The Money Charity Response – FCA Consultation Paper on General Insurance Pricing CP20/19 (January 2021)

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.[1]

We welcome the opportunity to respond to the proposed changes to the FCA Handbook on General Insurance Pricing (CP20/19).

In this response, we first make some overall comments supporting the changes proposed by the FCA then answer the questions posed in the Consultation Paper.

[1] See box on back page.

Overall Comments

We welcome the proposals in CP20-19 to require insurance firms to offer the same price to renewing customers as they do to equivalent new customers and to bring an end to the practice of “price-walking”.

As noted in our earlier responses on this subject,[2] the practice of demand-based price discrimination in insurance (and in other financial services) is inimical to financial capability for two key reasons:

1) The basis of the price offer is obscured, with the individual demand price[3] and risk price being mixed in a way that is invisible to the consumer.

2) Attempts by consumers to make financially capable decisions are frustrated. The consumer may think they have chosen a cheaper product then find that the price advantage is whittled away over time without them realising.

A further reason for preventing price walking is that it leads to costly churn. Those consumers who are aware they are being price-walked respond by repeatedly shifting suppliers, as often as once per year, at least once every three or four years. This means there is constant churn in the market with consumers moving from the higher price of one supplier to the new customer price of another supplier (then back again or on to a new supplier a few years later). Each act of switching involves customer time and firm time (with the cost passed onto consumers), people sitting in queues in phone menu systems, sometimes making calls on their employer’s time or out of their own working day etc., all of which subtract from UK economic efficiency. A system of stable insurance pricing would reduce the losses from churn and improve UK productivity.

Answers to consultation questions

Q1: Do you have any comments on the proposed implementation period?

We are happy with the proposed four-month period.

Q2: Do you have any comments on the possible impact of our proposals on people with protected characteristics under the Equality Act 2010?

In our view, fairness overrides concern on the grounds of age, given the extreme over-pricing that has occurred in certain cases. Vulnerable older people need to be protected from the sort of extreme over-charging that has sometimes occurred in the past.

[2] Available at: https://themoneycharity.org.uk/work/policy/consultation-responses/
[3] The price that a consumer will bear without switching.

On ethnicity, we agree with the FCA in flagging up the issue of unconscious bias. A challenge with AI systems generally is that they can pick up and amplify the biases of wider society. This is true of insurance pricing software if the algorithms are left to make their own inferences. Firms need to explicitly check that their software is not producing results that are biased along the lines of ethnicity.

Q3: Do you have any comments on our proposal to apply the rules on which we are consulting to firms based in Gibraltar and firms in the temporary permissions regime?

No comment.

Q4: Do you have any comments on our proposal to ban price walking?

We support this for the reasons set out in our Overall Comments above.

Q5: Do you have any comments on how our proposal would apply to products that are no longer actively marketed?

From a consumer financial capability point of view, the concept of "closed books" is meaningless. It is really a concept that is internal to the firm. From a consumer point of view, if a product is being sold to them (for example, an insurance policy renewal) it is a current product whether or not it is being offered to new customers. We agree that it is important that "closed books" are subject to the same rules as open books, otherwise a simple evasion technique would be to shift renewing customers to a "closed book" and declare new customers to be buying new products.

The proposed rules around closed books are quite complicated and may offer opportunities for evasion. It will be important that the FCA closely monitors the implementation of these rules to make sure that the intention of the ban on price walking is being achieved.

Q6: Do you have any comments on our proposals to address practices that aim to frustrate the intended outcomes of the pricing remedy?

We agree with the anti-avoidance measures set out in paragraphs 3.17 to 3.19.

Q7: Do you have any comments on our proposal to require senior manager confirmation that the firm is complying with the pricing remedy?

We agree with this. It should be made clear that attestations under these rules are covered by the Senior Managers and Certification Regime (SM & CR) and that misleading attestations will lead to penalties, including to any senior managers who instruct subordinates to make misleading attestations.

Q8: Do you have any comments on our proposal for firms to retain documentation to show how they are satisfied that their pricing model complies with our rules?

We agree with this.

