Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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

Report to the Minister for Finance under Section 6 of the Insurance (Miscellaneous Provisions) Act 2022.

December 2023

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1. Executive Summary

1.1 Overview

The Central Bank of Ireland's (the Central Bank) role is to ensure that the financial system operates in the best interests of consumers and the wider economy. While the Central Bank does not have a role in setting prices, in line with market intervention limitations, the Central Bank will intervene with respect to a matter on price where there is a legal basis to do so and where we see firms engaging in unfair, hidden or discriminatory practices, which seek to take advantage of customer vulnerabilities. We launched our Review of Differential Pricing in the Private Car and Home Insurance Markets (the 2021 Review) for this reason.

The Central Bank undertook the 2021 Review to assess how differential pricing was used in the private car and home insurance markets in Ireland and its impact on consumers.

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. Differential pricing 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.

We undertook the 2021 Review to assess how differential pricing was used in the private car and home insurance markets in Ireland and its impact on consumers. Our analysis showed that some of the practices identified could result in unfair outcomes for some consumers in the private car and home insurance markets. The practice of 'price walking' was particularly evident. Price walking is where you are charged a higher premium the longer you remain with your insurer, and for no reason other than staying with the same provider. We also found that oversight of pricing practices was lacking and that automatic renewal processes, which are a common feature of the insurance market, lacked transparency.

In order to address the risks identified, the Central Bank imposed new requirements to strengthen the consumer protection framework.

In order to address the risks identified, the Central Bank imposed new requirements on insurance undertakings and insurance intermediaries in the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Insurance Requirements) Regulations 2022 (the Regulations), to strengthen the consumer protection framework.

1.2 Post-Regulations Review

In the 2021 Review – Final Report, the Central Bank committed to continuing to analyse developments in the private car and home insurance markets to ensure that insurance providers[1] are acting in the best interest of their customers and delivering fair outcomes.

In addition, under the Insurance (Miscellaneous Provisions) Act 2022 (the 2022 Act), the Central Bank is required to prepare and produce a report for the Minister for Finance on certain insurance measures (including pricing practices) by no later than 8 January 2024. Under the legislation, the Minister is also required to lay a copy of the report before each House of the Oireachtas. Section 6(1) of the 2022 Act requires the Central Bank to report on the following:

a) the opinions of the Bank in relation to the oversight of pricing practices of insurance undertakings and insurance intermediaries relating to relevant insurance contracts;

b) the measures the Bank has implemented, if any, in the relevant period in respect of the practice whereby the price offered by an insurance undertaking or insurance intermediary to a consumer in respect of a second or subsequent renewal of a relevant insurance contract is higher than the price that would have been offered by the insurance undertaking or insurance intermediary, as the case may be, to the consumer were the consumer renewing the contract for the first time;

c) the measures the Bank has implemented, if any, in the relevant period in respect of the practice whereby non-life insurance contracts are automatically renewed at the end of their term;

d) the conclusions of the Bank as to whether measures or further measures, as the case may be, should be implemented in respect of all or any of the practices referred to in paragraphs (a), (b), and (c) and the basis for those conclusions.

Our Post-Regulations Review found that:

a) Insurance providers now have much more robust oversight processes, analysis and reporting in relation to their pricing practices and models, including how those practices and models impact their own customers. All insurance providers now have clear escalation processes and more appropriate oversight and governance structures. We continue to engage with insurance providers to ensure appropriate oversight of pricing practices, to address any weaknesses identified and continue to monitor developments to ensure that firms are delivering fair outcomes.

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

b) Consumers who are on their second or subsequent renewal are no longer paying premiums that are higher than they would have to pay if they were a year one renewal consumer. This means that consumers who remain with their current insurance provider no longer pay a loyalty penalty. Firms have achieved this by ensuring that tenure is no longer a factor used to increase the premium charged to customers. The Post-Regulation data gathered also shows that insurance providers continue to offer new business discounts and that consumers still have the ability to shop around for discounts. This ensures that 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.

c) Insurance providers have introduced the required disclosures in relation to automatic renewals to help consumers make more informed decisions when renewing their insurance. In certain instances, where the prominence or clarity of the information introduced could be improved, we have communicated this to relevant insurance providers. The Central Bank also plans to consult on further measures with respect to automatic renewal in the forthcoming Consumer Protection Code Review Consultation Paper.

d) Having completed our Post-Regulations Review, the Central Bank is satisfied that the Regulations are working effectively, have not caused any unintended consequences, and have addressed the loyalty penalty in pricing in the home and motor insurance markets. The Central Bank is therefore satisfied that no further measures are required at this time with respect to the matters referred to in Section 6(1)(a) and (b) of the 2022 Act. As noted above, the Central Bank plans to consult on possible further measures on automatic renewal in the forthcoming Consumer Protection Code Review Consultation Paper.

