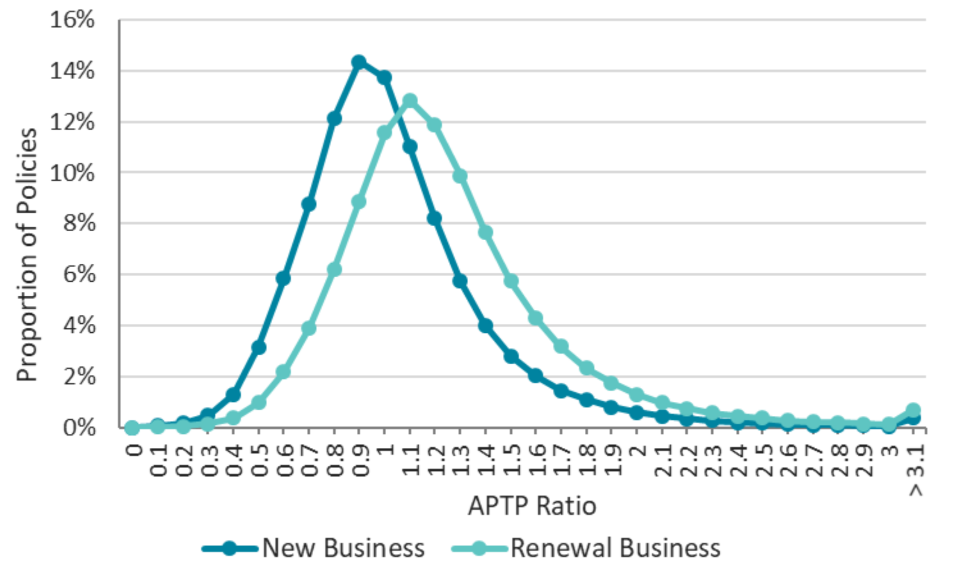
5.1.1 Market Analysis

As set out in the Interim Report the two most significant pricing practices in relation to differential pricing are the related practices of dual pricing and price walking.

The Review identified significant differences between new business and renewal business in the private car and home insurance markets with respect to the actual price charged relative to the expected costs of the policy.

Figure 2 shows the spread of the Actual Premium to Technical Premium for new and renewal business (for private car and home insurance combined). Our analysis finds that 72% of renewing customers have an APTP ratio greater than 1, compared to 47% of new business customers. This indicates that renewing customers pay a higher premium, on average, than new business customers, relative to the expected costs of their policies. From the Review, it is evident that offering new business discounts is a strategy widely practiced across the private car and home insurance markets. Firms offer new business discounts in order to attract and secure business, which may mean a cheaper quotation for customers who shop around for such discounts.

Figure 2: Distribution of APTP ratio for new and renewal policies (private car and home combined, 2017-2019).



Case Study 1: Example of dual pricing in private car insurance

Consider two private car insurance customers: a new business customer and a renewal customer. They have the same Technical Premium of €700 reflecting the fact that the two customers have similar expected costs.

The new business customer has an APTP ratio of 0.98 (average new business APTP ratio), which means their Actual Premium is €686. In comparison, the renewal customer has an APTP ratio of 1.13 (average renewal business APTP ratio), which means their Actual Premium is €791. In this example, a renewal customer with the same Technical Premium is paying €105 more than the new business customer.

Our analysis shows that price walking is common in both the private car and home insurance markets. We have found that the APTP ratio increases with tenure for both private car and home insurance customers.[10] This means that the longer a customer remains with their insurer, the higher the amount the customer pays relative to the expected costs.

We have found that the APTP ratio increases with tenure for both private car and home insurance customers.

In the case of the private car market, while Technical Premium decreases as tenure increases (due to lower riskiness at higher tenures, on average), the Actual Premium charged remains relatively flat. This results in policyholders' APTP ratio increasing as their tenure increases, which means that policyholders are paying a higher premium relative to the expected costs of the policy as tenure increases.

From the Consumer Survey, we found that consumers feel their insurance providers are treating them fairly with regard to price in cases where the renewal premium is the same as the previous year. On this basis, it appears that where the Actual Premium paid is not increasing with tenure, consumers would not observe that price walking is being applied.

There is a material difference in the level of knowledge a consumer has about the cost associated with their policy compared to the insurance provider. This asymmetry of information places an onus on insurance providers to ensure transparency and the fair treatment of all their customers.

10 In relation to some graphs in Section 5, it should be noted that the chart axes' scales have been adjusted to allow for the highlighting of trends observed.

Figure 3: Variation of the average Actual Premium, average Technical Premium, and the average APTP with tenure on private car insurance. (Includes policies from 2017-2019).

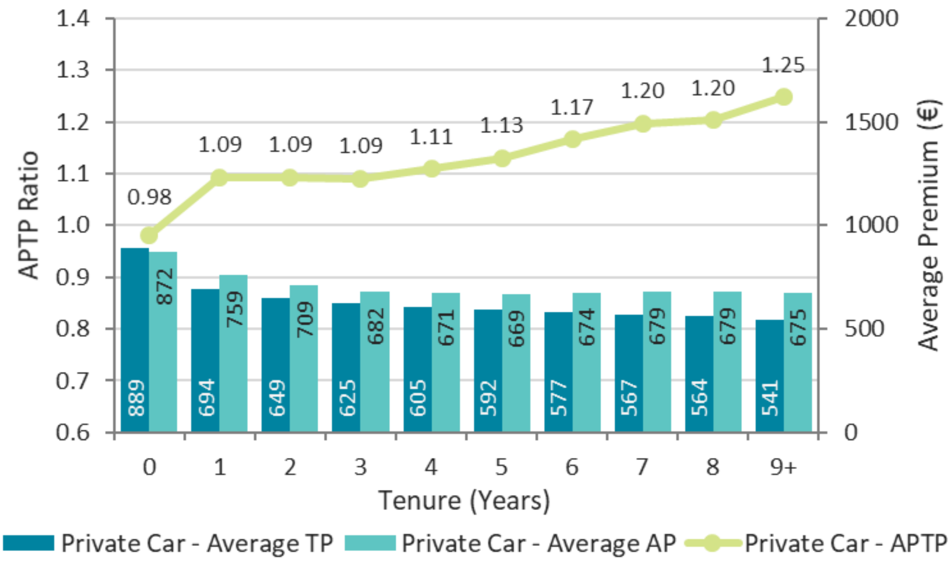


Figure 3 shows that on average, a private car customer who renews with the same insurer for 9 or more years has an average APTP ratio of 1.25. This compares to a customer renewing after 1 year, who has an average APTP ratio of 1.09. On this basis, the long-term customer is paying 14% more relative to the expected costs of the policy than the customer renewing for the first time.

Price walking is more evident in the home insurance market.

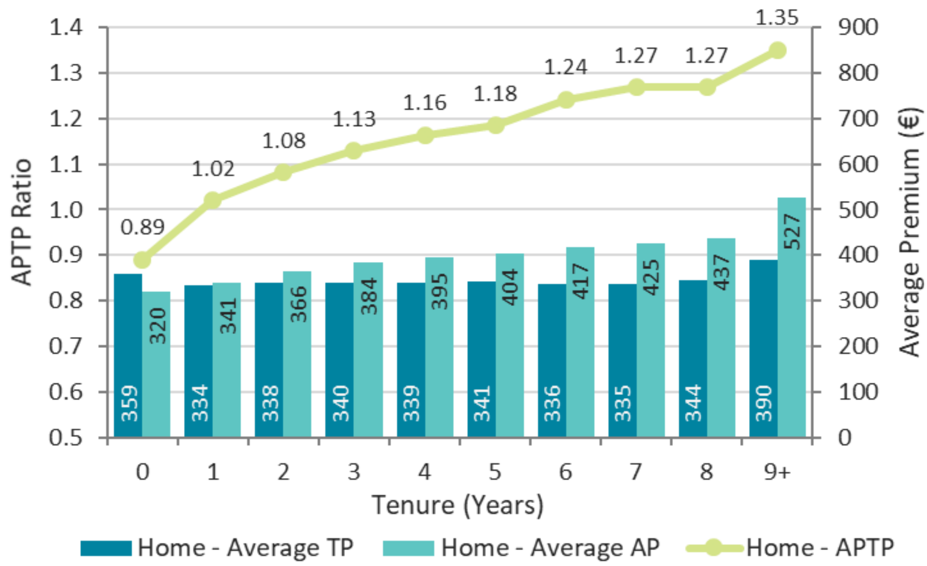
Case Study 2: Example of price walking in private car insurance

Consider two private car insurance customers: a year 1 renewal customer and a year 9 renewal customer. A year 1 renewal customer and a year 9 renewal customer have the same Technical Premium of €700, reflecting the fact that the two customers have similar expected costs to the insurer.

The year 1 renewal customer has an APTP ratio of 1.09 (average year 1 renewal business APTP ratio), which means their Actual Premium is €763. In comparison, the year 9 renewal customer has an APTP ratio of 1.25 (average year 9 renewal business APTP ratio), which means their Actual Premium is €875. In this example, a year 9 renewal customer with the same Technical Premium (expected cost) is paying €112 more than the year 1 renewal customer.

Price walking is more evident in the home insurance market. Figure 4 shows a home insurance customer who renews with the same insurer for 9 or more years has an average APTP ratio of 1.35 compared to a customer renewing for the first time, who has an average APTP of 1.02. The long-term customer is paying 32% more relative to the expected costs of the policy than the customer renewing for the first time.

Figure 4: Variation of the average Actual Premium, average Technical Premium, and the average APTP with tenure on home insurance. (Includes policies from 2017-2019).



