



Guiding Principles and Action Points for General Insurance Pricing¹

Introduction

There are a wide range of risk factors that can lead to a change in the premium² quoted to customers at renewal of their insurance contract. The market is also characterised by high levels of shopping around with limited barriers to switching. ABI and BIBA members recognise that certain features of the market can lead to differences between new customer premiums and subsequent renewal premiums.

Premium variation is a natural consequence of a competitive market. However, there are occasions where the differentials become marked. This is often linked to inertia and can result in poor customer outcomes. Many ABI and BIBA members are already taking action to address the impact of these extremes on long-standing customers using a variety of different methods. Given their different customer bases, business models and pricing strategies, there is no reason why all firms should adopt the same approach. By implementing these Guiding Principles and Action Points, ABI and BIBA members expect to see a marked improvement in the outcomes for long-standing customers.

Guiding Principles

These Guiding Principles are intended to provide a framework for ABI and BIBA members to commit to and from which any actions, including those in the section below, can flow:

- 1) ABI and BIBA members do not support excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.
- 2) ABI and BIBA members commit to working towards better outcomes for long-standing customers. For a stable and consistent outcome, all market participants outside of the ABI and BIBA need to make similar commitments.
- 3) We support the FCA's requirements on disclosure of last year's price at renewal. It is essential that all market participants meet these requirements in full.
- 4) ABI and BIBA members will take action so that customers' tendency to shop around at renewal is not used to lead to excessive pricing differences that unfairly penalise long-standing customers.
- 5) The ethos and approach to better outcomes for long-standing customers will be given Board or senior management level priority and formally incorporated into firms' procedures for determining the premium at renewal.

¹ These Guiding Principles and Action Points apply to personal lines general insurance products with contract terms of 10 months or longer, except pet and private health insurance products, where different market conditions mean they are not applicable.

Many pet and private health insurance products provide cover at renewal for existing medical conditions that arose since the inception of the policy. These would generally not be covered under a new policy, meaning comparisons are not valid.

² "Premium" means the price paid by the customer, inclusive of any broker commission.

Action Points

Where ABI and BIBA members have an impact on the final premium paid by customers for general insurance products they should evidence how they are taking steps to address excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers. This will vary between firms in line with their customer base, business models and pricing strategies and any actions they may already have taken.

The supporting Action Points to the Guiding Principles above include:

- 1) ABI and BIBA members should make clear in written, online or verbal customer communications that the new customer premium only applies for that year and subsequent renewal premiums may be higher.
- 2) ABI and BIBA members who impact the final premium paid by customers should review their pricing approach for customers who have been with them longer than five years and assess whether this approach delivers a fair outcome.
- 3) ABI members will actively review their customers' tendency to shop around in line with the existing ABI and BIBA Code for potentially vulnerable customers at renewal, to ensure outcomes for these customers are carefully considered against the Guiding Principles.
- 4) The ABI and BIBA will publish a report in no more than two years' time that demonstrates how ABI and BIBA members have sought to tackle excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.
- 5) The ABI and BIBA will not seek to defend cases where there are excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers.

We would welcome the Financial Conduct Authority taking this industry-led initiative into account when supervising general insurance pricing practices and in its current review into general insurance pricing.

(8 May 2018)