

Consumer Protection Working Group - Differential Pricing Regulations - An Intermediary and Insurer Perspective

Following the completion of its Differential Pricing Review and the publication of its Final Report and Public Consultation, on 15th March 2022 the Central Bank of Ireland published the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Insurance Requirements) Regulations 2022 which apply from 1st July 2022, along with a Q&A document to be read alongside the Regulations, which have since been updated for clarifications on effective dates.

The Regulations apply to both Insurance Undertakings and Intermediaries operating in Ireland, with the price walking and annual review aspects applying to home and motor insurance only, and the automatic renewal aspects applying to all non-life insurance policies. The requirements can be broadly categorised as follows:

Price Walking Ban

The Regulation bans “price walking”, meaning that insurance providers cannot charge a year two renewal price which is more than the equivalent first renewal price. This ban is effective 1st July 2022, with the Central Bank clarifying on 6th May, that while the ban is effective 1st July, it acknowledged that since some renewal notices for policies renewing after 1st July are issued prior to the commencement date of the Regulations, there may be practical and operational difficulties with ensuring that the renewal notice, and related policy documents are compliant with the Regulations. The Central Bank has recognised that this may mean some of those policies may not fully meet the requirements of the Regulations, however confirmed that firms are expected to comply with the spirit of the Regulations in any pricing decisions made

prior to 1st July, which will impact policies renewing after that date.

From an Intermediary perspective, it’s important to note that while you might not be responsible for setting the Insurers premium, if there are other aspects of the Consumer’s premium that you are responsible for setting, you must ensure that no price walking or tenure discrimination exists on those aspects. Common examples here will include any service fees or direct debit fees you charge, discounts which you control, and add-on products where you have any control over the pricing of those products, i.e., the cost associated with that aspect should be no higher to a Consumer at a year two renewal, versus a Consumer at a year one renewal. You can find more examples in the Central Bank’s Q&A document, available on its website. In addition, the Regulation sets out specific requirements regarding how the equivalent first renewal price should be determined in relation to the channel and payment method used by the Consumer.

From an Insurance Undertaking perspective, it will be interesting to see the customer reaction to the regulations as there is a media perception that the premium for the second renewal year cannot increase, however the guidance is clear this is not the case. The impact of this perception could lead to a high level of pricing related complaints. While as noted above, the Q&A document clarifies that the regulations apply to all new policies and renewals from 1 July 2022, it acknowledges the potential practical and operational difficulties with ensuring that the renewal notice, and related policy documents are compliant with the Regulations. What’s key is that Insurance Undertakings

and Intermediaries ensure they are working to ensure they are complying with the spirit of the regulations prior to 1 July 2022. Consideration also needs to be given to policies where a customer makes changes during the term of the policy, as the new terms of the policy may mean that the second years premium is substantially different to the initial premium.

In determining the equivalent first renewal price, the Regulation clarifies that we can assume the Consumer is using the same channel that they used at the previous renewal, and that the same payment method is being used. The Regulation also provides guidance on how to handle calculations of equivalent first renewal price where the policy is in a Closed Book.

Review of Pricing Policies and Processes

Both Undertakings and Intermediaries will be required to review pricing policies and processes annually. The review must assess compliance with the requirement to not systematically discriminate against Consumers based on tenure, including ensuring price walking

does not exist, ensuring adequate controls are in place to ensure pricing models meet the requirements of the Regulation, and ensure the fair treatment of Consumers. If any deficiencies are identified by the review, these must be rectified, and written records of the review, the correction of any identified deficiencies as well as any material decisions made in relation to the pricing requirements of the Regulation should all be retained and in proper order. The review is required to be conducted within two months of year end, with the first review required by the end of February 2023.

From an Intermediary perspective, firstly it's important to remember that intermediaries are required to conduct this review as well as Insurers. If you have determined that no systematic discrimination, price walking, or unfair treatment of Consumers has occurred, it's important that your rationale for reaching that conclusion is well documented and recorded. Where you do identify and deficiencies, it's important to act quickly and effectively to correct those deficiencies (a documented plan of action will be useful), and again record all steps taken.





From both an Intermediary and Undertaking perspective, a fully auditable documented review is key to this requirement, and while it is not a requirement to submit this review to the Central Bank this may be requested at a later date. Documented policies and processes will assist in ensuring that this review is completed annually and continue to ensure that any changes do not impact on the requirement to act in the best interests of the customer.

Automatic Renewal Process

Firstly, Undertakings and Intermediaries will be required to ensure that Consumers can cancel an automatic renewal at any stage, and free of charge. Secondly, where an undertaking or intermediary proposes to automatically renew a policy with a duration of ten months or more, it must provide additional information to Consumers at least 20 working days prior to the renewal date of the policy, regarding the automatic renewal itself, cancelling the automatic renewal, how to go about this, the consequences of doing so, changes to terms, details of fee relating to the automatic renewal, and the website address of the relevant section of the CCPC and HIA (where relevant) regarding obtaining quotes.

Where the policy is of a duration of 10 months or less, the information above must be provided along with a statement that the insurance policy renews

automatically including the frequency of the automatic renewal and any end date of such automatic renewal at least once a year from the date of entry into of the insurance policy for so long as the insurance policy continues to be renewed.

For both Insurers and Intermediaries, the information requirements included above could be included in renewal notices, provided the information isn't disguised in anyway — it should be easy to find and to understand. The key message at all points in the process is to ensure transparency for the customer so they are clear in relation to their options regardless of whether they are new or existing customers. It's also important to ensure you have appropriate controls in place to allow Consumers cancel automatic renewals at any time, and free of charge. Thankfully, the Q&A document provided by the Central Bank confirms that while it expects firms to comply with the Regulation by 1st July, firms have until 1 October 2022 to have the automatic renewal requirements fully implemented.

Finally, while not included in the Regulation at this point, it's worth noting that the Central Bank will be considering the implementation of an opt in requirement for automatic renewals as part of its Consumer Protection Code review, so watch this space.