For home insurance customers, the Technical Premium tends to remain flat over tenure whereas the Actual Premium tends to increase. This creates a year-on-year price walking effect in terms of both the absolute amount of premium charged and the APTP ratio.

Customers who remain loyal to their insurer are paying the highest premiums relative to the expected costs.

Case Study 3: Example of price walking in home insurance

Consider two home insurance customers: a year 1 renewal customer and a year 9 renewal customer. A year 1 renewal customer and a year 9 renewal customer have the same Technical Premium of €350, reflecting the fact that the two customers have similar expected costs.

The year 1 renewal customer has an APTP ratio of 1.02 (average year 1 renewal business APTP ratio), which means their Actual Premium is €357. In comparison, the year 9 renewal customer has an APTP ratio of 1.35 (average year 9 renewal business APTP ratio), which means their Actual Premium is €473. In this example, a year 9 renewal customer with the same Technical Premium (expected cost) is paying €116 more than the year 1 renewal customer.

In both private car and home insurance markets, the gradual increase in APTP ratio is evident, with policyholders at the longest tenure experiencing the highest APTP ratios. This, in effect, means that customers who remain loyal to their insurer are paying the highest premiums relative to the expected costs.

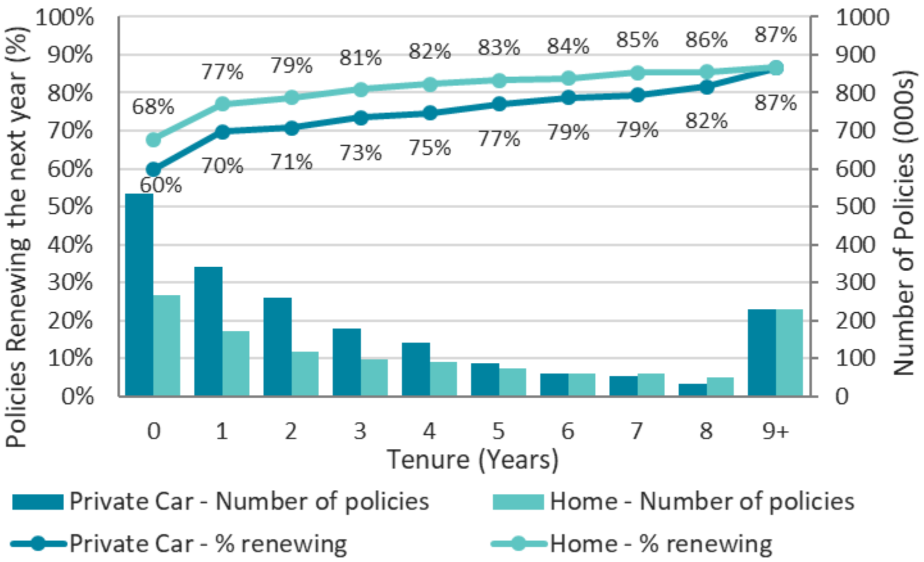
In addition to the above analysis, we also used statistical techniques to understand better how the APTP ratio relates to policy-level characteristics such as customer tenure, while controlling for the impact of other policy-level characteristics in the background.[11] This analysis confirms a strong relationship between the APTP ratio and customer tenure, and shows that the APTP ratio increases consistently as customer tenure rises.

5.1.2 Renewal Customers and Switching Behaviour

A detailed analysis of renewal policies found that the percentage of policies that renew increases with tenure, i.e., the longer a customer has been with an insurer the more likely they are to renew. Figure 5 shows that new business customers (tenure year 0) have a renewal rate of 60% and 68% for private car and home, respectively, on first renewal.

Those customers who have been with the same insurer for 9 or more years have a renewal rate in the next period of 87% for both private car and home insurance, which confirms that the longer a customer remains with an insurer, the more likely they are to renew again.

Figure 5: Proportion of policies renewing the next year and the total number of policies by tenure for private car and home insurance policies (all policies written in 2018).



There were similar findings in the Consumer Survey, which shows that policyholders who have a longer relationship with their insurance provider (3 or more years) are more likely to renew their policy with their existing insurance provider compared to those with shorter tenure (less than 3 years). The Consumer Survey also shows that customers with a shorter tenure are more likely to believe that switching from their existing insurance provider results in a cheaper quote.

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11 This analysis is referred to as multivariate regression analysis. See the Technical Annex for full details and output.

Private car insurance customers with a short tenure are more likely to be price sensitive. Therefore, these policyholders are likely to shop around to seek competitive new business rates and new business discounts. Private car insurance customers with a longer tenure are more likely to believe that if their premium rises, it has risen due to market price increases. Therefore, longer tenure customers may not be aware that they are being price walked when remaining with their current insurer.

Private car insurance customers with a short tenure are more likely to be price sensitive.

In the Consumer Survey, the main reasons reported for not switching were:

Table 1: Reasons for renewing with existing insurance provider or not shopping around.

Question	Private Car	Home
I thought my current deal was competitive	37%	51%
I like the provider company	27%	20%
There were better deals elsewhere, but the gains were too small to worry about	13%	10%
When I searched previously I was unable to get a lower premium elsewhere	12%	16%

(% scores indicate the proportion of customers that reported each reason for renewing/not shopping around.)

Further multivariate analysis was carried out on the Consumer Survey data to understand the characteristics of renewing customers. The analysis showed that older policyholders were more likely to renew with their existing insurance provider relative to younger policyholders. The analysis also found that those who used an insurance intermediary and those who got multiple quotes before taking out their policy were less likely to renew with their current insurer.

5.1.3 Factors Correlated with Tenure

As part of the analysis, we considered other policyholder characteristics that might be linked to tenure, and therefore, that could be disproportionately impacted by the observed increase in APTP ratio as tenure increases. The analysis found that there is a strong correlation between age and tenure. Younger policyholders tend to have shorter tenures, whereas older policyholders tend to have longer tenures.

As older customers tend to have a longer tenure, there is a concern that older, and potentially vulnerable, customers are disproportionately impacted by price walking.

As older customers tend to have a longer tenure, there is a concern that older, and potentially vulnerable, customers are disproportionately impacted by price walking.

Figure 6: Variation of the average Actual Premium, average Technical Premium, and the average APTP with policyholder age for private car insurance.

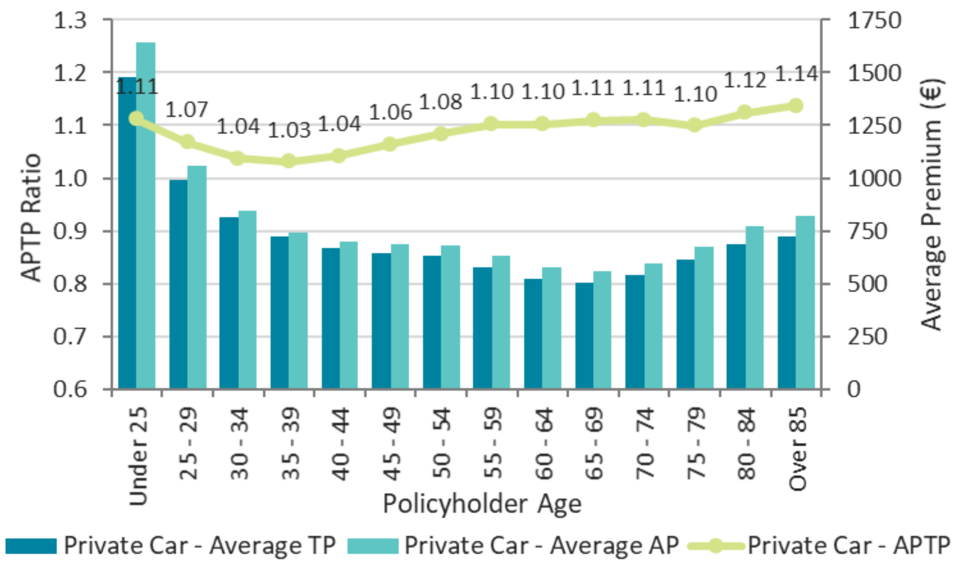
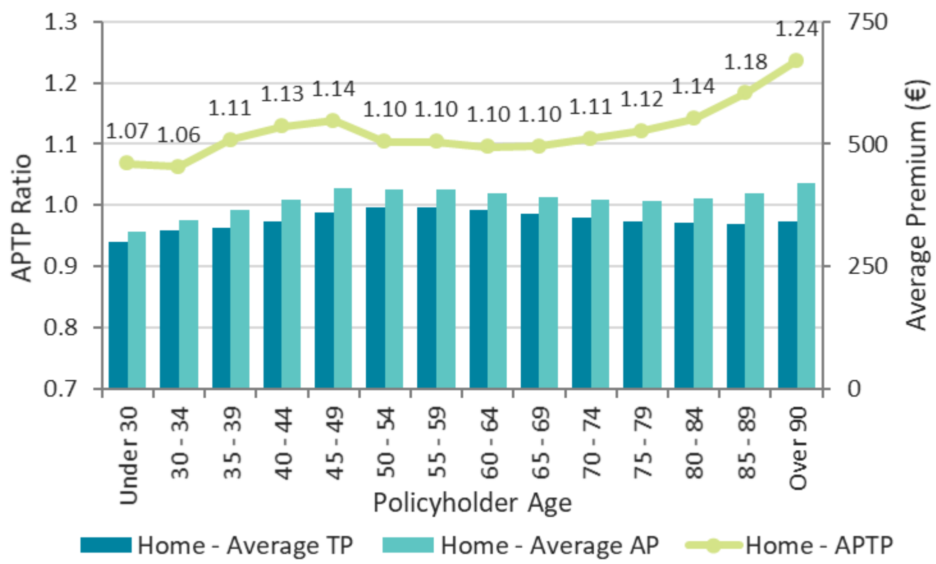


Figure 6 shows that, in the private car insurance market, the APTP ratio increases as age increases. Figure 7 shows that this effect is stronger in the home insurance market where older customers pay a higher premium than younger customers relative to their expected costs.