Having completed our Post-Regulations Review, the Central Bank is satisfied that the Regulations are working effectively.

2. Background

Differential pricing is the practice of charging different premiums to customers who have similar risk and cost of service, for reasons other than risk and cost of service. 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.

2.1 Differential Pricing – Consumer Risk Identified

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. Protecting consumers is central to all aspects of our work, and drives our supervisory engagements and actions to ensure that financial services providers operate fairly and in a transparent manner, and sustainably serve the needs of the economy and consumers.

Differential pricing is the practice of charging different premiums to customers who have similar risk and cost of service, for a reason other than risk and cost of service.

Differential pricing in insurance services is 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. 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 2021 Review to understand the prevalence and specific impact of differential pricing on consumers, and to determine the potential for consumer risk and harm arising from this practice[2] (Appendix 1 sets out further detail on the scope and objective of the 2021 Review).

[2] In the context of its mandate, the Central Bank cannot require the prior approval or systematic notification of general and special policy conditions, of scales of premiums, or of the technical bases, used in particular for calculating scales of premiums and technical provision. 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.

2.2 Our Work on Differential Pricing

The 2021 Review included 11 insurance providers covering more than 90% of active policies in the market[3] at that time and was divided into three phases.

The first phase involved an assessment of the market to establish how insurance providers were using differential pricing and the Central Bank issued a Dear CEO letter to insurance providers highlighting our initial observations and setting out our expectations of firms.

The second phase involved an analysis of almost 11 million individual policy records. As part of this phase, we also concluded a consumer insights survey of 5,500 private car and home insurance consumers to further develop our understanding of how consumers engage with insurance providers.

Based on the evidence gathered in Phases 1 and 2 we proposed a series of measures to strengthen the consumer protection framework in Phase 3. These proposals were then included for consultation in the final report which was published in July 2021.

Following the consultation and consideration of the submissions, the Central Bank published the Regulations, which came into effect on 1 July 2022, in order to strengthen protection of consumers (Appendix 2 sets out the links to all the Central Bank's publications to date on differential pricing).

The principal conclusion from the 2021 Review was that the practice of price walking could result in unfair outcomes for some consumers in the motor and home insurance markets.

2.3 The Regulations

The principal conclusion from the 2021 Review was that the practice of price walking could result in unfair outcomes for some consumers in the motor and home insurance markets.

Having concluded a consultation process, the Central Bank introduced the following measures in the Regulations to protect consumers and make buying home and motor insurance fairer. These rules came into effect on 1 July 2022. (Appendix 2 sets out the links to the Regulations).

The Central Bank introduced Regulations to protect consumers and make buying home and motor insurance fairer. These rules came into effect on 1 July 2022.

1. Price walking ban

   The Regulations ban the practice known as "price walking." Price walking is where a customer is charged a higher premium the longer that customer remains with their insurer, and for no reason other than staying with the same provider. Banning price walking ends the loyalty penalty that consumers could experience for staying with an insurer. From 1 July 2022, when a consumer renewed their home or motor

[3] At the time of the 2021 Review, there were approximately 2.2 million private car insurance policies and 1.3 million home insurance policies in the Irish market.

insurance for the second or subsequent time, their insurer could no longer charge them more than someone who was renewing for the first time with a similar risk profile and cost of service. However, to support competition and switching, new customer discounts continue to be permitted.

2. Review of pricing policies and processes

The Regulations require providers of motor and home insurance to review their pricing policies and processes annually. This ensures that insurance providers focus on pricing practices and the impact these practices may have on consumers, ensuring the fair treatment of consumers.

3. Automatic renewal process

For all non-life insurance policies that renew automatically, the Regulations require insurance providers to give consumers additional information to help them make more informed decisions in advance of their policy renewing, including notice that the policy will renew automatically unless cancelled and the steps that the consumer should take if they wish to cancel the automatic renewal. The Regulations also require that consumers be permitted to exercise the right to cancel automatic renewal of a policy at any time during the duration of the policy. This was another measure to encourage consumers to consider the potential benefits of switching and to increase consumer awareness of the options available to them at renewal time.

2.4 Aligning European Standards

Following the work completed by the Central Bank and a small number of other National Competent Authorities in relation to differential pricing, the European Insurance and Occupational Pension Authority (EIOPA) set up a group to consider differential pricing practices in use across the European Union.[4] On 16 March 2023, EIOPA published a Supervisory Statement on differential pricing practices in non-life insurance lines of business with the aim of eliminating price-setting strategies which lead to the unfair treatment of customers. [5]

EIOPA's supervisory statement noted that:

> *The price customers pay for insurance coverage typically reflects the individual risk profile and the overall costs incurred by insurers. However,*

[4] EIOPA seeks to protect the public interest by contributing to the short-, medium – and long-term stability, effectiveness and sustainability of the financial system for the European Union's economy, citizens and businesses. This mission is pursued by promoting a sound regulatory framework and consistent supervisory practices in order to protect the rights of policyholders, pension scheme members and beneficiaries and contribute to public confidence in the EU's insurance and occupational pensions sectors.

