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# Profit and Customer Outcomes – CORs & Effect

## Thoughts on the FCA General Insurance Pricing Practices Review

Simon Warsop, Aviva  
Ben Symington, Aviva

# Agenda

1. Introduction: FCA Market Study
2. The need for a review
3. Potential interventions
4. Stakeholder perspectives
5. CORs and Effects
6. Conclusion



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# Introduction

## FCA Market Study launched 31 October 2018

- “TR18/4: Pricing practices in the retail general insurance sector: Household insurance”
- Market study: How general insurance firms charge for home and motor insurance
- Citizens Advice super-complaint: long term customers overpaying



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# Introduction

## Potential interventions and CORs and Effects on Stakeholders

- New vs. Renewal pricing is a key issue we need to address
- Mitigations create winners and losers
- There will be unintended consequences



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# Citizens Advice super-complaint

**Price differentials exist – but customer behaviour plays a key role**

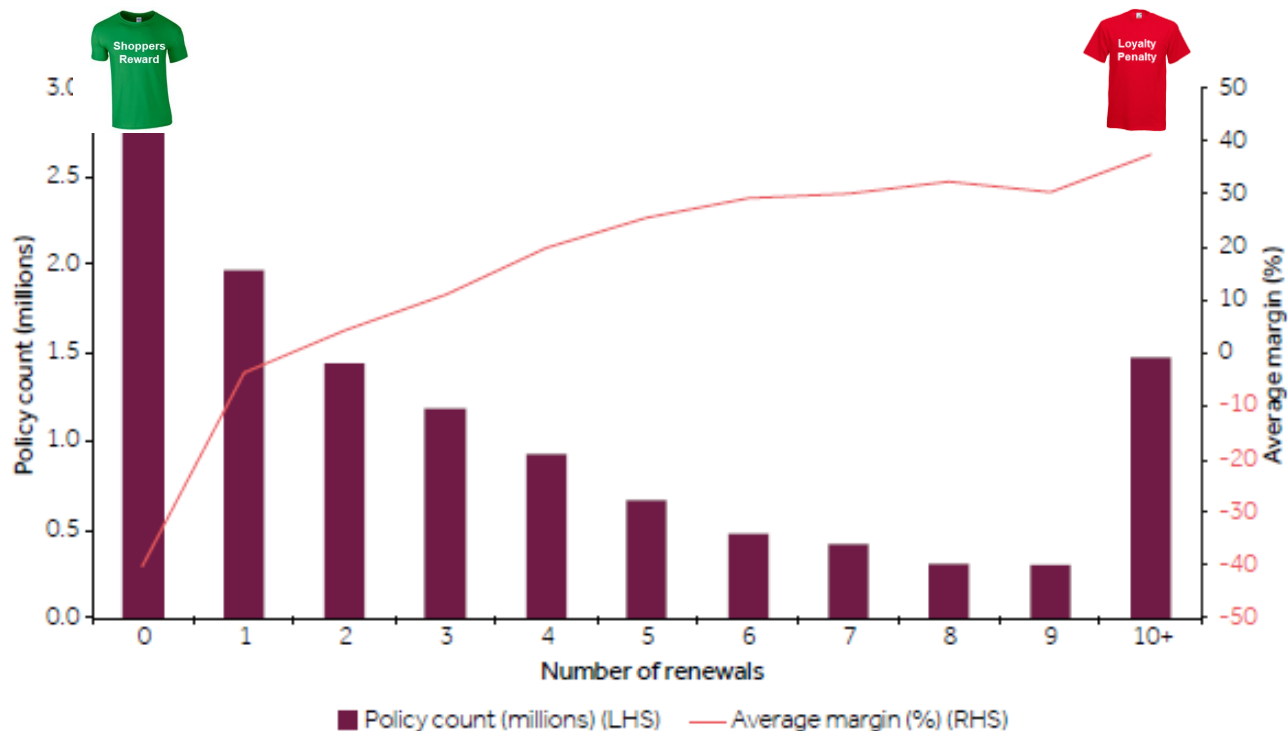
1. People don't have time to shop
2. Finding a good deal is a struggle
3. Vulnerable consumers unable to get the best deals
4. High cost of switching
5. Fear of things going wrong



