Institute and Faculty of Actuaries

CP15/41: Increasing transparency and engagement at renewal in general insurance markets

IFoA response to the Financial Conduct Authority

4 March 2016

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The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Institute and Faculty of Actuaries

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4 March 2016

Dear Awhi

IFoA response to FCA Consultation CP15/41: Increasing transparency and engagement at renewal in general insurance markets

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this call for inputs. Members of the IFoA who work in general insurance have contributed to this response.

General comments

2. The IFoA generally supports the recommendations of the consultation. However, there are a small number of areas where there may be some practical challenges to the implementation of the recommendations. While we have highlighted those challenges in our response, they should not detract from our support of the recommendations.

Q1: Do you agree with our proposal that firms should disclose last year's premium on renewal notices?

3. Yes. The IFoA considers that showing the previous year's premium would encourage policyholders to shop around more than is now the case. We believe this would be an improvement to current practice. Given the support for this proposal from firms and a consumer body (2.9 of the consultation paper), it would be a backward step not adding this disclosure.

4. The effectiveness of the proposal will depend on the extent to which policyholders take into account their renewal policies. If a renewal price is significantly higher than market alternatives, it is likely that the policyholder is not closely scrutinising their renewal documentation and insurance.

5. However, showing the renewal premium in comparison to the previous premium does not fully address the concerns of treating policyholders fairly. If a policyholder could obtain two different quotes from the same insurer (on-line and for renewal), there may be the possibility of confusion. However, the disclosure, even in such a scenario, would at least enable policyholders to identify how an insurer treats a renewal risk and a new risk differently.

6. By extending the scenario set out in the previous paragraph, it may be possible to ask firms to show what the premium would have been if a policyholder were a new customer. Although this would not be attractive to insurers, the provision of this information would not be difficult.

7. One alternative to the proposal would be to prevent insurers from charging less for a new risk than a renewal risk. This may appear fairer to consumers, who might expect to receive a reward, rather than a penalty, for their loyalty.

Q2: Do you agree with our proposal that the premium displayed should be the premium the consumer started the year with, but that firms can include other information, such as mid-term adjustments?

8. In an ideal scenario, there should be consistency between the previous premium quoted and the renewal premium. The insurer should reflect any mid-term adjustments in the comparison.

Q3: Do you agree with our proposal that firms should also provide information to consumers to check the proposed policy continues to meet their needs and to shop around?

9. Yes. Although this is not an actuarial issue, we agree that policyholders would benefit from the proposed information.

Q4: Do you have any comments about this additional disclosure? Do you have any suggestions for the proposed message to consumers?

10. The experience of the annuity purchase market has been that encouraging policyholders to shop around does not have a universal impact. Therefore, any message to policyholders must be simple and direct. We would emphasise that price alone should not be the sole factor for policyholders to shop around. The basic nature of insurance is to provide the appropriate cover. Consequently we would suggest alternative wording that highlights price and cover:

- "You have purchased insurance from us for the past five years. You may be able to obtain a better price, or more appropriate insurance, from a different insurance company."

11. Our wording suggests going to another insurer, as this is more direct than suggesting a policyholder should "shop around".

Q5: Do you have any comments on how the disclosure should be presented to the customer?

12. Our only comment is that the message to policyholders should be clear, without any possible ambiguity.

Q6: Do you agree with the proposal to apply the measure to all situations where a general insurance policy is renewed with a retail consumer with the exception of policies with a term of less than a year?

13. While the IFoA has no firm view on this matter, providers may find it easier to supply the same information for all policies. However, we note that certain types of policy (mobile phone

insurance as an example) renew monthly on an automatic basis. Excluding this type of contract from the proposal would be proportionate.

Q7: Do you have any comments about our proposed implementation of 1 January 2017 for the disclosure measures?

14. The implementation date is reasonable assuming there are no changes to the recommendation as set out in the consultation paper.

Q8: Do you have any comments on the proposed non-Handbook guidance?

15. The IFoA has no comments on the guidance.

Q9: Do you have any comments on our cost benefit analysis (CBA)? (Note: see Annex 2)

16. We believe that there are limitations to the impact assessment. In particular, the transfer from the insurers to the consumers may be overstated. An insurer's approach to pricing will have an aim of achieving a certain Return on Equity (RoE). This will include an assumption for the expected renewal ratio and the relative premium increases at renewal. If the only impact is that some policyholders obtain their insurance for a lower premium, insurers will face lower profitability.

17. If insurers wish to maintain their RoE target it is highly likely that insurance prices would increase accordingly. Thus, the overall transfer may be less than anticipated, but there might be a more equitable split of premiums between renewal risks and new risks.

18. In addition, there is some concern that the policyholders who would benefit most from the recommendations will still not pay any attention to their renewal documentation. Any increase in the transparency would not necessarily translate into benefit for those with most to gain.

Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours sincerely

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