



General Insurance Pricing Practices Market Study Team  
Competition Division  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

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Dear Sir/Madam

## **SMALLER BUSINESS PRACTITIONER RESPONSE TO CP20/19 GI PRICING PRACTICES MARKET STUDY**

The Smaller Business Practitioner Panel is pleased to respond to the remedies proposed as a result of the recent market study. We have a number of general observations to make.

The Panel is supportive of intervention where harms have been identified. The current home and motor insurance market model as it currently stands does not work as well as it should for long-standing customers. There should not be excessive price differences between new and existing customers. The insurance industry recognised the need to address this imbalance eight years ago and issued its 'General Principles and Action Points for General Insurance Pricing' (GPAPs).

It is important the customer buys the right level of cover for the insurance needed. This decision can never be made on price alone and the cheapest policy may not provide all the cover that the customer requires. That said, correcting imbalances in pricing which are perceived to be unfair to loyal policyholders is a good thing. However, the Panel has concerns that the FCA may be underestimating the implications of the significant and complex pricing intervention proposed. This will affect the pricing of every firm in the market.

### *Messaging and levels of pricing*

We have concerns about the framing of the intervention and the language being used, implying that big savings will be made by all policyholders. The work says the FCA found in 2018 that six million policy holders would have saved £1.2 billion if they had paid the average for their actual risk. But this doesn't tell the story of those who pay less than cost price by switching each year. In fact, the report recognises that this intervention "*will probably lead to some consumers paying higher prices if they currently benefit from significant new business discounts as inducements to switch.*" In short, many customers who have managed to get better deals by shopping around may find that they are paying higher prices next time round. As the report says, it "may lead to higher prices for regular switchers". What is therefore more likely to happen is an equalisation, with new customers paying premiums which are not heavily discounted and renewal customers paying less as they will not be subsidising those discounts. The messaging should be positioned clearly as not aiming to reduce prices (which is likely to be the aspect picked up by the press and therefore by consumers) but to position as a rebalancing of prices.

### *Price Comparison Websites*

It could be argued that customers do not need a broker to place a relatively simple home insurance policy. Customers, however, buy their home and motor insurance in lots of different ways: direct from an insurer by phone or internet, through a price comparison website, or via an insurance broker. Therefore, when the FCA issues its final rules and enforces them, it will need to cover all these parts of the market, including brokers and price comparison websites,

rather than just focus on insurers. Comparison websites have their place and are an easy way for customers to get an indication of premium but when the first five or six quotes are 'sponsored' by insurers paying the site a commission then it is questionable how truly independent this is. When the customer has put in all their details the premium indicated initially can bear little resemblance to what is now being quoted and the customer is too far along the process to come out and start again. Somewhere along the line the customer will need to pay this cost.

### *Commercial insurance*

Looking specifically at the commercial market, migrating this equalisation to commercial business will likely be cautiously welcomed by smaller brokers but will be very hard to monitor. Commercial business is more broker led and tends to be re-brokered on a more regular basis. Equalisation of new and renewal rates should help brokers to advise based upon quality of product, insurer or service rather than price. Developing that last point, commercial business is more complex and less commoditized, so price is just one factor when quantifying good value.

### *Autorenewal*

The Panel supports the retention of autorenewal, which is an important element for some customers in ensuring their insurance is maintained without gaps in cover. It is common with motor insurance renewals for people to shop around for the cheapest premium. Motor insurance is compulsory, so the automatic renewal is a good way of avoiding the customer forgetting to renew, but it needs to be communicated early to allow the customer the option of looking around – there are some instances of firms which automatically renew and take the premium from the customer's bank two weeks prior to the renewal date.

### *Implementation*

A really important factor in making all this work will be fair and effective implementation. That means having meaningful product governance by firms and having effective oversight and supervision by the FCA across the distribution chain, across all parts of the market that play a role in delivering insurance to customers.

### *Measuring effectiveness*

One of the challenges for the FCA will be how to monitor the effectiveness of the remedies. The intention is to do this through analysing data, but it is fair to say that this may prove to be the biggest challenge. Getting these data points right will be very important so that firms can implement the requirements and their impact is measured accurately.

### *Extending to other sectors*

We understand that the remedies as proposed apply to very specific sectors. We strongly advise that these remedies are not extend to other sectors without further consultation as it should not be assumed that the specificities of other sectors would be appropriate for this approach.

Yours faithfully,

[signed]

Marlene Shiels  
*Chair, FCA Smaller Business Practitioner Panel*