Figure 7: Variation of the average Actual Premium, average Technical Premium, and the average APTP with policyholder age for home insurance.



As noted previously, more detailed statistical analysis conducted as part of this Review showed that tenure has the most significant impact on APTP ratios, relative to other policy-level variables considered. Older customers pay a higher premium relative to their expected costs because they tend to have the longest tenure.

5.1.4 Conclusions and Proposal – Pricing Practices

Our analysis focussed specifically on private car and home insurance markets. This is because of their importance to consumers, and to society more generally. These products lend themselves to the application of differential pricing techniques because of the large volumes of customers, significant premiums and the levels of customer inertia associated with them. Moreover, these products are two of the most commonly held insurance products and account for a significant proportion of the personal insurance market. The advances in computing power, data analytics and modelling techniques increase the risk that these evolving pricing practices could result in unfair outcomes for some private car and home insurance consumers.

While insurance pricing is a commercial decision for insurance providers, it is an insurance provider's responsibility to ensure that their pricing practices are consistent with the Code. This includes their responsibility to act honestly, fairly and professionally in the best interests of their customers and the integrity of the market.

The Central Bank has concluded that the practice of price walking could result in unfair outcomes for some consumers in the private car and home insurance markets and that this practice erodes trust in the insurance industry.

The evidence from the Review has raised material concerns on the application of price walking within the private car and home insurance markets, and the poor outcomes that can result for some consumers. While consumers always have the option to switch insurance provider and there can be benefits to shopping around, there is currently a responsibility on the consumer to take action by switching or negotiating a better price regularly to avoid price walking. Those consumers who remain with their current insurance provider pay a significant loyalty penalty. The Central Bank has concluded that the practice of price walking could result in unfair outcomes for some consumers in the private car and home insurance markets and that this practice erodes trust in the insurance industry.

In coming to our conclusion and proposals, we considered the extensive evidence gathered, including the potential impact on the market of any regulatory intervention. Our considerations included:

- **Take no action**
  We considered the option of not taking specific action on pricing practices. On the basis of the analysis undertaken, we did not believe this was an appropriate response. The evidence gathered has demonstrated that there are significant differences between what some customers pay for insurance relative to the expected costs of their policies, with those customers with the longest tenure paying the most.

- **Increase awareness of the practice**
  We considered whether further disclosure alone would safeguard consumers against the increasing risks identified. This analysis assessed the evidence against a number of factors, including, but not limited to:
  - The extent to which each practice analysed sought to advance the interests of the individual consumer or to take advantage of the behaviours or habits of those consumers;
  - The extent to which consumers are aware of the pricing practices being applied;
  - The extent to which consumers understand the product or how it is priced and the clarity of information provided;
  - The extent to which consumers need these products; and
  - The importance of trust and confidence in the effective functioning and integrity of the financial system.

  Having considered the evidence gathered against the points set out above, we concluded that further disclosure alone may not safeguard consumers against the increasing risk that more advanced and evolving pricing practices could result in unfair outcomes for some groups of consumers in the private car and home insurance markets.

It is important that consumers who are more price sensitive and tend to shop around are able to seek competitive new business prices, and associated new business discounts. On balance, to allow consumers who are more price sensitive the opportunity to shop around for new business discounts (and negotiate discounts), but equally to ensure those customers who are loyal to an insurance provider are not impacted by the worst effects of price walking, the Central Bank proposes to ban price walking from the date of subsequent renewal. This would ensure the benefits of switching for consumers who tend to shop around while removing the loyalty penalty for consumers of longer tenure. This means that personal consumers renewing for a second or subsequent time would pay no more than the equivalent year one renewal consumer.

From the Consumer Survey, it is clear that personal interaction with the insurance provider is a critical feature for some consumers. This interaction offers consumers an opportunity to negotiate the premium paid at point of sale. Under this proposal, an insurance provider may agree a discount to customers in individual negotiations where such negotiations are at the initiative of a personal consumer. However, any such discounts agreed by insurance providers must not discriminate based on tenure.

Even in the absence of any regulatory intervention, market dynamics are extremely difficult to predict. Consequently, we have concluded that banning price walking from the date of subsequent renewal addresses the worst effects of price walking while ensuring those customers who are more price sensitive can still avail of new business discounts.

Proposal

It is proposed that a number of new provisions be added to the Code in respect of motor and home insurance pricing for personal consumers. The proposed new provisions are set out in the Public Consultation Process section of this report.

These provisions require:

- A ban on price walking by insurance providers, meaning they cannot charge personal consumers who are on their second or subsequent renewal a premium that is higher than they would have charged them if they were a year one renewal consumer at that point in time.

5.2 Oversight of Pricing Practices

The Market Analysis phase of the Review identified weaknesses of varying degrees in firms, raising concerns that some firms may not be adequately considering the effect of their pricing practices on their customers, potentially leading to unfair consumer outcomes.

Weaknesses identified include:

- **Differential Pricing Practices:** Failure to recognise and/or failure to acknowledge the utilisation of differential pricing in their firm.
- **Governance and Controls:** Inadequate governance and controls arrangements, including insufficient evidence that firms have the level of ownership and oversight expected when they apply differential pricing practices.
- **Culture and Conduct:** Insufficient evidence of a consumer-focussed culture in respect of pricing decisions and practices.

Following our Market Analysis phase of the Review, we issued a Dear CEO letter setting out requirements of insurance providers in light of the oversight weaknesses identified. The requirements were to:

- Assess their own pricing methodologies against the Central Bank's definition of differential pricing;
- Ensure greater governance and oversight of their differential pricing practices;
- Understand the impact of such practices on their customers; and
- Ensure a fully embedded consumer protection risk management framework to drive positive behaviours.

A series of inspections with firms were completed in March 2021, following up on the actions required in the Dear CEO letter.

5.2.1 Differential Pricing Practices

The Market Analysis phase of the Review identified that a number of firms failed to recognise and/or acknowledge the use of differential pricing practices in their firm.

Insurance providers have a responsibility to understand fully the impact of such pricing practices on their customers. Insurance providers that apply practices to identify customers who might be willing to pay higher margins should consider the impact of these practices on customers. Failure to recognise and/or acknowledge the practice of differential pricing raises significant concerns about an insurance provider's ability to assess the impacts of these practices on their customers.

In the Dear CEO letter, the Central Bank set out its definition of differential pricing and required insurance providers to assess their own pricing methodologies against the Central Bank's definition. In the event that an insurance provider did not consider its pricing practices to fall under the definition of differential pricing, it was required to have the rationale for this documented and agreed by its Board of Directors (the Board).[12]

In our follow-up engagement, it was clear that firms had considered and documented their rationale, where appropriate, with all firms having considered how their pricing practices fall within the Central Bank's definition of differential pricing.

The outcome of this work is that firms in question can no longer claim to be unaware of the effect of their practices on consumers, and accordingly, have no excuse for failing to put consumers at the forefront of their consideration.

5.2.2 Governance and Controls

The Market Analysis phase of the Review identified that firms had inadequate governance and controls arrangements, including insufficient evidence that firms have the level of ownership and oversight expected when they apply differential pricing practices. There were also varying degrees of awareness of pricing practices at Board level and, in many cases, it was not evident that Boards had appropriately considered or discussed the impacts of their firms' differential pricing practices on their consumers.

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[12] References to the Board includes Boards of Directors and/or Senior Management as applicable.

Furthermore, firms failed to have clearly documented controls in place to quantify or monitor the impacts of differential pricing on consumer groupings in advance of pricing model implementation.

Failure to be specific about the firm's differential pricing practices and failure to have the requisite frameworks and controls in place prior to the implementation of these practices results in firms being unable to effectively monitor the impact of their pricing activities and unable to evaluate how their pricing decisions affect customer outcomes.

The Dear CEO letter required insurance providers to take responsibility at Board level for the impact of differential pricing on customers. Insurance providers were required to put a robust governance framework in place including Board and management structures. This framework was required to ensure the insurance provider's pricing practices are well-governed, controls operate effectively and appropriate oversight is in place, with roles and responsibilities for pricing activities clearly defined. Boards were required to take ownership of the insurance provider's differential pricing practices and ensure they are fully informed of the impact of those practices on their customers.

The Dear CEO letter required insurance providers to take responsibility at Board level for the impact of differential pricing on customers.

From our recent engagement with firms, we note that most firms have identified gaps in their processes and procedures with regard to considering the impact of their pricing practices on customers and are making improvements accordingly. Some firms have completed work in this area by updating existing policies or introducing additional policies and frameworks that consider fairness, while other firms are currently progressing actions to develop and implement frameworks.

The update provided by the firms demonstrated an increased focus on developing new and expanding existing pricing and consumer-focussed metrics. Some firms are seeking to link these to their consumer risk dashboards which will then be reported to the Board on a regular basis. Monitoring conducted by firms in respect of pricing will now include the impact of pricing activities on consumers. While the majority of firms have developed more detailed metrics and new systems to enable this process, some firms are in the process of doing so and have a clear plan and timeline in place.