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# What the FCA found in Home Insurance

Figure 1: Policy count and average margins by number of renewals



**Source:**  
**FCA's TR18/4**  
page 13



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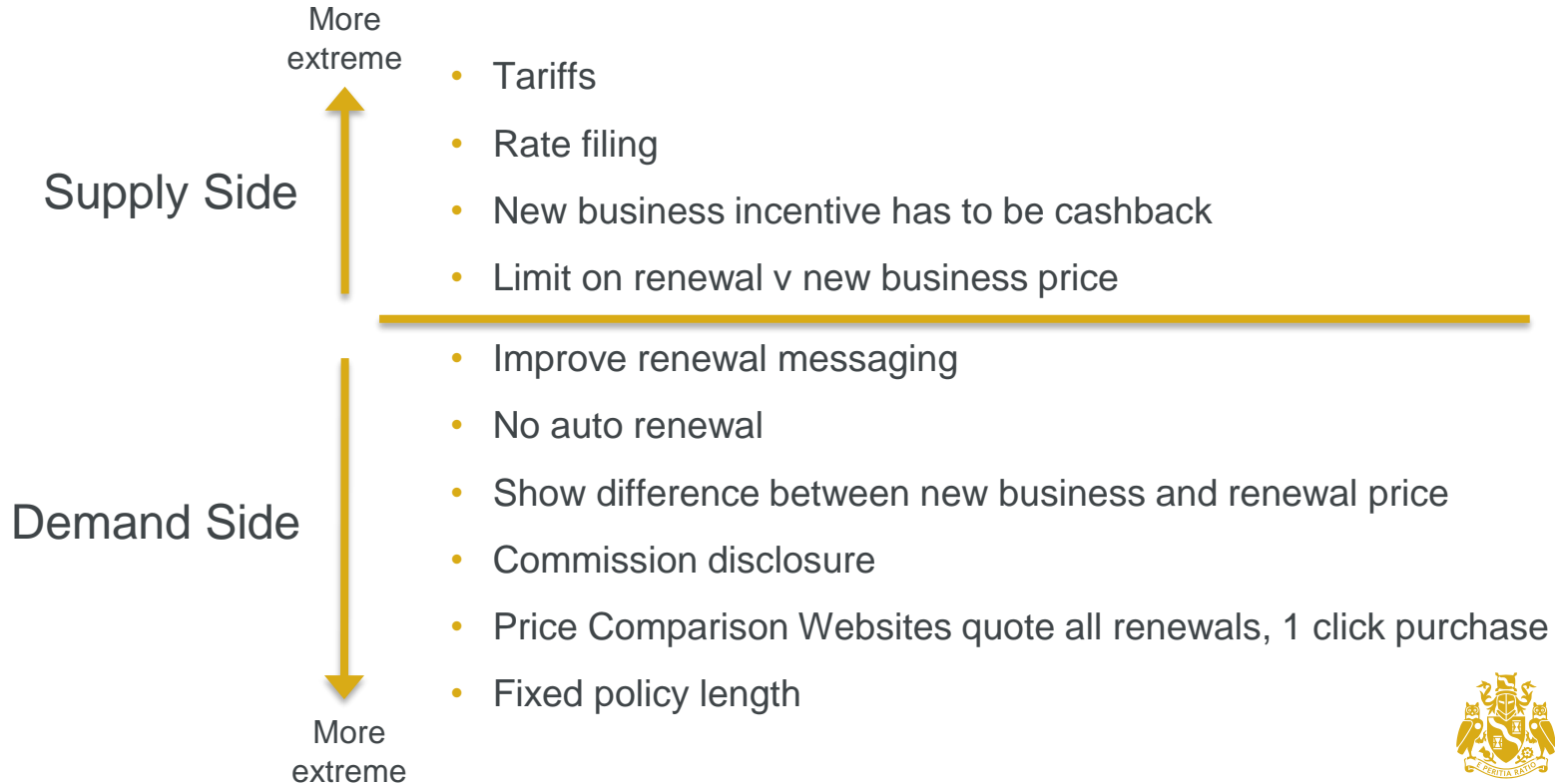
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# Some Potential Interventions



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# Stakeholders – Split the room

**Customer**

**Regulator**

**Insurer**



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# Stakeholders

## Customer

Give me great value  
Treat me fairly  
Don't make me complain

## Regulator

Protect customers  
“Easy” to supervise

## Insurer

Make money  
Happy customers  
No regulatory censure



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# Demand side: More transparency

## Appeal

- Nobody can argue with better informing customers

Except...