[5] https://www.eiopa.europa.eu/system/files/2023-03/EIOPA-BoS-23-076-Supervisory-Statement-on-differential-pricing-practices_0.pdf

some manufacturers adjust prices based on characteristics that are related neither to the underlying risks nor the cost of service.
Of particular concern are products where premium increases take place repeatedly based on reasons that are not related to the risks or cost of service. These practices unfairly affect vulnerable customers such as the elderly, those with limited access to digital channels and those with limited digital literacy.

The Supervisory Statement underlines that insurance providers falling within scope of the Insurance Distribution Directive (IDD) must always act honestly, fairly and professionally in accordance with the best interests of their customers. The Supervisory Statement also emphasises that Product Oversight and Governance processes should cover pricing techniques and ensure that these techniques do not adversely affect customers.

EIOPA advised that insurance manufacturers can continue to offer premium discounts to attract and retain customers. However, the Supervisory Statement identifies certain 'price walking' practices that do not comply with the IDD. Examples include but are not limited to repeated premium increases based on the customer's low propensity to shop around or change provider because of price increases.

The Supervisory Statement aims to promote a convergent approach amongst National Competent Authorities. The expectations set out in the Supervisory Statement align with the Regulations implemented by the Central Bank and the Central Bank actively engaged in EIOPA's work on this issue.

The expectations set out in the EIOPA Supervisory Statement align with the Regulations implemented by the Central Bank.

2.5 Post-Regulations Review

In the 2021 Review – Final Report, the Central Bank committed to continuing to analyse developments in the private car and home insurance markets to ensure that insurance providers are acting in the best interest of their customers and delivering fair outcomes.

In addition, under the 2022 Act, the Central Bank is required to assess the pricing measures it has implemented, insurance providers' oversight of pricing practices, the measures it has introduced in respect of automatic renewal of non-life insurance policies, and any further measures that may be necessary to introduce and prepare and submit a report to the Minister for Finance by no later than 8 January 2024. Under the Act, the Minister is also required to lay the report before each House of the Oireachtas.

Section 3 of this report summarises the key findings from the 2021 Review and the Central Bank's assessment of firms' compliance with, and the effectiveness of, the Regulations (the Post-Regulations Review).

3. Findings

Our analysis shows that, following the introduction of the Regulations, the premiums paid by policyholders at their second and subsequent renewals are less than or equal to the equivalent first renewal price. This demonstrates that insurance providers are complying with the Regulations and that consumers are no longer being charged a loyalty penalty.

3.1 Pricing Practices

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.

3.1.1 Pricing Practices – The 2021 Review

The 2021 Review identified that price walking could result in unfair outcomes for some customers in the private car and home insurance markets. While customers always have the option to switch insurance providers, and there can be benefits to shopping around, prior to the Regulations the responsibility was on the customer to take action by switching or negotiating a better price regularly to avoid price walking.

To ensure that consumers were not being unfairly treated, we introduced the Regulations to ban price walking from the date of subsequent renewal. The Regulations 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.

To ensure that consumers were not being unfairly treated, we introduced the Regulations to ban price walking from the date of subsequent renewal.

3.1.2 Pricing Practices – Post-Regulations Review

As part of the Post-Regulations Review, we gathered quantitative data from the same non-life insurance providers that were included in the 2021 Review. This data allowed the Central Bank to consider the impact of the Regulations in terms of both compliance and effectiveness.

The Post-Regulations Review, allowed the Central Bank to consider the impact of the Regulations in terms of both compliance and effectiveness.