While the majority of firms have developed more detailed metrics and new systems to enable this process, some firms are in the process of doing so and have a clear plan and timeline in place.

5.2.3 Culture and Conduct

The Review identified that there was insufficient evidence of a consumer-focussed culture in firms in respect of pricing decisions and practices.

While firms had developed pricing policies that clearly impact customers, they had not sufficiently considered customer interests, which raised concerns in respect of their culture.

The Dear CEO letter required insurance providers to have embedded consumer protection risk frameworks to manage conduct risk and drive positive behaviours. These frameworks should form an integral part of the pricing process, and will assist insurance providers in determining if their pricing processes, including the deployment of new pricing models and monitoring of existing models, are ensuring fair treatment of consumers in line with the Code.

From our recent engagement, it is evident that firms are generally introducing additional measures to ensure fairness is more fully considered in their pricing practices and in monitoring the impact of pricing practices on their customers. While at different stages of development and implementation, firms are considering fairness as part of their frameworks and metrics to monitor consumer outcomes of their differential pricing practices.

Some firms have implemented changes to their pricing practices and models following receipt and consideration of the Dear CEO letter by reviewing factors which may link to poor outcomes for certain groups of customers, introducing new caps and collars, which limit year-on-year premium increases and decreases or other limits in order to narrow the differential between new and renewal business.

5.2.4 Conclusion and Proposal – Oversight of Pricing Practices

From our initial engagement with firms as part of the Market Analysis phase of the Review, we found that governance and oversight of pricing practices were inadequate and a consumer-focussed culture was not evident. Firms have taken steps to address the requirements set out in the Dear CEO letter.

Firms have developed, or are in the process of developing, better management information and consumer-focussed metrics. This increased monitoring and reporting will provide more transparency for the Board to help ensure consideration of the consumer in firms' pricing decisions. In addition, enhancements being made by firms to their policies, frameworks and training should assist in driving positive behaviours. While some firms were able to show how their actions have translated into changes in their pricing practices, other firms have made less progress and continue to work on further improvements. While the Central Bank has seen evidence that steps have been taken to meet the requirements set out in the Dear CEO letter, we are proposing to formalise these requirements by adding new requirements to the Code. This would ensure insurance providers review their private motor and home pricing policies, processes and models annually. Overall, this would ensure that insurance providers maintain focus on their pricing practices and the impact of such practices on their consumers, while ensuring adherence to new pricing provisions.

Proposal
It is proposed that a number of new provisions be added to the Code requiring oversight and review of motor and home pricing practices for personal consumers, including the requirement to assess adherence with the proposed new pricing provisions. These proposed new provisions are set out in the Public Consultation Process section of this report.

These provisions require:

- Insurance providers to carry out an annual review of their personal consumer motor and home pricing policies, processes and the consumer outcomes from their models and to:
  - Rectify any deficiencies identified; and
  - Retain a written record of the review and actions taken to rectify any deficiencies found.

It is proposed that a number of new provisions be added to the Code requiring oversight and review of motor and home pricing practices for personal consumers.

5.3 Automatic Renewals

Automatic Renewal is the practice where an insurance contract allows for a policy to be automatically renewed, unless the customer tells the insurance provider otherwise before the renewal date. As part of the Review, we sought to gain a more in-depth understanding of how the process operates in practice and also how the customer is considered as part of the process.

Automatic Renewal is the practice where an insurance contract allows for a policy to be automatically renewed, unless the customer tells the insurance provider otherwise before the renewal date.

5.3.1 Market Analysis

We analysed policies that were renewed without challenge or negotiation from the customer. This revealed that of the policies that renewed in 2019, approximately 21% of private car insurance policies and 34% of home insurance policies were automatically renewed.

The proportion of policies automatically renewed varied significantly across firms, with a minority of firms automatically renewing most of their policies, and the majority of firms' only automatically renewing policies paid by instalments/direct debit.[13] [14]

Based on the Dataset, automatic renewal is higher among younger age groups in both private car and home insurance markets. The prevalence of automatic renewal reduces with age in both markets.

Since policies that automatically renew are more likely to be paid by instalments/direct debit, the higher prevalence of automatic renewals at younger ages in the private car market may be due to the higher proportion of younger drivers who pay by instalments/direct debit.

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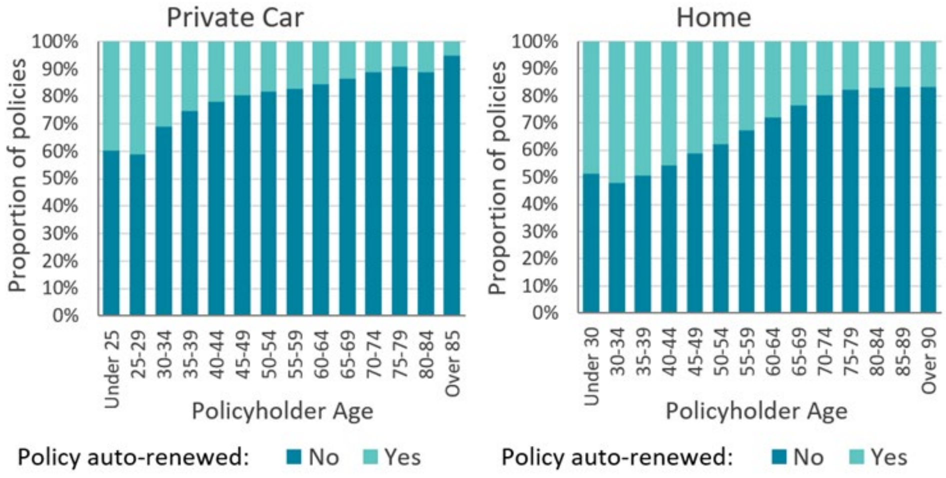
13 The 'period 2019' includes all policies where the policy cover commenced between 01/01/2019 and 31/12/2019 (inclusive).

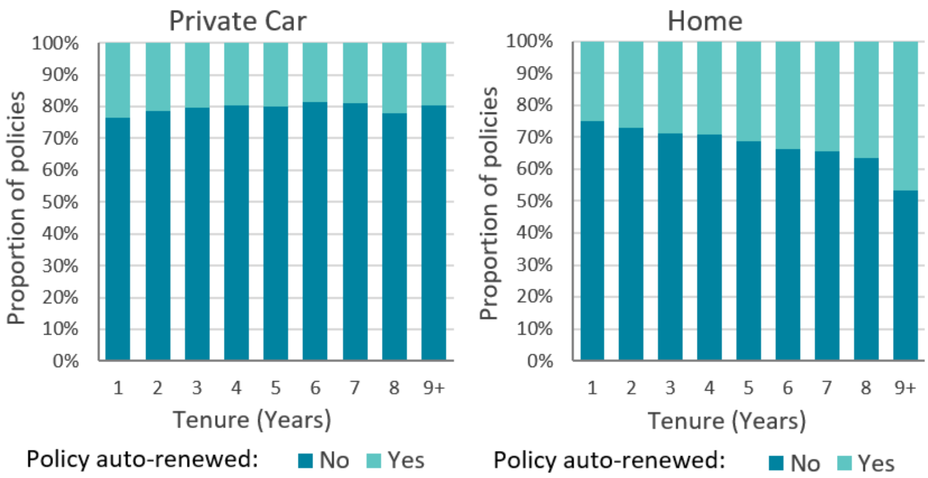
14 Figures and graphs exclude policies where the insurance provider was unable to provide the automatic renewal status of a policy.

Figure 8: Proportion of renewal policies that renewed automatically at each policyholder age based on private car and home policies written in 2017-2019.



The Dataset shows differing trends between the two markets for automatic renewals by tenure. In the private car insurance market, the incidence of automatic renewals is relatively flat across all tenures. In the home insurance market, the incidence of automatic renewals increases gradually as tenure increases.

Figure 9: Proportion of renewal policies that renewed automatically at each policy tenure based on private car and home policies written in 2017-2019.



To investigate the types of consumers who are more likely to automatically renew, we linked the Consumer Survey data with the Dataset for the 5,466 customers included in the Consumer Survey. We examined the relationship between automatic renewal status and policyholder characteristics. We found that customers who, in the Consumer Survey, reported greater engagement in the insurance market, are less likely to be automatic renewal customers.[15]

15 Engagement - customers who report taking active steps of engagement at the time of renewal, switching, or policy origination.

In the Consumer Survey, among automatically renewing customers, 84% of private car and 80% of home insurance customers stated that they allowed their policy to automatically renew despite being aware of other options available. Among automatically renewing customers, 16% of private car and 20% of home insurance customers stated that the policy automatically renewed without their attention.

Among automatically renewing customers, 84% of private car and 80% of home insurance customers stated that they allowed their policy to automatically renew despite being aware of other options available.

Customers who reported in the Consumer Survey that they automatically renewed their policy identified the following as key reasons for not switching or shopping around for a better deal:[16]

Table 2: Reasons for renewing with existing insurance provider or not shopping around among those who automatically renewed their policy.

Question	Private Car (n=263)	Home (n=143)
I thought my current deal is competitive	35%	40%
I like the provider company	33%	28%
There were better deals elsewhere, but the gains were too small to worry about	14%	17%
I did not pay much attention to this issue	14%	12%
When I searched previously I was unable to get a lower premium elsewhere	7%	11%
I intended to shop around but I never got around to it	13%	4%
I was concerned about switching to a provider I did not know	1%	1%
The switching process is difficult to understand and frustrating	0%	1%

(n=sample size; % scores indicate what automatically renewing customers reported as the reasons for renewing/not shopping around.)

