

Institute and Faculty of Actuaries

Regulation Board

Steer report

Subject	Regulatory risk deep dive on GI Pricing
Regulation Board meeting	2 February 2021
Previous Board Update/Steer/Approval	This topic is on the Board's Horizon Scanning Register and has been discussed a number of times.
	The Board suggested that a deep dive on this risk will provide them with an opportunity to discuss a number of issues/developments related to GI pricing that are of regulatory interest. A detailed proposal for the scope of that deep dive was considered at its meeting on 17 November 2020.
International Issues Considered	Although this covers aspects relevant to international members, the key focus of the paper is related to UK matters.
Author	IFoA Executive
Purpose	Steer

A: Executive summary

1. The Regulation Board (the Board) Horizon Scanning Register contains a risk relating to the *'role of actuaries in pricing of GI products and related public interest issues including loyalty penalties, ethical use of data, recent FCA report on GI Home and Motor pricing practices etc.'*
2. The Board suggested that a 'deep dive' of this risk would provide an opportunity to discuss a number of issues/developments related to GI pricing that are of regulatory public interest.
3. This paper provides background information, as well as some key issues for the Board to consider. These include, the Financial Conduct Authority's (FCA) report on GI Home and Motor Pricing Practices, published on 22 September 2020 and the IFoA's response, being led by the GI Board and the IFoA Policy team, and additionally, the ongoing Actuarial Monitoring Scheme's (AMS) Thematic Review on the 'Involvement of actuaries in pricing for UK Home and Motor Insurance'.
4. Robin Finer, Head of Competition Economics at the FCA, has been invited to the meeting to provide background into the FCA's key conclusions and proposals from their GI Pricing Practices market study.

B: Introduction

5. In 2019, the Board decided to look at the ways in which it incorporates regulatory risk analysis into its work in terms of identifying and prioritising risks to the public interest which arise in connection with actuarial work.
6. To help inform the activities of the Board it was decided that there would be merit in introducing:

- i. a specific public interest focused horizon scanning register to support the identification of new and emerging regulatory risks; and
 - ii. 'deep dives' on specific risk topics to take place at each Board meeting, with experts attending from time to time to facilitate discussions and provide background information and key issues for the board to consider.
7. The Board considered the proposal at its meeting on 17 November 2020, to undertake a regulatory risk 'deep dive' on GI pricing, on issues/developments that are of regulatory public interest.
8. Those include:
 - The FCA's [report on GI Home and Motor pricing practices](#) published on 22 September 2020. The main proposals, subject to consultation are:
 - A ban on differential pricing for new and existing customers (to address "price-walking")
 - Making it easier for customers to opt out from auto-renewal (to further encourage switching)
 - Enhanced product governance, senior management responsibility and regulatory reporting to ensure proposed measures implemented appropriately.
 - The IFoA's response (being led by the GI Board and Policy Team) to the FCA's consultation on changes to its Handbook, intended to address the issues identified in the above report. The consultation closes on 25 Jan 2021.
 - The CMA's [most recent update](#) on proposals to combat issues of loyalty penalties. A further update is awaited which may be available for the Board's deep dive.
 - Outputs from the AMS thematic review on GI pricing for UK Home and Motor Insurance (expected May 2021).
 - The IFoA Policy Team's project on 'inclusive insurance' covering the issue of how inclusive insurance is, and how the insurance world has evolved and will need to evolve further to continue serving the needs of the wider public. The first of three bulletins was published in early summer, with a second due to be published shortly

C: Discussion

9. FCA's report on GI Home and Motor pricing practices

- 9.1 At the time of writing, the IFoA Policy team was finalising a draft of the IFoA's response to the FCA's consultation paper FCA CP20/19, on GI pricing practices. This consultation follows the FCA's corresponding final report on GI home and motor pricing (MS18/1.3, linked above).
- 9.2 As noted above, the FCA's proposals include a package of measures: as well a proposed restriction on home/ motor insurance renewal premiums to the equivalent new business premiums, the package of measures extends to auto-renewal, governance and reporting measures. Some of the wider 'remedies' extend beyond home and motor insurance, more widely across general insurance.
- 9.3 A draft of the IFoA response has been shared with the Regulation Board, and Board feedback has been helpful and is being factored-in to the IFoA response; an update to the Regulation Board on the consultation response will be provided separately. It is worth noting that the response has considered the FCA's proposals strictly from a public interest perspective, and assessed potential consequences of the FCA's proposals – whether unintended or otherwise.
- 9.4 The IFoA's response has also been informed by a 'mid-consultation' meeting held with the FCA in mid-January; this meeting was helpful from both FCA and IFoA perspectives.

9.5 In this meeting, the FCA explained that they were open to considering ‘tweaks’ and alternatives to their proposed remedies. They also explained that, due to the wider sensitivities relating to the ‘loyalty penalty/ price walking’, some aspects of the remedies had not been heavily ‘road-tested’ in advance. In particular, the proposed reporting measures (designed to show the effectiveness of the other remedies in the package) was an area where the FCA expected there to be ‘some wrinkles’. The current draft response highlights a number of potential concerns where we do not believe the proposed reporting metrics would meet the FCA’s objectives. Alternatives which may be more useful to the FCA have thus been proposed.

9.6 The IFoA policy team (together with expert GI volunteer practitioners) also hope to re-engage with the FCA on their pricing practices after we submit the IFoA’s formal response. *As well as our recent FCA meeting, we had provided useful but independent insight to the FCA over the period when they were developing their pricing proposals.*

9.7 We hope future engagement would identify opportunities to continue to support the FCA’s implementation of revised GI pricing practices. Clearly, this could also have a bearing on actuarial regulation.

10. IFoA Policy on ‘inclusive insurance’

10.1 Related to insurance pricing, but also taking a broader perspective on insurance outcomes is the IFoA’s policy team project on Inclusive Insurance. As suggested by the title, this project considers how inclusive insurance is, particularly against the backdrop of the fast pace of change in technology, insurance distribution and societal needs. The inclusive insurance project also considers how the insurance world will need to evolve further, to continue to, or better-serve the needs of the wider public.

10.2 The first bulletin in our inclusive insurance series was published in the summer, with the second bulletin due out shortly. This second bulletin considers the impact of technology, but also where policymaker intervention may be required to deepen inclusivity.

10.3 As with the first instalment, the second bulletin includes a wide range of actuarial and non-actuarial perspectives, including an article on the role of the IFoA’s Actuarial Monitoring Scheme.

11. AMS Thematic Review on GI Pricing

11.1 This review is covering the involvement of actuaries in the pricing of UK Home and Motor Insurance. It is based on questionnaire responses from industry participants, and consideration of existing standards and guidance, education and lifelong learning, and the wider regulatory and market environment.

11.2 The aim of the review will be to provide insight into the key areas where actuaries work in this field, and proposals as to how existing standards, guidance and wider support to our members could potentially be enhanced.

D: Conclusions

12. The Board is asked to consider whether any of the issues raised during the course of its discussion demonstrate the need for further regulatory intervention to address any perceived risks, over and above those measures already in place.

13. In particular:

- Are there any specific requirements that ought to be imposed by way of an APS (or TAS if relating to a technical issue)? If so, what might these be?
- Would non-mandatory guidance be appropriate and helpful for members in relation to any technical or ethical issues relating to these types of transfers (recognising that any technical guidance would require the consent of the FRC)?
- Are there any specific issues identified that the Board considers should be communicated to Members by way of a Risk Alert?
- Is there other educational or CPD material that could be developed to provide support to Members working in this area?
- Should a decision on whether any of those steps are appropriate await the findings of the AMS thematic review?