## Problems

- Customers overwhelmed with information
- Renewal transparency impact minimal
- Different customers want different information



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# Demand side: Force customers to...

Shop every X years

Make active decisions at renewal

But does this really work?



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# Supply side: Let's try a little price control

## Let's create a model company

- ShoppersReward Ltd has exactly the same shape portfolio as the FCA observed in the Home study!
- They have played with some price control scenarios

## Grotesquely simplifying assumptions

- Price interventions do not impact on new business volumes or retention rates
- Costs (other than acquisition costs) do not change with tenure
- Everyone at tenure 10 and beyond has same premium and margin
- ShoppersReward Ltd makes 6.9% margin on the portfolio and carries on trying to do so



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# Pricing scenario: Base case

Tenure	Count	Margin %	Ave Prem
0	2.8	-40%	£ 207
1	1.95	-4%	£ 221
2	1.45	4%	£ 239
3	1.15	10%	£ 253
4	0.95	20%	£ 276
5	0.6	25%	£ 288
6	0.5	29%	£ 297
7	0.45	30%	£ 299
8	0.3	32%	£ 304
9	0.36	30%	£ 299
10+	1.5	37%	£ 315
<b>Total</b>	<b>12.0</b>	<b>6.9%</b>	



Premiums scaled to  
give a reasonable  
average

Loyal customers:  
40% margin  
consistent with FCA  
findings



# Pricing scenario: Renewal equals New Business

Tenure	Base Case Ave Prem	Ren = NB Ave Prem	Difference
0	£ 207	£ 253	22%
1	£ 221	£ 253	14%
2	£ 239	£ 253	6%
3	£ 253	£ 253	0%
4	£ 276	£ 253	-8%
5	£ 288	£ 253	-12%
6	£ 297	£ 253	-15%
7	£ 299	£ 253	-15%
8	£ 304	£ 253	-17%
9	£ 299	£ 253	-15%
10+	£ 315	£ 253	-20%



	Ren = NB	Base
Book margin	6.9%	6.9%
Average premium	£253	£253
NB price increase	22%	



# Pricing scenario: Max New Business discount: 33%

Tenure	Base Case Ave Prem	Ren ≤ NB+50% Ave Prem	Difference
0	£ 207	£ 213	3%
1	£ 221	£ 224	1%
2	£ 239	£ 235	-2%
3	£ 253	£ 247	-2%
4	£ 276	£ 259	-6%
5	£ 288	£ 272	-6%
6	£ 297	£ 286	-4%
7	£ 299	£ 300	0%
8	£ 304	£ 315	4%
9	£ 299	£ 320	7%
10+	£ 315	£ 320	2%

Assumes 5% pa  
increase until NB + 50%



	Ren ≤ NB+50%	Base
Book margin	6.9%	6.9%
Average premium	£253	£253
NB price increase	3%	



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# Pricing Scenario: Enforced shopping every 3 years

Tenure	Base Case Ave Prem	Shop every 3 yrs Ave Prem	Difference
0	£ 207	£255	23%
1	£ 221	£281	27%
2	£ 239	£309	29%



Using 10% increases each year to reduce NB price!

	Forced shopping	Base
Book margin	6.9%	6.9%
Average premium	£276	£253
NB price increase	23%	



# Different customer flavours - The Robin Hood Effect



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# Conclusion

- Balancing the outcome for **all** is challenging
- Unintended consequences **will** result from the best of intentions
- The answer (in part) will be politically driven





# Questions

# Comments

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