Our Consumer Survey also explored general attitudes by consumers to insurance products. These attitudes provide a further understanding of why customers may automatically renew their policy.

16 In measuring insurance renewal behaviour, our Consumer Survey allowed respondents to self-report 'automatic renewal' by selecting the following statement 'I just automatically renewed'.

When comparing those who report they automatically renew versus those who do not automatically renew their private car insurance, we observe that those who automatically renew are more likely to believe that their premium will decrease if they stay with the same insurance provider. Furthermore, these customers are also more likely to believe that if their premium rises, this has been the result of a market price increase and therefore, there is no point in shopping around for a better quote.

Table 3: Beliefs about premium movements among private car and home insurance customers, depending on whether they automatically renew their policy.

Question	Private Car Total sample excluding those automatically renewing (n=2699)	Private Car All automatically renewing Home (n=263)	Home Total sample excluding those automatically renewing (n=2232)	Home All automatically renewing Private Car (n=143)
If I stay with the same insurer, my premium will decrease as loyalty should be rewarded.	23%	32%	17%	24%
If my insurance premium rises, there is no point in searching for a better quote since the costs will have increased for all insurers.	13%	23%	10%	25%

(n=sample size; % scores indicate the number of respondents who agree with the statements.)

In practice, where insurance providers offer automatic renewal and a customer chooses to pay the premium by direct debit, the policy will typically automatically renew thereafter. In a minority of firms, the default option is to automatically renew all policies unless the customer engages with the firm/cancels the policy prior to the renewal date. Customers are then reminded as part of the annual policy renewal notice that their policy will be automatically renewed.

From our review of a sample of policy renewal notices, it is evident that the level of information provided to the customer varies significantly from firm to firm. In some instances, the renewal notice advised customers that they did not need to do anything and that their policy would be automatically renewed. There is a risk that this practice may discourage a customer from engaging with their insurance provider or shopping around.

We recognise that automatic renewals can provide a valuable benefit to consumers, potentially avoiding the risk of not renewing their policy in time. This is important given that private car insurance is a legal requirement for an individual to drive a private car on public roads, while the requirement to have home insurance may be a condition of a mortgage contract.

While we have not seen any barriers or penalties being imposed on customers where they take out a policy with another insurance provider and neglect to cancel their automatic renewal with their current insurance provider, it was noted that not all firms had clear policies in this regard and as such, may pose a risk to consumers.

5.3.2 Conclusion and Proposal - Automatic Renewals

Following analysis of the information gathered, including each firm's process with regard to automatic renewals, we believe that while automatic renewals serve a purpose in the market, further disclosure and transparency is required.

Concerns arise in relation to how customers are signed up to the process and the information provided to the customer, suggesting that in some instances, customers may be discouraged from engaging with their insurance provider and shopping around.

In conclusion, while recognising that automatic renewals are a long-standing feature in the insurance market, it is proposed that new consumer consent and disclosure requirements are introduced. These requirements would complement recent and upcoming disclosure requirements.

The new requirements would ensure the process is more transparent for consumers and would allow consumers to make more informed decisions, based on clearer information being provided.

While the Review focussed on the private car and home insurance markets, given that automatic renewals are also used in the renewal of other insurance products, e.g., health insurance, gadget insurance, etc., we also considered the impact any proposed changes to the automatic renewal process may have on these products. Therefore, to ensure a consistent approach to this process across all relevant non-life insurance products, proposals recommended in respect of automatic renewal would apply to all personal non-life insurance products.

Proposal
It is proposed that a number of new provisions be added to the Code in respect of automatic renewals. The proposed new provisions are set out in the Public Consultation Process section of this report.

These provisions require:
- Written consent from a personal consumer prior to entry into an automatic renewal process.
- A personal consumer to have the right to cancel the automatic renewal.
- Notification to be issued to a personal consumer in advance of the automatic renewal date, requiring certain information to be set out relating to when the policy will automatically renew and how to cancel the automatic renewal; any changes in terms, fees and charges; reference to the Competition and Consumer Protection Commission's website relating to switching; and a statement advising consumers to keep their arrangements under review as there may be suitable alternatives in the market.

It is proposed that new consumer consent and disclosure requirements are introduced in respect of automatic renewals.

5.4 Complaints Resolution

As part of the Review we looked at firms' complaints resolution processes, specifically, how firms handle pricing related complaints. Complaints analysis is an important source of information for firms and is often a good indicator of potential risks and trends impacting customers.

5.4.1 Market Analysis

All firms have complaints procedures and logs in place; however, owing to the manner in which firms classify and categorise their complaints it does not always enable the identification of risks or complaints trend analysis. Complaints data should be a key metric used by firms to fully understand and mitigate the potential risks to consumers arising from their practices.

While some firms classify all pricing negotiations as complaints and record them accordingly, other firms explicitly seek clarity from the customer to determine if they wish to have the matter classified as a complaint before treating the matter as such.

All firms undertake analysis of the patterns of complaints and escalate accordingly, noting that the frequency of the analysis varies from firm to firm ranging from monthly to annually. However, it was not always clear whether complaints closed out within five working days formed part of the analysis undertaken by firms.

Only a minority of firms have identified complaint trends in relation to pricing matters in recent years.

5.4.2 Conclusion and Proposal – Complaints Resolution

Following analysis of the information, concerns arise that firms may not be classifying, categorising and recording complaints appropriately to effectively analyse and identify trends, potentially leading to customer pricing issues not being identified, escalated and considered appropriately.

While the Review focussed on the private car and home insurance markets, the issues identified in the complaints processes and analysis may have wider implications in relation to the recording and identification of other consumer risks.

To address these concerns, our analysis in relation to complaints resolution will be considered as part of the Code Review, including proposals to enhance recording and logging of complaints and frequency of conducting complaints analysis.

It is also proposed that further guidance will be provided to financial services providers in respect of distinguishing between negotiations and complaints.

Our analysis in relation to complaints resolution will be considered as part of the Code Review, including proposals to enhance recording and logging of complaints and frequency of conducting complaints analysis.

5.5 Vulnerable Consumers

As part of the Review we looked at how firms consider and seek to address the needs of vulnerable consumers as part of their pricing practices, while also considering what impact such pricing practices may have on vulnerable consumers.

5.5.1 Market Analysis

All firms have vulnerable consumer policies and procedures in place and seek to identify vulnerable consumers in line with the Code and Code Guidance. In addition, all firms conduct vulnerable consumer training; however, the audience for, and frequency of, the training varies from firm to firm.

While firms consider vulnerable consumers generally, the majority of firms do not specifically consider the effect of pricing outcomes on vulnerable consumers. It is noted, however, that all firms monitor complaints and undertake general call quality assessments which should identify if consumers are being treated appropriately.

A minority of firms make specific reference to vulnerable consumers in respect of pricing matters, with frameworks and principles referring to vulnerable consumers, and product development and governance procedures considering vulnerable consumers.

The majority of firms attempt to reduce the impact of non-risk pricing on vulnerable consumers, for example, by reviewing factors that may be linked to vulnerability, e.g., age and socio-economic factors, to avoid unintended consequences.

One important consideration is whether the incidence of high APTP ratios is associated with potential characteristics of customer vulnerability. We did not find evidence that firms have specifically adversely impacted vulnerable consumers for higher premiums relative to cost, based on our sample of insurance customers and proxy indicators of vulnerability. As vulnerability can be understood in a variety of ways, we considered several distinct aspects.

We assessed the extent to which the incidence of a high APTP ratio is linked to a customer's level of education; financial sophistication, which incorporates insights on financial literacy and financial experience; and income level, all of which can be considered as proxy indicators of potentially vulnerable consumers. We did not find evidence that lower education or financial sophistication is related to the likelihood of incurring a high APTP ratio.[17] [18]

We did find evidence that the likelihood of incurring a high APTP ratio is greater for higher income customers (those reporting a household income of at least €110,000) relative to lower income groups (those reporting a household income of less than €40,000) in the home insurance market; this is particularly prominent when we compare customers at the top end of the APTP ratio distribution to those at the bottom end of the distribution.

5.5.2 Conclusion and Proposal – Vulnerable Consumers

While we do not find evidence that vulnerable consumers are specifically adversely impacted by differential pricing, there are concerns that the level of vulnerable consumer training varies across firms. In addition, firms do not specifically consider pricing outcomes with respect to vulnerable consumers, thus potentially giving rise to a risk of poor consumer outcomes and unintended consequences for vulnerable consumers.

To address these concerns, our analysis in relation to vulnerable consumers will be considered as part of the Code Review, including proposals on improved processes and training.

Our analysis in relation to vulnerable consumers will be considered as part of the Code Review, including proposals on improved processes and training.

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17 Financially sophisticated is defined as customers that report a high degree of money confidence, comfort in purchasing products online, who do not feel overloaded by information, and who show financial numeracy.

18 In our Consumer Survey, 15% and 22% of respondents are classed as financially sophisticated in the private car and home samples respectively.

5.6 Engagement and Transparency

As part of the Review we looked at the manner in which firms disclose information to customers. Disclosure and transparency are essential to ensuring customers are made aware of key information in relation to the premium being charged and other product features and terms in relation to pricing.

5.6.1 Market Analysis

In November 2019, the Central Bank introduced new regulations requiring insurers to provide individual customers with details of the premium paid for private motor insurance renewals in the previous year. This information must feature prominently on the same page as the renewal premium. Motor insurers are also required to provide a quotation for each policy option available to the customer such as comprehensive, third party fire and theft cover, or third party only. In addition, the renewal notification period was extended from 15 to 20 working days for motor, health, damage to property and general liability insurance to allow customers more time to seek comparison quotes.