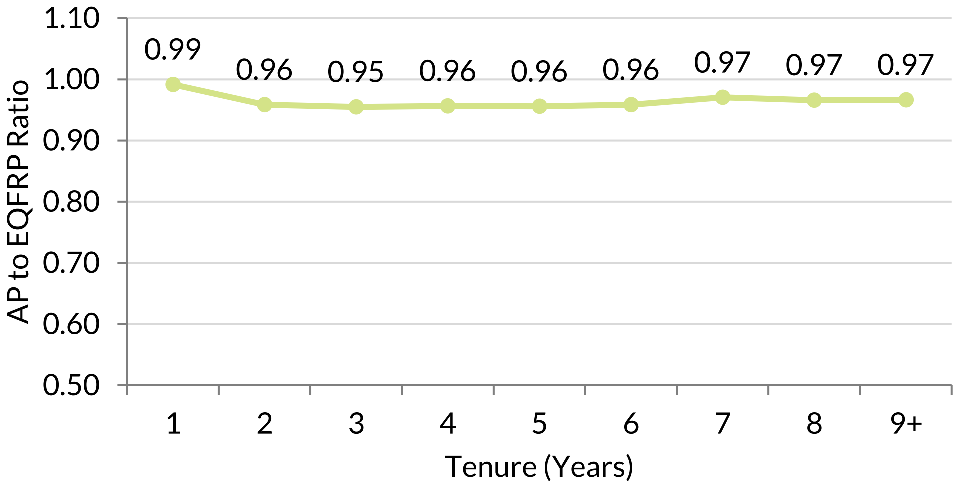
Compliance with the Regulations

The Central Bank's ban on price walking means that, from 1 July 2022, insurance providers cannot charge consumers, who are on their second or subsequent renewal, a premium higher than they would charge an equivalent year one renewal consumer at that point in time. This means that at any given time, at the point of renewal for policyholders, they cannot be penalised for their loyalty when comparing them to an equivalent year one renewal consumer. The graphs below comprise data from all in-scope insurance providers for the period October – December 2022 (Q4-2022) and demonstrate compliance with this requirement. The green line is the ratio of the Actual Premium (AP) charged at renewal to the renewal premium that the policyholder would be charged if it was their first renewal premium (the equivalent first year renewal premium - EQFRP). A ratio of one would indicate that the premium charged is the same as the equivalent first renewal premium. A ratio of less than one means the premium charged is less than the equivalent first renewal premium.

All in-scope firms are adhering to the Regulations and consumers are no longer being charged a higher premium as a result of their loyalty compared to a consumer renewing for the first time.

Home Market

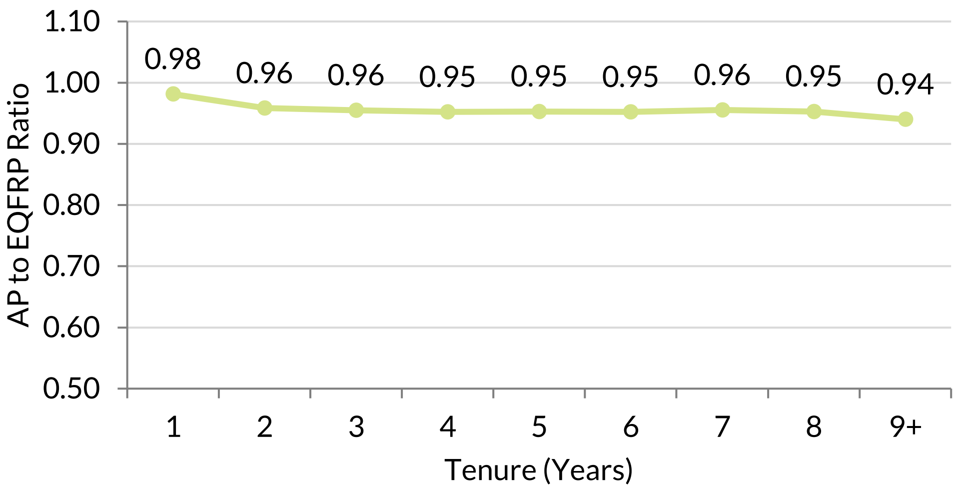
Figure 1: Variation of the average ratio between AP and EQFRP with tenure for home insurance (Includes policies from Q4 2022).



We can see that renewing consumers are paying less at subsequent renewals for their home insurance than they would if they were renewing for the first time (ratio < 1 for all tenures). This shows that all in-scope insurance providers are adhering to the Regulations and home insurance customers are no longer being charged higher premiums as a result of their loyalty.

Private Car Market

Figure 2: Variation of the average ratio between AP and EQFRP with tenure for private car insurance (Includes policies from Q4 2022).



Similar to the home market, renewing consumers are paying less at subsequent renewals for their motor insurance than they would if they were renewing for the first time (ratio < 1 for all tenures). This shows that all in-scope insurance providers are adhering to the Regulations and consumers of motor insurance are no longer being charged higher premiums as a result of their loyalty.

The aggregate trends in both markets are reflective of the results seen on a firm-by-firm basis. Firms have achieved this by ensuring that tenure is not a factor used to increase the AP charged to customers.

