

July 2020

Guiding Principles and Action Points for General Insurance Pricing

Executive Summary

The Guiding Principles and Action Points for General Insurance Pricing (GPAPs) is a voluntary initiative launched in May 2018 designed to make an improvement to the outcomes for long-standing customers, in particular addressing excessive differences between new customer premiums and subsequent renewal premiums.

This report shows that ABI members have implemented the GPAPs successfully and this is having a positive impact for some individuals.

Key findings include:

- All firms surveyed have formally incorporated the GPAPs into firms' procedures for determining the premium at renewal and given the issue Board or Executive team level priority.
- All firms surveyed have implemented a review process on renewal pricing, with 94% having a specific focus on customers who have been with firms for five years or more.
- The vast majority of firms (94%) have implemented specific processes to identify and review outcomes for vulnerable customers at renewal, with the remainder of firms having plans to do so.
- Firms made over 8.5 million proactive pricing interventions across Motor and Home policies since GPAPs introduction. Individual firms reported an average saving per intervention ranging between £40 and £150 (for the majority of interventions)¹.

The insurance sector continues to engage constructively with the FCA as they finalise their recommendations for further potential remedies to the issue.

¹ Total intervention volume and value data was reported by firms and the company-level average savings per intervention calculated from this data varied between the firms reporting. The £40 to £150 range represents this range of company-level average savings values and is restricted to firms covering two thirds of all interventions in the period (in order to remove outlying averages from the data).

The range does not represent the full range of individual customer-level intervention savings values, which would likely be wider.

Background

The issue of longstanding customers paying more than new customers is not unique to the insurance industry. It happens across other sectors including TV, internet and energy providers. Indeed, the insurance sector was the first industry to have taken positive, collective action to try and address this problem of longstanding customers paying more than new customers. This action was taken ahead of the Citizens Advice Supercomplaint to the Competitions and Markets Authority and the FCA General Insurance Pricing Practices Market Study.

In May 2018 the Association of British Insurers (ABI) and British Insurance Brokers Association (BIBA) published The Guiding Principles and Action Points for Insurance Pricing (GPAPs). This action was taken ahead of the Citizens Advice Supercomplaint to the Competitions and Markets Authority and the FCA General Insurance Pricing Practices Market Study.

In May 2018 the Association of British Insurers (ABI) and British Insurance Brokers Association (BIBA) published The Guiding Principles and Action Points for Insurance Pricing (GPAPs).

The GPAPs apply to key personal lines insurance products such as home, motor and travel, but not pet or health insurance where the markets operate differently.

Key commitments include:

- The ethos and approach to better outcomes for long-standing customers will be given Board or senior management level priority and formally incorporated into firms' procedures for determining the premium at renewal.
- ABI and BIBA members should make clear in written, online or verbal customer communications that the new customer premium only applies for that year and subsequent renewal premiums may be higher.
- ABI and BIBA members who impact the final premium paid by customers should review their pricing approach for customers who have been with them longer than five years and assess whether this approach delivers a fair outcome.
- The ABI and BIBA will publish a report in no more than two years' time that demonstrates how ABI and BIBA members have sought to tackle excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.

The GPAPs were specifically designed to work within competition law, which rightly requires that insurers compete to offer customers the best outcomes rather than sharing and coalescing around a similar approach.

So, while these principles represent action taken by the whole industry, different firms have implemented them in their own way.

Reporting

Both ABI and BIBA committed to reporting on the outcomes from the GPAPs. BIBA have (today) published their own report on progress made by their members. The ABI publishes this report following data collected from its members. The reporting period is between May 2018 and January 2020. The companies participating cover around 76% of Gross Written Premium from ABI members (the value is the same for both motor and home).

The report examines two main aspects of the GPAPs: how members have implemented the principles and action points; and what impact this has had on customer outcomes.

Implementation of the Guiding Principles and Action Points:

Four of the GPAPs have measurable outcomes in terms of how firms have implemented them. These are outlined below:

Guiding Principle 5: the prioritisation of better outcomes for long-standing customers to the Board, or to senior management level:

This has been implemented strongly by insurers. Of the companies surveyed, all have ensured that the issue is considered at such a level, with most of these (83% by GWP of those participating) nominating a specific executive sponsor to take responsibility for these outcomes.

Action Point 1: Communicating that renewal premiums may be higher

All companies have implemented the FCA-prescribed wording to renewal customers showing the previous year's premium and thirteen of the eighteen companies (83% by GWP) have gone further and introduced wording to new customers that the new customer premium only applies for that year and that renewal premiums may be higher.

A further two companies are in the process of rolling out this communication, with intentions being to have implemented the messaging by mid-2020 and two have explicit strategies not to differentiate premiums at all based on customers' tenure (thus making the messaging irrelevant).