The purpose of these measures is to provide greater transparency to customers and to assist them in making more informed decisions when purchasing motor insurance.

While firms have sought to update their customer documentation to reflect the required revisions, the level of detail provided to customers varied by firm and policy type.

In September 2021, additional disclosure requirements for non-life insurance products are due to come into effect under the Consumer Insurance Contracts Act 2019, including:

- When issuing a renewal notice to a consumer, insurance providers must provide the consumer with a schedule outlining the following:
    - Any premiums paid by the consumer to the insurance provider in the preceding five years on foot of the contract; and
    - A list of any claims, including third party claims, that have been paid in the preceding five years (except where the contract concerned is a health insurance contract).

The Consumer Survey found that, when renewing insurance products, consumers reported that the most frequent type of search activity was “comparing prices quoted with prices paid last year”; the new regulations make this more accessible for consumers.

The area of customer disclosures and communication is also being considered generally as part of the Code Review and further changes may be proposed.

5.6.2 Conclusion and Proposal – Engagement and Transparency

The Central Bank has made a number of enhancements in respect of customer disclosures in recent years.

While transparency is key to ensuring customers have appropriate information to assist them in making more informed decisions, it is important that the information disclosed is relevant and balanced in order to avoid information overload thus ensuring the information provided assists the consumer with their decision-making.

As set out above, a number of new measures have been introduced regarding insurance disclosures, and more are in the pipeline. We also believe it is appropriate to complete supplementary analysis to better understand customer engagement in the private car and home insurance markets including how this relates to policyholder characteristics, behavioural attributes and experience in dealing with financial products and insurance providers before concluding on this work. We will explore how customer engagement might be improved, including by way of enhanced transparency measures and the application of insights from behavioural science.

We will consider if more transparency is needed and our assessment here will be informed by consumer experiences.

We will consider if more transparency is needed and our assessment here will be informed by consumer experiences.

We believe that the proposed pricing measures will also address concerns that consumers may not observe the practice of price walking being applied. Under Provision 4.32 of the Code insurance providers are required to clearly identify any discounts that have been applied in generating a quotation for a consumer. This should include disclosing to customers where any new business price is a discount from the equivalent year 1 renewal price for motor or home insurance for personal consumers. We will propose additional customer disclosures and communications as part of the Code Review to further develop this requirement.

6. Public Consultation Process

Protecting consumers is at the heart of the Central Bank's work. Our mission is to serve the public interest by safeguarding monetary and financial stability and ensuring the financial system operates in the best interests of consumers and investors, and the wider economy. As the regulator of financial services providers and markets in Ireland, the role of the Central Bank is to ensure that the best interests of consumers and investors are protected while enhancing confidence and trust in the financial system through effective regulation.

The Code is a cornerstone of the Central Bank's consumer protection framework. Since its first publication in 2006, it has formed a key instrument in regulating the provision of financial services to consumers in Ireland. It is now a foundation for compliance by regulated entities, and for supervision by the Central Bank.

The aim of this consultation is to seek views from interested stakeholders on the proposed measures to address differential pricing.

The Code provides protection for consumers of financial services across a broad range of services and products. The Central Bank has commenced a review of the Code to strengthen its suite of protections for consumers and take into account emerging risks and innovation. As society develops and changes, so too the financial services industry changes and develops new and innovative ways to deliver financial services to consumers. New products come on stream, and new technologies come to the fore, decreasing reliance on old ways of doing business. Ensuring that the Code remains up to date, and that emerging risks are controlled and reduced, provides better outcomes for consumers.

Central to this Review, we propose to strengthen the Code by introducing certain provisions as a response to new and developing areas of risk evidenced from this Review. This will include complaints resolution, vulnerable consumers and customer engagement and transparency.

Measures to address pricing practices, oversight of pricing practices and automatic renewals are being addressed in the public consultation process aligned to this report.

The aim of this consultation is to seek views from interested stakeholders on the proposed measures to address differential pricing. To ensure clarity and transparency with regard to these measures, the Central Bank welcomes feedback and comments from interested stakeholders on all of the specific questions raised in this section.

While we believe the proposed changes are the most effective and proportionate way of addressing the risks and potential harm for consumers, during the consultation phase we will continue to assess the impact of the proposed changes. Once finalised, and subject to the views of stakeholders in response to this consultation, all of the proposed measures will be incorporated into the Code.

6.1 Pricing Practices

The Review considered the extent to which differential pricing exists within the private car and home insurance markets and focussed on the most significant forms of differential pricing practices applied by insurance providers. The Review sought to understand the potential impact of these practices on different groups of consumers, whether any consumers are being disadvantaged and to determine if any action is necessary.

Section 5 of the report sets out our analysis and findings in this regard.

We have found evidence that price walking could result in unfair outcomes for some consumers in the private car and home insurance markets. In particular, the practice may not be known to consumers and is not being applied in a transparent way.

While consumers always have the option to switch insurance providers, and there can be benefits to shopping around, currently the responsibility is on the consumer to take action by switching or negotiating a better price regularly to avoid price walking.

To ensure that consumers are not being unfairly treated, we are proposing to ban price walking from the date of subsequent renewal. A subsequent renewal is any renewal of a policy by a personal consumer subsequent to the first renewal of the policy. This proposal would prohibit insurance providers from setting a subsequent renewal price for private car or home insurance that is higher than the equivalent year one renewal price.

Proposed Provisions for Inclusion in the Code:

Home Insurance and Motor Insurance Pricing

1(1) Regulations 2 to 9 apply where an insurance undertaking or insurance intermediary carries out any of the following activities in relation to a home insurance policy or a motor insurance policy or any related additional product or service:

(a) setting the subsequent renewal price;

(b) setting the price for any related additional product or service sold to the personal consumer at the subsequent renewal of a home insurance policy or motor insurance policy.

(2) Where an insurance undertaking or insurance intermediary has communicated a subsequent renewal price to a personal consumer in accordance with Regulations 2 to 9, an insurance undertaking or insurance intermediary may agree a discount to a subsequent renewal price in individual negotiations with the personal consumer where such negotiations are at the initiative of the personal consumer.

Setting subsequent renewal prices

2(1) An insurance undertaking or insurance intermediary shall not set a subsequent renewal price that is higher than the equivalent first renewal price.

(2) Subject to paragraph (3) and Regulation 3, in determining the equivalent first renewal price, an insurance undertaking or insurance intermediary shall apply the following assumptions:

(a) the personal consumer, subject to the subsequent renewal, has used the same channel as they used when they first renewed the insurance policy concerned;

(b) the personal consumer has selected the same payment method as they currently use to pay for the insurance policy.

(3) Where an insurance undertaking or insurance intermediary no longer accepts renewals through the channel that the personal consumer used to renew the insurance policy, the insurance undertaking or insurance intermediary shall assume that the personal consumer used the channel most commonly used by personal consumers of the regulated entity.

Closed books

3(1) Where a personal consumer’s insurance policy is in a closed book, the insurance undertaking or insurance intermediary shall determine the personal consumer’s equivalent first renewal price in accordance with this Regulation.

(2) The insurance undertaking or insurance intermediary shall identify from the home insurance and motor insurance products that it currently actively markets or distributes, whether it has one or more home insurance or motor insurance product that is a close matched product.
(3) Where the insurance undertaking or insurance intermediary no longer actively markets or distributes any home insurance or motor insurance product which is a close matched product but it is part of a group which does actively market or distribute home insurance or motor insurance products, the insurance undertaking or insurance intermediary shall identify a close matched product from those products actively marketed or distributed by the insurance undertaking's or insurance intermediary 's group.
(4) Where there is more than one product which is a close matched product, the insurance undertaking or insurance intermediary shall either-
(a) select the close matched product which is the most similar to the personal consumer's existing insurance policy, or
(b) where it is not possible to identify the most similar close matched product, select the close matched product which will lead to the most favourable pricing outcome for personal consumers who hold an insurance policy in the closed book.
(5)
(a) Where a close matched product is identified or selected, the equivalent first renewal price for a personal consumer in the relevant book shall be the equivalent first renewal price the insurance undertaking or insurance intermediary would offer for the close matched product, subject to any permitted adjustments set out in subparagraph (b).
(b) The permitted adjustments are those which fairly and proportionately reflect the difference in costs for the insurance undertaking or insurance intermediary arising from differences between the cover or benefits (including any compulsory excess) provided by the insurance policies in the closed book and the close matched product.
(6) Where an insurance undertaking or insurance intermediary is unable to generate an equivalent first renewal price or identify a product which is a close matched product because an insurance policy-
(a) is not part of an insurance undertaking's or insurance intermediary's or its group's standard insurance policy offering, or
(b) falls outside the insurance undertaking's or insurance intermediary's or its group's underwriting policies,
the insurance undertaking or insurance intermediary shall set the subsequent renewal price in accordance with Regulation 8.

Insurance intermediaries' involvement in setting price

4. An insurance intermediary that is involved in the setting of any portion of the subsequent renewal price of an insurance policy shall ensure that the portion the insurance intermediary sets or its contribution to that portion is set at a level that is no higher than it would be set for a first renewal.

Responsibility of insurance undertaking or insurance intermediary where more than one insurance undertaking or insurance intermediary is involved in setting the subsequent renewal price

5. Where more than one insurance undertaking or insurance intermediary is jointly responsible for setting the subsequent renewal price, each insurance undertaking or insurance intermediary shall take reasonable steps to assure itself that the subsequent renewal price is set in accordance with Regulations 1 to 9.