Additional Analysis of the Impact of the Regulations

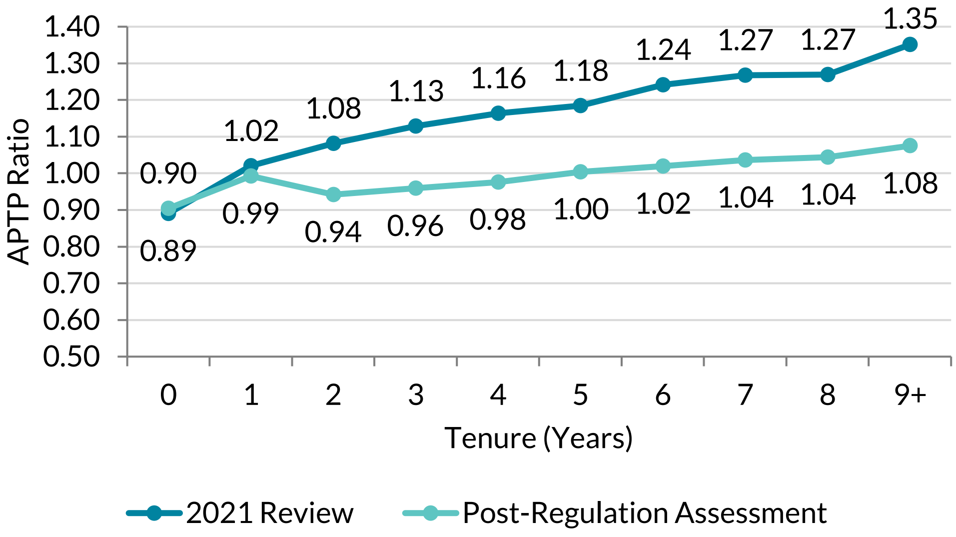
In Ireland and indeed the EU, there are no requirements for prices to be constrained by either individual risk profiles or the overall costs (other than factors protected by the Equal Status Act). However, measuring the gap between AP and Technical Premium (TP) provides insight on pricing dynamics within a market. In our 2021 Review we analysed the ratio between AP charged and TP (APTP ratio), as an indicative measure of the level of price differentiation across tenures. The ratio between the AP charged and the TP measures the extent to which there are other pricing dynamics at play within a market. A ratio of one indicates that prices are set to cover the expected cost of servicing policies precisely. A consistent ratio over different tenures suggests that tenure does not factor into the price paid by customers. Given the number of competitive and risk based factors that feed into pricing models – for example, different business mixes at different tenures, the correlation between some risk factors and tenure, and the application of discretionary discounting – an entirely uniform APTP ratio would not be expected. However, the scale of the increasing APTP ratio with tenure that the Central Bank found in its 2021

Review supported our view that price walking was common in both the private car and home insurance markets. This section of the report now looks at the position post the implementation of the Regulations.

Home Market

In the home insurance market, the APTP ratio was significantly greater at longer tenures than shorter tenures prior to the Regulations. Following the implementation of the Regulations, the difference between the APTP for Tenure 1 and Tenure 9+ has reduced significantly from 33% to 9%.

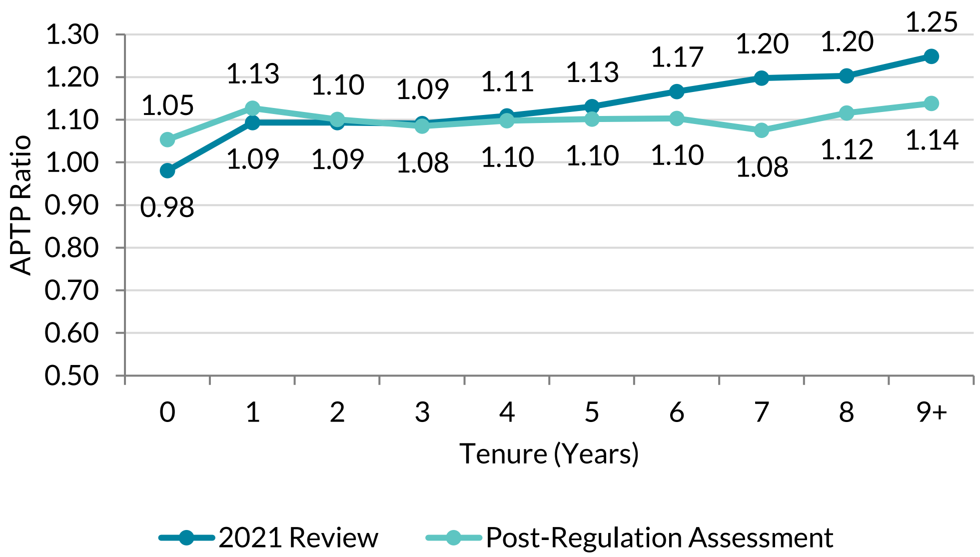
Figure 3: Variation of the average APTP ratio with tenure for home insurance (2021 Review includes policies from 2017-2019 and Post-Regulations Assessment includes policies from Q4 2022).



Private Car Market

In the private car insurance market, the APTP ratio was significantly greater at longer tenures than shorter tenures prior to the Regulations. Following the review and implementation of the Regulations, the difference between the APTP for Tenure 1 and Tenure 9+ has reduced significantly from 16% to 1%.

