An overview of the CBI's Report to the Minister for Finance on its Differential Pricing Review

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Differential Pricing Review - A Brief History

The Central Bank of Ireland's (CBI) Differential Pricing Review has been one of the most substantial reviews of the Insurance Industry undertaken in recent years, with the resulting ban on price walking being considered a significant win for consumers. The Review first commenced back in late 2019, with the CBI then issuing a Dear CEO Letter to the Industry following Phase 1 of the review in September 2020, followed by an Interim Report on the Review in December 2020. A Final Report and Public Consultation was then issued in July 2021, and on foot of same, commencing 1st July 2022, the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Insurance Requirements) Regulations 2022 was introduced. The key aspects of the Regulation are:

- A ban on price walking for motor and home insurance policies (price walking meaning charging customers higher premiums the longer they remain with you for no reason other than them staying with you as a provider);
- The introduction of the requirement for in scope firms to conduct annual reviews of their pricing policies and processes relating to motor and home insurance; and
- Obligations on in scope firms to provide certain additional information to customers who have a non-life insurance policy which renews automatically, as well as allowing the cancellation of automatic renewals at any stage.

Post Regulation Review

While the Regulation came into force on 1st July 2022, the first annual pricing reviews were required to be completed within the first two months of 2023, and quite shortly after this, the CBI commenced it's Post Regulation Review. The Post Regulation Review allowed the CBI to consider the effectiveness of the Regulations, and compliance with same, which was expected given that in its Final Report it had committed to continuing to analyse developments in the area to ensure that providers were acting in the best interests of customers. In addition, the CBI was required to provide a report to the Minister for Finance by no later than 8th January 2024 on:

- The CBI's opinion on the oversight of pricing practices of insurance providers;
- The measures the CBI implemented in relation to price walking;
- The measures the CBI implemented in relation to automatic renewals; and
- The CBI's conclusions as to whether any further measures should be implemented in relation to pricing practises or automatic renewals.

The CBI's Report to the Minister for Finance

The CBI issued its Report on the above, noting largely positive outcomes (as detailed below), to the Minister in December 2023:

Pricing Oversight –

The CBI found that since implementation of the Regulations, Insurance providers have more robust oversight processes, analysis and reporting in place regarding their pricing practices and models, including how those practices and models impact customers. Providers were also found to have clear escalation processes and more appropriate oversight and governance structures relating to pricing.

Price Walking –

The Report confirmed that the ban on price walking has been implemented successfully by those reviewed, with firms continuing to offer new business discounts, thus ensuring consumers have the opportunity to shop around, whilst effectively moving to remove tenure as a factor used to increase the premiums charged to customers.

Automatic Renewals –

The CBI's Report found that the majority of those reviewed had successfully and effectively implemented the required information disclosures in relation to automatic renewals, however noted that in some cases the prominence or clarity of the information could be improved, which was communicated to the relevant providers.

Overall, the CBI is satisfied that the Regulations are working effectively, have addressed price walking concerns, and that there have not been any unintended negative consequences resulting from the Regulations. In light of this, the Report confirms that no further measures are being introduced in relation to either price walking or pricing oversight in the sector at this time.

Next Steps

Automatic Renewals – 'Opt-Ins'

The Automatic Renewal requirements of the Regulations did not go as far as to require consumers to provide written consent to opt into automatic renewals; a measure which had been suggested in the CBI's Final Report, but which was removed subject to further consideration by the CBI. In its December Report to the Minister, the CBI confirmed it's conclusion that the risk of introducing an opt in to automatic renewals for motor, home and health insurance would outweigh the benefits, given the potential negative impact for consumers resulting from the lapsing of these policies. However, it has confirmed that it believes consumers may benefit from an opt-in approach to automatic renewals for certain other insurance types, including travel, gadget, dental and pet insurance, since these are often sold as ancillary products or services. The CBI considers that with these products, there is also 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 these insured risks may decline quickly, and travel plans may change year-on-year. The CBI intends to consult on this change as part of its forthcoming Consumer Protection Code Review Consultation Paper, with any resulting measures being implemented as part of the Consumer Protection Code Review process.

Annual Pricing Review

While the CBI's December Report was largely positive in relation to the improvements made to the oversight and governance of pricing practises, as well as the carrying out of annual pricing reviews as required under the Regulations, it did highlight a variation in the approach to the annual pricing reviews submitted. To assist firms, the CBI provided examples of some of the good practises it observed in the Annual Pricing Reviews submitted, which firms should now look to incorporate into their subsequent annual reviews (to be completed within the first two months of every year) as appropriate:

- Reviewing all pricing practices against each of the relevant Regulations, to determine if all practices fully adhered to the Regulations and whether any practices needed to be amended or discontinued;
- Alongside a review of the Regulations, taking a broader view of pricing models to ensure those models were producing fair outcomes for all consumers;
- Defining and monitoring key risk indicators relating to differential pricing on an ongoing basis and including this detail annual reviews;
- Defining potentially vulnerable customers and including specific risk indicators to monitor the pricing of those customers relative to other customers; and
- Assessing the key drivers of pricing differences by tenure, to identify any unfair treatment of consumers.

Conclusion

While the CBI's December 2023 Report to the Minister has confirmed that no further measures will be implemented in relation to the pricing aspects of it's Differential Pricing Review at this time, it's important that those firms who may need to implement process changes on foot of a potential opt-in to automatic renewals for travel, gadget, dental and pet insurance plan accordingly and keep abreast of developments in the Consumer Protection Code Review. It's also worth again mentioning the need for Firms to ensure that their annual pricing reviews continue to be carried out and documented annually, and that the pricing oversight and governance measures implemented remain robust and fit for purpose.