Related additional products or services

6. Subject to Regulation 7, an insurance undertaking or insurance intermediary that has responsibility for setting the price of a related additional product or service that is available to a personal consumer in connection with a home insurance policy or motor insurance policy shall ensure that the price of the related additional product or service at the subsequent renewal of the home insurance policy or motor insurance policy is no higher than the price at which the related additional product or service would be offered to the personal consumer at first renewal.

7. Where an insurance undertaking or insurance intermediary no longer offers to personal consumers at first renewal a related additional product or service which is available to a personal consumer in connection with the subsequent renewal of a home insurance policy or motor insurance policy, the price for that related additional product or service shall be set as follows:

(a) where the related additional product or service is an insurance policy, the insurance undertaking or insurance intermediary shall:
  - (i) apply the requirements in respect of closed books at Regulations 3(1) to 3(5); or
  - (ii) if the related additional product or service has no close matched product, apply Regulation 8;

(b) where the related additional product or service is not an insurance policy, the insurance undertaking or insurance intermediary shall apply Regulation 8.

Assurance over personal consumer outcomes

8. An insurance undertaking or insurance intermediary shall ensure that it does not systematically discriminate against personal consumers based on their tenure, when determining any of the following:

(a) an equivalent first renewal price;

(b) the subsequent renewal price for personal consumers in closed books where an insurance undertaking or insurance intermediary is unable to identify a close matched product;

(c) the price for any related additional product or service sold to the personal consumer at subsequent renewal of an insurance policy;

(d) any discount to a subsequent renewal price in individual negotiations with a personal consumer in accordance with Regulation 1(2);

(e) any other matter provided for under Regulations 1 to 9.

We are seeking your views on these proposed measures:

Number	Question
1	Do you agree that banning price walking from subsequent renewal is the appropriate solution for the Irish market and its consumers? Please outline the reasons for your view.
2	We believe there is a basis for banning price walking in the motor and home insurance markets for personal consumers. Do you agree the products in scope of the proposed ban are appropriate? Please outline the reasons for your view.
3	What do you see as the positive implications, for consumers and the market, if the proposed intervention were introduced?
4	What do you see as the negative implications, for consumers and the market, if the proposed intervention were introduced?
5	Do you have any views on what, if any, unintended consequence, may arise in prohibiting price walking? Please outline the reasons for your view.

6	Do you have any views on what, if any, unintended consequence, may arise if both dual pricing and price walking were prohibited? Please outline the reasons for your view.
7	Do you foresee any practical difficulties arising as a result of prohibiting price walking? Please set out those practical difficulties in detail.
8	Do you foresee any practical difficulties arising if both dual pricing and price walking were prohibited? Please set out those practical difficulties in detail.
9	Do you have any alternative proposal(s) that would address the concerns arising from differential pricing practices in the Irish private car and home insurance markets?
10	Do you see dual pricing and/or price walking practices as posing a reputational risk to the insurance industry? Please outline the reasons for your view.

6.2 Pricing Practices – Annual Review and Record Keeping

The Review included an assessment of the adequacy of the governance and oversight relating to pricing practices among firms. The purpose of this element of the Review was to determine whether firms had put appropriate structures and processes in place to ensure that their pricing practices were subject to proper consideration at a senior level within firms and to ensure that the impact on firms' customers was taken into consideration in pricing decisions.

Section 5 of the report sets out our analysis and findings in this regard.

Following our review, while we have seen evidence that most firms are taking steps to enhance the level of ownership and oversight of their pricing practices, this work is ongoing, and some firms have made more progress than others. In order to ensure that insurance providers continue to consider the impact of their pricing practices on their customers, and to maintain appropriate oversight and controls in relation to pricing matters, we are proposing to introduce a requirement for insurance providers to carry out an annual review of their pricing policies and processes to ensure they comply with the new pricing provisions, which are set out in Section 6.1 above.

Any deficiencies found during the annual review must be rectified and records retained. In addition, prior to implementing material decisions, insurance providers will have to record how those decisions comply with the new provisions.

Proposed Provisions for Inclusion in the Code:

Pricing Practices - Annual Review and Record Keeping

9(1) An insurance undertaking or insurance intermediary shall carry out an annual review of its home insurance and motor insurance pricing policies and processes, subject to Regulations 1 to 9, in order to-

(a) assess whether the insurance undertaking or insurance intermediary complies with the obligation, set out at Regulation 8, that the insurance undertaking or insurance intermediary shall not systematically discriminate against personal consumers based on tenure;

(b) assess whether the equivalent first renewal price for personal consumers of longer tenure systematically exceeds the first renewal price for personal consumers;

(c) assess whether adequate controls are in place, including controls to ensure that any pricing models used do not-

- (i) generate prices which are systematically higher the longer a personal consumer's tenure, or
- (ii) impair the insurance undertaking's or insurance intermediary 's obligation to comply with general principle 2.1 of the Consumer Protection Code.[19]

(2) An insurance undertaking or insurance intermediary shall, following the annual review referred to in paragraph (1), rectify any deficiencies identified in its pricing policies and processes.

(3) An insurance undertaking or insurance intermediary shall retain written records of the annual review referred to in paragraph (1), including the action taken to rectify any deficiencies found.

(4) Prior to implementing a material decision in relation to the insurance undertaking's or insurance intermediary's compliance with Regulations 1 to 9, an insurance undertaking or insurance intermediary shall retain a written record of its consideration of the extent to which that decision is consistent with Regulations 1 to 9.

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19 A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market.

We are seeking your views on these proposed measures:

Number	Question
1	Do you agree with the proposed requirement on insurance providers to carry out an annual review of their pricing policies and practices? Please outline the reasons for your view.
2	Do you agree with the focus of the review? In particular, do you see any gaps in the proposed content of the review? Please explain your answer.
3	Do you agree with the proposal that, prior to implementing a material decision, insurance providers will be required to retain a record of their consideration of the extent to which that decision is consistent with the new rules? Please outline the reasons for your view.
4	Do you foresee any practical difficulties arising as a result of the proposed measures? Please explain your answer.
5	Do you have any views on what, if any, unintended consequences, may arise from the introduction of the proposed measures? Please explain your answer.

6.3 Automatic Renewal

The Review considered the practice and prevalence of automatic renewal of private car and home insurance policies.

Section 5 of the report sets out our analysis and findings in this regard.

Following our Review, we recognise that automatic renewal provides a valuable benefit to consumers, potentially mitigating the risk of a breach/offence or personal detriment in the event that a consumer neglects to renew their policy on time. This is important given, for example, that private car insurance is a legal requirement in order for an individual to drive a private car on public roads, while the requirement to have home insurance may be a condition of a mortgage contract. Therefore, we propose that the practice of automatic renewal will remain. However, in order to address the risks to consumers relating to this practice, and to ensure a consistent approach, new requirements around consent, information disclosure and cancellation are proposed.

While the Review focussed on the private car and home insurance markets, automatic renewal is also a feature of other insurance products, e.g., health, gadget, etc. Following our consideration of automatic renewal across all non-life insurance, and in order to ensure a consistent approach in the non-life insurance market, we propose applying the proposals in respect of automatic renewal to all personal non-life insurance products.

Proposed Provisions for Inclusion in the Code:

Automatic Renewals

10. An insurance undertaking or insurance intermediary shall not automatically renew an insurance policy with a personal consumer unless the personal consumer has, prior to the entry into of the insurance policy which is being renewed, provided written consent to such automatic renewal.

11. An insurance undertaking or insurance intermediary shall allow a personal consumer to exercise the right to cancel the automatic renewal of an insurance policy-

(a) at any time during the duration of the insurance policy, and

(b) free of charge.

12. (1) Where a personal consumer has provided consent to the automatic renewal of an insurance policy, with a duration of ten months or more, and the insurance undertaking or insurance intermediary proposes to renew such insurance policy, the insurance undertaking or insurance intermediary shall provide a notification on paper or on another durable medium to the personal consumer at least 20 working days prior to the renewal date of the insurance policy which shall include the following:

(a) a statement that the insurance policy will renew automatically if the personal consumer does not cancel the automatic renewal before a specified date;

(b) details on how the personal consumer can stop the automatic renewal of the insurance policy if the personal consumer does not wish to automatically renew, including-

  (i) the existence of the right to cancel the automatic renewal of the insurance policy,

  (ii) the conditions for exercising the right to cancel the automatic renewal of the insurance policy,

  (iii) the consequences of exercising the right to cancel the automatic renewal of the insurance policy, and

(iv) the practical steps required for exercising the right to cancel the automatic renewal of the insurance policy, including, at a minimum, the options available for cancelling the automatic renewal of the insurance policy by way of telephone, e-mail, online and post;

(c) except where Section 14(6) of the Consumer Insurance Contracts Act 2019 (No. 53 of 2019) applies, confirmation as to whether it is proposed that there will be any changes to the terms of the insurance policy upon renewal;

(d) details of any fee payable specifically in respect of the automatic renewal of the insurance policy and the services provided for such fee;

(e) a hyperlink to, or website address of, the relevant section on the Competition and Consumer Protection Commission's website relating to getting insurance quotes;

(f) a statement that the personal consumer should keep their insurance arrangements under review as there may be other alternatives in the market that could provide savings for the personal consumer for similar cover.

(2) Where a personal consumer has provided consent to the automatic renewal of an insurance policy, with a duration of ten months or more, and the insurance undertaking or insurance intermediary does not propose to renew such insurance policy, the insurance undertaking or insurance intermediary shall provide a notification on paper or on another durable medium to the personal consumer at least 20 working days prior to the renewal date that the insurance undertaking or insurance intermediary does not wish to invite a renewal.