Figure 4: Variation of the average APTP ratio with tenure for private car insurance (2021 Review includes policies from 2017-2019 and Post-Regulations Assessment includes policies from Q4 2022).



We can see from our analysis, post-Regulations there is a stronger relationship between the premium charged and the risk profile and overall costs. This tells us that the Regulations have also reduced any adjustments to prices for reasons unrelated to the risks or cost of service. The Central Bank met with firms to discuss any remaining relationship between tenure and the APTP ratio. Based on these engagements, we are satisfied that this relationship is not driven by any pricing activities that are prohibited by the Regulations as tenure is no longer used by firms to increase the AP charged to policyholders. The different APTP ratios that we have identified are driven by a number of factors, such as different business mixes,[6] different channels[7] and differences in how risk is modelled in both AP and TP[8]. The substantial change in the APTP ratios further evidence the significant impact that the Regulations have had on pricing by tenure.

[6] For example, changes to business strategy over time resulting in relatively lower margin business being more prominent at lower years of tenure.

[7] For Example differing concentrations over time of business through channels such as, online, call-centres and broker channels combined with different pricing structure by insurance providers for such channels.

[8] For example, TP models treat certain factors differently for internal risk profiling purposes to how those items are treated in calculating the actual price charged (where commercial and regulatory considerations come into plat in setting the actual price). Data may also be limited for modelling some niche risks in firms' pricing models, requiring manual adjustments to actual prices – if these risks are more prevalent at certain tenures it will contribute to differences between AP and TP.

The aggregate trends in both markets are reflective of the results seen on a firm-by-firm basis.

New Customer Discounts

While removing the loyalty penalty for those consumers who do not switch insurance provider regularly, the Regulations also allowed insurance providers to continue to provide discounts for new business customers and ensure that consumers retain the opportunity to get a better-priced premium through switching insurance provider. The post-Regulation data gathered shows that insurance providers continue to offer new business discounts and that consumers still have the ability to shop around for discounts. The APTP ratio is still lowest for new business customers, showing that they continue to receive the highest discount relative to the technical price.

The data indicates that insurance providers continue to offer new business discounts and that consumers continue to take advantage of the option to shop around in order to avail of those discounts.

The data also indicates that a higher percentage of consumers switched provider in the last six months of 2022 (21.1%) after the Regulations came into force, when compared to the first six months of 2022 (18.3%) that preceded the Regulations coming into force. While this does not of course indicate a definitive trend or effect of the Regulations given the sample size and possible seasonal effects, it does indicate that consumers continue to switch to avail of new business discounts (which the Regulations continued to permit in order that this option be available).

3.2 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.

3.2.1 Automatic Renewals – The 2021 Review

As part of the 2021 Review, we sought to gain a more in-depth understanding of how the automatic renewal process operated in practice and also how the consumer was considered as part of this process. While the 2021 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. and as such, the 2021 Review considered this practice from a broader perspective including all personal insurance products in the non-life insurance market.

In our 2021 Review, we recognised that automatic renewal can provide 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.

However, we also found that the automatic renewal processes lacked transparency. As a result, we included enhanced requirements in the Regulations around consumers' right to cancel automatic renewals, including that:

a) the consumer must be permitted to cancel the automatic renewal of a policy at any time; and
b) notifications must be issued to consumers in advance of their renewal date with specified information to be clearly set out including the steps necessary to exercise the right of cancellation.

We found that the automatic renewal process lacked transparency and we included enhanced requirements in the Regulations around the consumers' right to cancel automatic renewals.

We also proposed a requirement for written consent from a consumer prior to entry into an automatic renewal process, therefore making automatic renewal "opt-in" rather than "opt-out". However, based on the submissions to our consultation, we concluded that the proposal relating to prior written consent required further consideration to avoid the risk of any unintended consequences, including any scenarios that might lead to consumers finding themselves without critical insurance cover. This further work included an assessment of the positive and negative impacts of an opt-in requirement for policyholders under different scenarios and policy types to assess whether further consumer protections are required.

3.2.2 Automatic Renewals – Post-Regulations Review

As part of the Post-Regulations Review, we analysed samples of automatic-renewal disclosures from the same non-life insurance providers that were included in the 2021 Review to ensure that the Regulations were correctly implemented for relevant policies.

Having reviewed all in-scope insurance providers' automatic-renewal disclosures in customer renewal documentation, it was evident that, save for some initial operational issues identified below, all insurance providers have adhered to the new disclosure requirements in the Regulations. However, while all firms adhered to the Regulations, the manner in which the information was set out in the notification varied in terms of its prominence. In addition, in some instances the information provided could have been more explicit in nature in relation to setting out the right to cancel and the consequences of exercising the right to cancel. We have engaged with firms and communicated our view of best practices observed and required them to make the necessary improvements in relation to these disclosures to the firms, where relevant. Also, we identified that in a small number of instances firms did not provide the required notification to all consumers "*at least 20 working days prior to the renewal date*", owing to initial operational issues with the implementation of the Regulations that have since been rectified.