Q9: Do you have any comments on our proposals for multi-product discounts?

We agree with the FCA's proposal to apply the same anti-price walking rules to multi-products.

Paragraph 3.22 on individual negotiations is problematic. With price walking, one of the indicators of demand is the willingness of a consumer to contact the insurer and try to negotiate the price. Offering a discount is one channel for price discrimination. Great care will need to be taken to make sure that "individual negotiation" does not become a way of reintroducing price walking by the back door.

Q10: Do you have any comments on our proposal to apply the pricing restriction rules to all stages of the price setting chain?

We agree with this.

Q11: Do you have any comments on our proposal to apply the pricing restriction rules to additional products?

We agree with this.

Q12: Do you have any comments on our proposal to enhance the product governance requirements concerning product value?

We agree with the introduction of a fair value rule and we particularly welcome the reference to the Equality Act in paragraph 4.12.

Q13: Do you have any comments on our proposal to apply the product governance rules to products regardless of when they were launched?

We agree with this.

Q14: Do you have any comments on how we propose to apply the product governance rules to non-investment insurance products and products sold as part of a package?

We agree with the proposal to apply the fair value rule to the products indicated.

Q15: Do you have any comments on our proposals for ongoing product reviews and remedial actions firms must consider where it is identified that the product is not providing fair value?

We agree that regular product reviews are desirable.

Q16: Do you have any comments on our proposed requirements for product distributors?

We agree there should be rules making sure that distributors align the products they market with value for the customer.

Q17: Do you have any comments on our proposals for premium finance?

Many consumers find the terms of credit hard to understand, so it is important that firms set out clearly the impact of financing arrangements for consumers and are required to make sure that the product plus financing delivers value to the consumer.

Q18: Do you have any comments on our proposals for senior manager responsibility for compliance with our proposed remedies?

We agree with the proposal for senior manager responsibility under the SM & CR. We think the FCA should consider how to ensure that the responsible manager can be protected from an instruction from superiors to certify a product or process that should not be certified under the FCA's rules.

Q19: Do you have any comments on our proposals to require firms to provide consumers with a range of accessible and easy options to stop their policy from auto-renewing?

We agree with the proposals in paragraphs 5.3 to 5.7 to make cancellation easy for the consumer. We suggest additionally that there should be a general principle that the consumer can cancel by any means of communication the firm normally uses with the consumer. So, for example, if a firm communicates via Chat, instant messaging, text, video or any other message service, the consumer should be able to use the same channel(s) to cancel an auto-renewal. It is necessary to remove friction, so that when people know they need to cancel they can do so as easily as possible.

Q20: Do you agree with our proposed rules and guidance in relation to auto-renewal?

Yes.

Q21: Do you agree with our proposal to apply the auto-renewal measures to all types of general insurance?

Yes.

Q22: Do you agree with our proposed scope for the reporting requirements?

Yes.

Q23: Do you agree with our proposed reporting granularity?

Yes. Given the complexity of modern pricing and that pricing is often carried out within software packages (including within demand-based price discrimination software) it is necessary for the regulator to collect data at a high level of granularity to see what is going on.

Q24: Do you agree with the list of metrics we propose to ask firms to report?

No comment.

Q25: Are there any other metrics we should consider asking firms to report?

No comment.

Q26: Do you agree with our proposals on reporting responsibility for insurers and intermediaries?

No comment.

Q27: Do you agree with our proposals on reporting periods and frequency?

The quarterly to annual transition proposed seems to make sense.

Q28: Do you have any comments on our cost benefit analysis?

The quantification is outside our remit, but we are glad to see that the FCA has included a reduction in inefficient switching and saving in consumer time in the calculation. In our view, getting rid of the wasted time involved in escaping price walking by switching supplier (churn) is one of the great benefits of the FCA proposals.

Q29: Do you have any comments on the way we have estimated the impact of the pricing remedies?

No comment.

Q30: Do you have any comments on the way we have estimated the impact of the non-pricing remedies?

No comment.

Q31: Do you agree with the assumptions we have made in our analysis?

No comment.

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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