(3) Regulation 12(2) shall not apply where Regulation 5(1)(b) of the Non-Life Insurance (Provision of Information) Regulations 2007 (S.I. No. 74 of 2007) applies.

13. (1) Where a personal consumer has provided consent to the automatic renewal of an insurance policy, with a duration of less than ten months, and the insurance undertaking or insurance intermediary proposes to renew such insurance policy, the insurance undertaking or insurance intermediary shall provide a notification on paper or on another durable medium to the personal consumer, at least once a year from the date of entry into of the insurance policy for so long as the insurance policy continues to be renewed, which shall include the following:

(a) a statement that the insurance policy renews automatically including the frequency of the automatic renewal and any end date of such automatic renewal;

(b) details on how the personal consumer can stop the automatic renewal of the insurance policy if the personal consumer does not wish to automatically renew, including-

(i) the existence of the right to cancel the automatic renewal of the insurance policy,
(ii) the conditions for exercising the right to cancel the automatic renewal of the insurance policy,
(iii) the consequences of exercising the right to cancel the automatic renewal of the insurance policy, and
(iv) the practical steps required for exercising the right to cancel the automatic renewal of the insurance policy, including, at a minimum, the options available for cancelling the automatic renewal of the insurance policy by way of telephone, e-mail, online and post;

(c) details of any fee payable specifically in respect of the automatic renewal of the insurance policy and the services provided for such fee;
(d) a hyperlink to, or website address of, the relevant section on the Competition and Consumer Protection Commission's website relating to getting insurance quotes;
(e) a statement that the personal consumer should keep their insurance arrangements under review as there may be other alternatives in the market that could provide savings for the personal consumer, for similar cover.

(2) Where a personal consumer has provided consent to the automatic renewal of an insurance policy, with a duration of less than ten months, and the insurance undertaking or insurance intermediary does not propose to renew such insurance policy, the insurance undertaking or insurance intermediary shall provide a notification on paper or on another durable medium to the personal consumer prior to the renewal date that the insurance undertaking or insurance intermediary does not wish to invite a renewal.
(3) Regulation 13(2) shall not apply where Regulation 5(1)(b) of the Non-Life Insurance (Provision of Information) Regulations 2007 (S.I. No. 74 of 2007) applies.

14. (1) Subject to paragraph (2), Regulations 10 to 13 shall only apply in relation to an insurance policy entered into after the commencement of these Regulations (including a renewal in a case where the insurance policy concerned was concluded before such commencement).
(2) Regulations 10 to 13 shall not apply in respect of an automatic renewal of an insurance policy that a personal consumer agreed to before the commencement of these Regulations.
(3) Regulations 10 to 13 shall only apply in respect of non-life insurance policies, meaning insurances of one or more of the classes falling within Part 1 of Schedule 1 to the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015) or Part A of Annex I to the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994).

We are seeking your views on these proposed measures:

Number	Question
1	Do you agree that an insurance provider may not renew an insurance policy automatically unless a personal consumer has provided his or her written consent prior to first entering into the automatic renewal arrangement? Please outline the reasons for your view.
2	Do you agree with the information to be provided to the personal consumer prior to the automatic renewal of an insurance policy? Please outline the reasons for your view. Are there any further details that should be included? If yes, please explain your answer. Are there details that should not be included? If yes, please explain your answer.
3	Do you agree with the proposed requirements relating to the cancellation of an automatic renewal arrangement? Please outline the reasons for your view.
4	Do you agree that these proposals should apply to the automatic renewal of all personal non-life insurance products? Please outline the reasons for your view.
5	Do you foresee any practical difficulties with the implementation of the proposed requirements on automatic renewal? Please set out those practical difficulties in detail.
6	Do you have any views on what, if any, unintended consequences, may arise from the introduction of the proposed measures? Please explain your answer.

6.4 Public Consultation Process

This public consultation process will run until **22 October 2021.** Any submissions received after this date may not be considered. Please submit any submissions by e-mail to **consumerprotectionpolicy@centralbank.ie**.

The Central Bank intends to make submissions received available on its website after the deadline for receiving submissions has passed. Therefore, please do not include commercially sensitive material in your submission, unless you consider it essential.

If you do include such material, please highlight it clearly so that reasonable steps may be taken to avoid publishing that material. This may involve publishing submissions with the sensitive material deleted and indicating the deletions. The Central Bank can, however, make no guarantee not to publish any information that you deem confidential. Please be aware that, unless you identify any commercially sensitive information, you are making a submission on the basis that you consent to it being published in full.

Taking into account the views of stakeholders in response to this consultation, we intend to finalise these measures early next year and they will apply to insurance providers from **1 July 2022.**

7. Next Steps

Financial services providers are responsible for providing products that meet their customers' needs both now and into the future, and doing so fairly. The Central Bank will intervene where we have reason to believe that unfair practices are occurring which take advantage of consumer behaviours and habits. Our Review has highlighted a number of practices which could result in unfair outcomes for certain consumers in the private car and home insurance markets. Accordingly, we are proposing a series of reforms to strengthen the consumer protection framework.

Given that differential pricing can be associated with both benefits and costs for consumers, and the importance of functioning and trustworthy insurance markets to consumers more generally, it is essential that any regulatory interventions are appropriately calibrated.

Public consultation will now take place on our proposals to:

- Ban price walking in the motor and home insurance markets for personal consumers;
- Require providers of motor and home insurance to personal consumers, to review their pricing policies and processes annually; and
- Introduce new consumer consent and disclosure requirements to ensure the automatic renewal process is more transparent for all personal non-life products.

We welcome the evidence-based views of stakeholders. Following the public consultation and consideration of views received, we will publish our finalised reform package.

Separately, the findings from the Review in relation to complaints resolution and vulnerable consumers are being further considered as part of the Code Review, and will be consulted on in that context.

We will continue to analyse developments in the private car and home insurance markets, following this Review, to ensure that insurance providers are acting in the best interest of their customers and delivering fair outcomes. We will also explore how consumer engagement might be improved, including by way of enhanced transparency measures and the application of insights from behavioural science.

Appendix 1 - Glossary of Key Terms

Key Terms used in the Report:

Actual Premium – This is the premium paid by the policyholder. The Actual Premium paid may include further adjustments to the Technical Premium that do not relate to the expected costs to the insurer of the policy.

Actual Premium to Technical Premium (APTP) – This is the Actual Premium divided by the Technical Premium, where Technical Premium is a measure of the premium needed to cover the expected costs of the policy. This ratio is commonly monitored by insurers to check the sufficiency of their premiums. A ratio above 1 suggests that an insurer is charging a higher premium than the amount needed to cover the expected costs of the policy. A ratio below 1 suggests the insurer is charging a lower premium than the amount needed to cover the expected costs of the policy.

Automatic Renewals – This is the practice where an insurance contract allows for a policy to be automatically renewed, unless the customer tells the insurance provider otherwise before the renewal date.

Differential Pricing – The Central Bank has defined differential pricing in insurance services as a circumstance or practice whereby customers with a similar risk and cost of service are charged different premiums for reasons other than risk and cost of service.

Dual Pricing – This is a form of differential pricing. This is where new and renewing customers with a similar risk and cost of service are charged different premiums for reasons other than risk and cost of service.

Price Walking – This is where customers are charged higher premiums relative to the expected costs the longer they remain with an insurance provider.

Technical Premium – This represents the amount needed to cover the expected costs of an individual policy i.e., it includes the sum of the expected claims costs, and an allowance for the following: expenses, commission, reinsurance, and investment income. Technical Premium can include an allowance for profit margin, but we have not included it in our definition of the Technical Premium.

Key Terms used in the Proposed Provisions for inclusion in the Code:

Close Matched Product – A home insurance product or motor insurance product, which provides a personal consumer with core cover and benefits that are broadly equivalent to the core cover and benefits enjoyed by the personal consumer under their existing home insurance or motor insurance policy.

Closed Book – An individual home insurance product or motor insurance product in respect of which its policies are not available for renewal by way of first renewal.

Consumer Protection Code – The consumer protection code, effective from 1 January 2012, issued by the Central Bank of Ireland pursuant to: (i) Section 117 of the Central Bank Act 1989; (ii) Section 23 and Section 37 of the Investment Intermediaries Act 1995; (iii) Section 8H of the Consumer Credit Act 1995; and (iv) Section 61 of the Insurance Act 1989.

Equivalent First Renewal Price – The price an insurance undertaking or insurance intermediary would offer to a personal consumer upon the first renewal of a particular home insurance policy or motor insurance policy.

First Renewal – Any renewal of a home insurance policy or a motor insurance policy by a personal consumer which is a first renewal of such home insurance policy or motor insurance policy.

First Renewal Price – The price an insurance undertaking or insurance intermediary offers to a personal consumer upon the first renewal of a home insurance policy or motor insurance policy.

Related Additional Product or Service – A product or service related to a home insurance policy or a motor insurance policy sold to a personal consumer at the same time as the insurance policy.

Subsequent Renewal – Any renewal of a home insurance policy or a motor insurance policy by a personal consumer subsequent to the first renewal of the home insurance policy or motor insurance policy.

Subsequent Renewal Price – The price offered by an insurance undertaking or insurance intermediary to a personal consumer to renew a home insurance policy or motor insurance policy on any renewal subsequent to the first renewal of the insurance policy, including where more than one policy is sold together as part of a package.

Tenure – The number of years a personal consumer has held their insurance policy, including any renewal of the insurance policy.

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