All insurance providers have adhered to the new disclosure requirements in the Regulations.

Following consideration of the feedback received from the consultation process, the Central Bank concluded that the proposal relating to prior written consent in relation to automatic renewals required further consideration. Having now considered the issues for each insurance type we have concluded that the risk of introducing an explicit opt-in requirement for home, motor and health insurance outweighs any potential benefits in that the impact of an insurance policy lapsing for these insurance types could be considerable. The impact could include significant cost implications, legal implications for mandatory insurance and there may not be readily available or affordable substitutes.

However, for travel, gadget, dental and pet insurance we have concluded that the benefits of introducing an explicit opt-in requirement outweigh any potential risks. This is because these insurance types are often sold as ancillary to other products or services. There is an increased risk that the consumer no longer owns the insured risk, needs the cover or the risk has since been covered by another insurance policy. In addition, the value of insured products may decline quickly and travel plans may change year-on-year. For these reasons, there may be a stronger justification for consumers to actively make the decision to renew their policy for these insurance types. We are therefore proposing to make automatic renewal “opt-in” rather than “opt-out” for travel, gadget, dental and pet insurance.

We plan to consult on these proposals as part of the forthcoming Consumer Protection Code Review Consultation Paper and, taking into account decisions taken following that consultation, it is expected that any resulting measures will be introduced as part of that process.

3.3 Oversight of Pricing Practices

All financial service providers must have in place robust product oversight and governance arrangements covering the design, sale and delivery of the product. Insurance providers have a responsibility to understand fully the impact of their pricing practices on their customers as part of those oversight arrangements.

3.3.1 Oversight of Pricing Practices – The 2021 Review

The 2021 Review included an assessment of the adequacy of the oversight and governance relating to pricing practices among insurance providers The purpose of this element of the 2021 Review was to determine whether insurance providers 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.

The 2021 Review included an assessment of the adequacy of the oversight and governance relating to pricing practices among insurance providers.

Weaknesses identified include:

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

While we saw evidence that most firms were taking steps to enhance the level of ownership and oversight of their pricing practices, this work was ongoing at the time of the 2021 Review, and some firms had made more progress than others.

In order to ensure that insurance providers continued to consider the impact of their pricing practices on their home and motor insurance customers, and to maintain appropriate oversight and controls in relation to pricing matters, the Central Bank introduced a requirement in the Regulations for insurance providers to carry out an annual review of their pricing policies and processes to ensure they complied with the Regulations.

The Central Bank introduced a requirement for insurance providers to carry out an annual review of their pricing policies and processes to ensure they complied with the Regulations.

The purpose of the annual review is for firms to:

- Assess their own pricing methodologies against the Regulations and general principle 2.1 of the Code[9];
- 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 consumer-centric behaviours in firms.

The annual review also requires that any deficiencies need to be rectified and records retained. In addition, prior to implementing material decisions, insurance providers now have to record how those decisions comply with the new provisions.

3.3.2 Oversight of Pricing – Post-Regulations Review

As part of the Post-Regulations Review, we analysed the annual reviews of the same non-life insurance providers that were included in the 2021 Review. It is clear that firms have taken significant steps to better understand their pricing models and, in particular, the impact of these models on their home and motor insurance customers.

[9] A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it: 2.1 acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market.

While significant progress has been made, the approach taken to the annual reviews varied across firms. This was to be expected as the annual reviews should be proportionate to the nature, scale and complexity of each individual firm's pricing practices. However, we also noted some differences in the level of detail, sophistication and customer focus evidenced in firms' annual reviews.

As part of the Post-Regulations Review, we analysed all in-scope firms' Annual Reviews. While significant progress has been made, we expect that annual reviews will continue to develop over time.

Some examples of good practice observed in the Annual Reviews included:

- Firms completed a review of all pricing practices against each of the Regulations (Regulations 4-10), to determine if all practices were fully adhering to the Regulations and whether any practices needed to be amended or discontinued;
- Alongside a review of the Regulations, firms also took a broader view of their pricing models to ensure they were satisfied that the models were producing fair outcomes for all consumers;
- Firms have now defined and monitor key risk indicators relating to differential pricing on an ongoing basis and have included this detail in their annual reviews;
- Firms have defined potentially vulnerable customers and have included specific risk indicators to monitor the pricing of those customers relative to other customers; and
- Firms assess the key drivers of pricing differences by tenure, to identify any unfair treatment of consumers.

