

# General Insurance Pricing Practices

**General Insurance pricing practices where more advanced analytic techniques and non-risk based customer data is leveraged has been widely criticised resulting in an increased focused on regulating from a pricing and fairness perspective.**

## Protecting vulnerable customers

Over time the pricing of retail General Insurance products has become ever more sophisticated, leveraging the availability of new or expanding data sets and analytical capabilities. The underlying cost of insurance – the expected cost of claim and cost of service – has become somewhat disconnected from the ultimate price charged to customers. Many firms use “price optimisation” techniques and extensive data enrichment to incorporate behavioural characteristics of customers into prices, such as propensity to renew, in addition to reflecting variation in risk.

Recent increase of regulatory, government and media bodies scrutiny on the pricing practises in retail General Insurance, in particular Motor and Home, have resulted in a number of new consumer protection measures, including:

- Thematic review of pricing practices through the work of the Cost of Insurance Working Group and the joint committee on Finance, Public Expenditure and Reform, and An Taoiseach.
- Requirement for insurance firms to provide more information provided on renewal of motor insurance, including the premium paid in the previous year.
- Increasing renewal notification periods to 20 working days.
- New rules to ensure transparency of commission arrangements and CP116 (Enhanced Consumer Protection Measures).

The local regulatory focus, in common with other markets, is increasingly concerned with pricing practices from a conduct perspective. Boards are expected to be able to demonstrate that there is sufficient awareness, oversight and governance over the pricing and underwriting strategy. The requirement to treat customers fairly needs to form an integral part of corporate culture and there is an expectation on firms to deliver economic outcomes for consumers and value for money.

## Implications for firms

The CBI review of differential pricing in the Motor and Home insurance industry has been underway for a number of months, reflecting the fact that the topic is a long-standing industry issue.

The scope set out for this review provides some important insights into the CBI's thinking on their expectations in relation to pricing, including on pricing strategy, governance, control and oversight.

### These include:

- The Board oversight and challenge of the pricing strategy, process, data, models and assumptions.
- Consideration of the customer impact when making pricing decisions and that value for money checks continue to be met.
- The oversight and governance structure in place for monitoring firms adherence to the 2012 Consumer Protection Code in their pricing practices.
- The impact of pricing on different customer segments with particular focus on long-standing or vulnerable customers e.g. the appropriateness of new business vs. renewal pricing corridor.

## 5 key areas to consider

Firms should be continuing to take steps to improve pricing practices with particular emphasis on:

### The development of a clear pricing strategy

The pricing strategy should be considered within the overall customer strategy and regulatory expectations. A definition of value is required, with an associated risk appetite framework to enable ongoing monitoring of the extent to which the value offered to customers is understood. This needs Board oversight and challenge and must consider the business model implications of alternative approaches.

### Consideration of fair pricing on different customer segments

Firms should have the ability to identify vulnerable customers and ensure that they are not exploiting such groups or customer inelasticity. Price optimisation algorithms need to be monitored to avoid unintended outcomes, for example where inelasticity is being exploited by accident. Pricing actions should be explicable and there should be visibility of these actions within in conduct risk reporting.

## Fitness for purpose control cycle

The data used for pricing and its controls should be robust e.g. there should be a single source of the truth. Where price optimisation (or similar, e.g. machine learning) is used for quoting, a sufficiently robust control environment needs to be in place. The control environment needs to evolve to address key regulatory themes e.g. new business v renewal, closed product v comparable open products, etc.

## Are value for money checks met

Profit margins need to be considered against what “value for money” means for the firm e.g.

- In aggregate?
- Where cross-subsidy exists between customers, between products, or between core products and add-ons?
- For vulnerable segments?

## Implementation of appropriate governance, control and reporting

An appropriate governance, control and reporting framework should be maintained to ensure that the agreed pricing strategy is implemented in practice. For example can you ensure adequate challenge from the 2nd line decision making frameworks and Board/ Executive Committee reporting?



## How KPMG can help you

With our combination of Actuarial, Regulatory and Risk expertise KPMG is uniquely placed to support you in the months ahead.

We can work with you to:

### Review your regulatory response

- Support meeting the requirements of the ongoing thematic review
- Reviewing your response to the Dear CEO letter in relation to pricing practices
- Reviewing the impact of potential actions on your business model

### Assess your plans in response to regulatory engagement

- Ensuring you are interpreting current regulation appropriately
- Providing insight into the CBI / Government agenda and how your peers are responding
- Helping you identify regulatory themes “coming down the tracks” and ensuring your change plans are fit for purpose

### Provide support with any of these issues

- Review of the modelling environment including appropriateness and reasonableness of the data used, and review of the pricing models including appropriateness and justification of constraints
- Ensure that Board focus is appropriate and is able to communicate with the regulator
- Support pricing strategy development and evaluation
- Review your pricing processes, controls and reporting

## Contact us



**John O'Donnell**  
Regulatory Lead –  
Director

**t:** +353 87 050 4251  
**e:** john.odonnell@kpmg.ie



**Jean Rea**  
Actuarial and Applied  
Intelligence - Director

**t:** +353 87 050 4288  
**e:** jean.rea@kpmg.ie



**Noel Garvey**  
Non Life Actuarial –  
Managing Director

**t:** +353 87 050 4122  
**e:** noel.garvey@kpmg.ie



**Aoife O'Brien**  
Non Life Actuarial –  
Associate Director

**t:** +353 87 050 4701  
**e:** aoife.obrien@kpmg.ie

**kpmg.ie**