Action Point 2: Reviewing approach for 5+ year customers

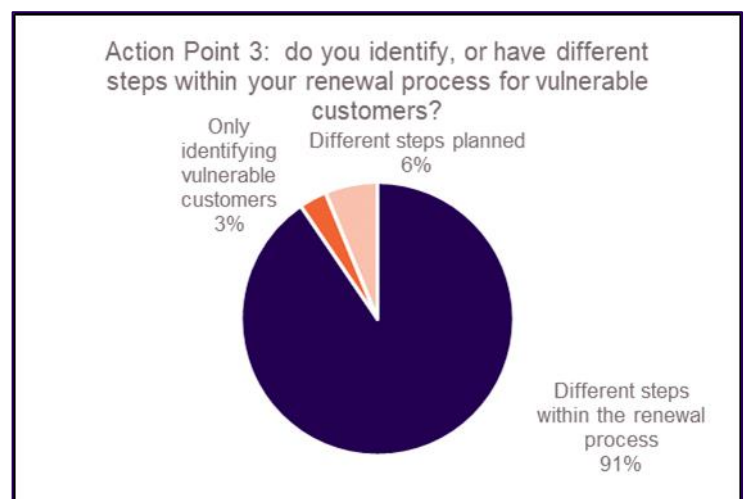
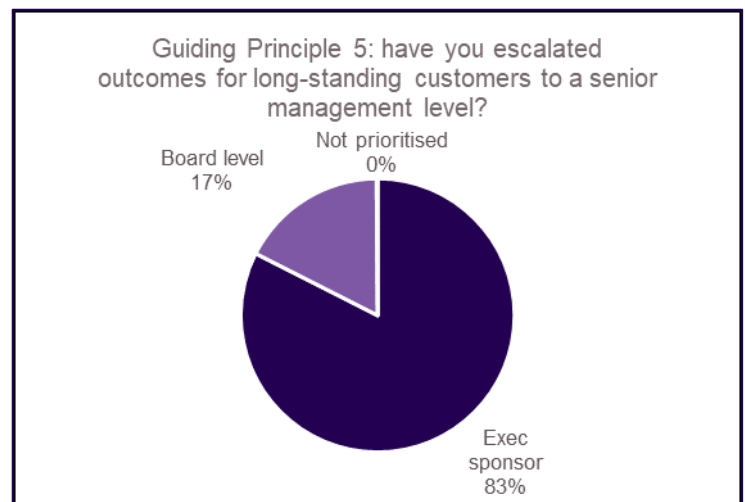
Reviews for long-standing customers have been implemented widely, with all companies having a meaningful review process on renewal pricing.

All companies are reviewing pricing practices and outcomes broadly, and all but one of these (94% by GWP) have a specific focus on customers who have been with the insurer for five years or more, as set out in the Action Point.

Action Point 3: Reviewing outcomes for vulnerable customers

Implementation of Action Point 3 requires two key steps. The first is identifying customers with characteristics suggesting that they may be vulnerable. All of the firms had processes in place to do this. Most of these companies are, in addition, rolling out training to staff members on how to identify and assist vulnerable customers. This is also in line with the ABI Code of Good Practice on support for vulnerable customers.

The second stage is implementing different steps within the renewal process to review outcomes for these customers, with a focus on further restricting the amount that premiums can increase by each



year for older customers. This again has been implemented widely, with just one company still in the process of introducing it.

Impact on customer premiums

The ABI sought to measure the impact of the GPAPs on customer premiums by measuring the number of unprompted interventions made by firms to reduce premiums.

- In total there were over 8.5 million pricing interventions across Motor and Home insurance over the 20 months included, worth a total value of £641 million.
- Individual firms reported an average saving per intervention ranging between £40 and £150 (for the majority of interventions)².
- Overall 53% of these were related to GPAPs.

It should be noted that these are proactive and non-risk based interventions that specifically exclude those where a customer has contacted an insurer and had the premium reduced to retain the customer. It is, therefore, clear evidence that the GPAPs have had a positive impact on premiums for millions of Motor and Home insurance customers.

Conclusions

It is clear that insurers have implemented the Guiding Principles and Action Points for General Insurance Pricing to a very high degree and this shows how the sector has responded positively to their introduction.

There is also evidence of a positive impact for some customers, with over 8.5 million customer interventions and individual firms reporting average savings of between £40 and £150 per intervention (for the majority of interventions)³. This represents a clear benefit to millions of long-standing customers. Over half of these interventions have directly resulted from the GPAPs, meaning their introduction has helped over 4 million customers get lower premiums.

The sector should be pleased that it has implemented the proposals effectively and it is having a positive impact on customers, and there is clear commitment to continue to deliver on the GPAPs, as the benefits of this initiative are likely to grow with time.

² Total intervention volume and value data was reported by firms and the company-level average savings per intervention calculated from this data varied between the firms reporting. The £40 to £150 range represents this range of company-level average savings values and is restricted to firms covering two thirds of all interventions in the period (in order to remove outlying averages from the data).

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