We expect that the annual reviews will continue to develop over time, as firms refine their governance processes and their use of data to ensure key risk indicators for the treatment of customers are further embedded in firms' Consumer Protection Risk Management Frameworks. We have engaged with firms and communicated our view of best practices observed and required them to make the necessary improvements in relation to the annual reviews assessed by the Central Bank, particularly where we concluded that firms had not sufficiently evidenced a consideration of each individual Regulation or had not effectively demonstrated a broader consideration of fairness in their annual review. We will continue to engage with firms on this topic as part of our on-going supervisory engagements.

4. Conclusion

The Post-Regulations Review completed by the Central Bank has provided assurance that consumers of longer tenures are now being charged the same, or lower, premiums than the premiums they would have been charged if they were a first year renewal consumer. Firms have also demonstrated much more robust oversight processes, analysis and reporting in relation to their pricing practices and enhanced protections for consumers on auto-renewal contracts.

The Central Bank's ban on price walking meant that, from 1 July 2022, insurance providers could no longer charge consumers, who are on their second or subsequent renewal, a premium higher than they would charge an equivalent year one renewal consumer at that point in time. In addition, the Regulations required firms to enhance their oversight of their pricing practices and the protections for consumers on auto-renewal contracts. The Regulations also allowed insurance providers to continue to provide discounts for new customers, giving consumers the opportunity to avail of a better-priced premium by switching provider, if they are not satisfied with the existing provider.

The post-Regulations assessment of compliance and effectiveness completed by the Central Bank shows that those consumers who remain with their current insurance provider no longer pay a loyalty penalty. The Central Bank is satisfied that consumers on their second or subsequent renewal are no longer paying premiums that are higher than they would have if they were a year one renewal consumer.

The Central Bank has reviewed all relevant customer documentation and is satisfied that insurance providers have introduced the disclosure requirements in relation to automatic renewals to help consumers make more informed decisions when renewing their insurance. In certain instances where the prominence or clarity of the information introduced could be improved, we have communicated this to relevant insurance providers. The Central Bank also plans to consult on further measures with respect to automatic renewal in the forthcoming Consumer Protection Code Review Consultation Paper.

The Central Bank has also observed much more robust oversight processes, analysis and reporting by insurance providers in relation to their pricing practices and models and how they impact their own customers. This has resulted from a combination of the Central Bank's Dear CEO letter issued in phase one of the Review and the Regulations requiring an annual review of firms pricing practices to be completed. While all insurance providers now have clear escalation processes and more appropriate oversight and governance structures, they must continue to develop their Consumer Protection Risk Management Frameworks. This must include appropriate consumer risk indicators and also inherently consider, as part of their decision–making process, how their product offerings (including price and suitability) will ensure good value for consumers. The Central Bank continues to engage with insurance providers to ensure appropriate oversight of pricing practices, to address any weaknesses identified and continue to monitor developments to ensure that insurance providers are delivering fair outcomes.

The Central Bank is satisfied that the Regulations are working effectively, have not caused any unintended consequences, and (in particular) have addressed the loyalty penalty in pricing in the home and motor markets.

For these reasons, the Central Bank is satisfied that no further measures are required at this time with respect to the matters referred to in Section 6(1)(a) and (b) of the 2022 Act. The Central Bank plans to consult on possible further measures on automatic renewal in the areas of travel, gadget, dental and pet insurance in the forthcoming Consumer Protection Code Review Consultation Paper.

Appendix 1: Scope and Objective of the 2021 Review

The 2021 Review focussed on private car and home insurance given the importance of these products 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. The 2021 Review examined the pricing practices in these product lines of a number of the largest non-life insurance providers operating in the Irish market. At the time of the 2021 Review, there were approximately 2.2 million private car insurance policies and 1.3 million home insurance policies in the Irish market. The 2021 Review included 11 insurance providers and we estimate that they covered more than 90% of active policies in the market at that time.

The aims of the 2021 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 Central Bank's Consumer Protection Code 2012;
- 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.

Appendix 2: Publications

The output to date from the Central Bank in relation to differential pricing can be read in the following links:

Publications
Dear CEO Letter to the Insurance Sector – September 2020
Review of Differential Pricing in the Private Car and Home Insurance Markets – Interim Report - December 2020
Review of Differential Pricing in the Private Car and Home Insurance Markets - Final Report and Public Consultation – July 2021
Differential Pricing Review - Technical Analysis – July 2021Review of Differential Pricing in the Private Car and Home Insurance Markets - Technical Annex – July 2021
The Regulations introduced - March 2022
The Regulations commenced - 1 July 2022

Appendix 3: Glossary of Key Terms

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.

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 cost 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 cost 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 cost of the policy. A ratio of less than 1 suggests the insurer is charging less premium than the amount needed to cover the expected cost of the policy.

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.

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

Policyholder – This person holds the insurance policy with the insurance provider.

Price Walking – This is where customers are charged higher premiums relative to expected cost 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.

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

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

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