

BIBA Update on the Guiding Principles and Action Points for General Insurance Pricing (GPAPs), July 2020

BIBA was pleased to be part of the 2018 GPAPs initiative in partnership with the ABI with the aim of improving the outcomes for long-standing customers in respect of their home and motor insurance at renewal.

GPAPs followed on from the vulnerable customer code that BIBA and the ABI committed to in 2016. In order to inform this report BIBA asked both quantitative questions (128 replies) and qualitative (39 replies) questions to its members from April 2020 through to June 2020.

Executive Summary:

It is important to note that the vast majority of BIBA's insurance broker members are unable to influence pricing in any way. However, they are in a unique position as both agent of the client and agent of the insurer to help promote the GPAPs and act as a helpful go between at renewal in negotiating renewal terms. Responses to questions put to BIBA's members reveal interesting insight and extremely positive progress.

Promotion of GPAPs

Since its launch in 2018 BIBA has promoted and explained widely both the ethos of GPAPs and its importance to members, noting at all times that it is a voluntary agreement.

BIBA has:

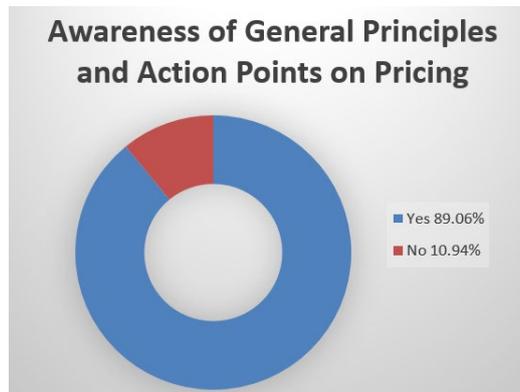
- spoken about GPAPs to many hundreds of brokers on its regional tours and compliance forums across the UK;
- committed to support GPAPs in its annual manifesto;
- provided articles and advice to members;
- discussed them within BIBA committees;
- mentioned them at BIBA's conference; and
- spoken about the content of them in the media.

Key Findings

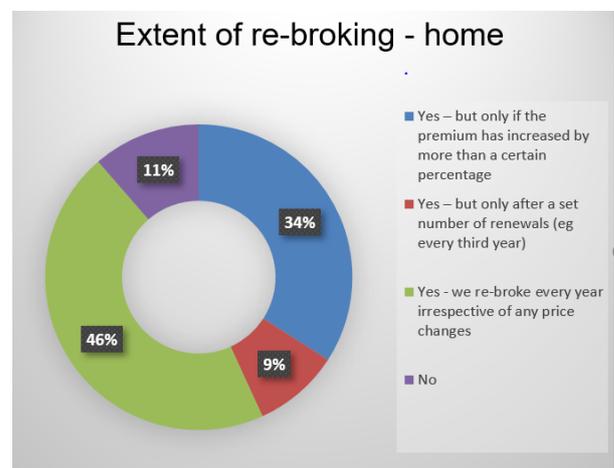
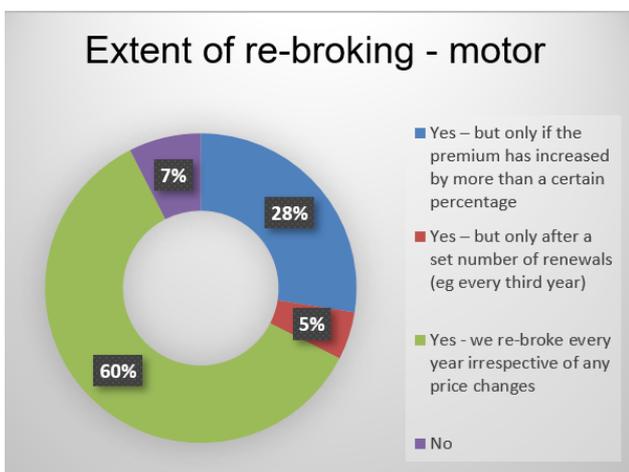
- Awareness of GPAPs within the respondents to BIBA's surveys is good - on average - an 89% awareness is reported.
- 87% of respondents have either incorporated GPAPs into their board ethos, fully implemented GPAPs into their business or intend to do it shortly. 13% who had not yet gone this far were in any case, re-broking renewals.
- Brokers reported that they did not tend to see large price swings since GPAPs was introduced and that insurers had made 'great strides' to bring new business and renewal pricing into line.
- When asked about any price capping facility they had observed, brokers were able to report they were seeing these facilities in place from some insurers.
- Many brokers also reporting they do not provide new business special offers/ dual pricing, they simply provide the system quoted premium every year.

- When brokers were asked about automatically conducting a market search, the vast majority said they either re-brokered every year irrespective of price change or if there had been an increase in the premium (for home and motor insurance).
- When asked for examples of practical implementation brokers advised systems they have adopted are often aimed at more vulnerable customers. For example, one member explained how it grouped age 75+ together to closely monitor this group and address points of vulnerability or shopping around. Broker members also reported improved visibility at board level.
- Brokers reported examples where, if a new business rate appears with the same insurer at a lower price than the renewal rate, they contact the insurer which then agrees to price match the renewal with the new business price.
- Brokers have asked their employees to treat every renewal as if it was their own and suggest options to the customer accordingly.
- Most brokers reported querying renewal premiums with insurers if the rate had increased.
- Brokers reported how keen they were to retain existing customer as a priority over seeking new business.
- Brokers also reported that if a system-generated renewal price was higher than last year, they would contact the insurer, discuss whether there was a reason for this - such as mid-term adjustment or claim - and negotiate a lower premium if possible.

Awareness of GPAPS in 2020 is 89%



Current extent of re-broking taking place 93% Motor and 89% Home



Conclusion

BIBA commitments and recommendations

- BIBA commits to continue to promote GPAPs to its members with the aim of ensuring that a customer's tendency to shop around at renewal does not lead to excessive pricing differences that unfairly penalise long-standing customers. And further that 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.
- That the FCA note the positive impact of GPAPs and recognise that an important safety net is offered through an auto renewal process which ensures compliance with motor insurance law and mortgage contractual requirements (home insurance), and therefore allow the continuation of auto renewal but consider introducing an explicit opt-in facility, in line with the approach required for optional additional policies.
- That the FCA prevents any notion of auto switching being required in general insurance because of the complex nature of insurance contracts and the risk of harm to customers.
- BIBA urges the FCA not to perpetuate the belief that price is the sole factor on which to make purchasing decisions. Focusing purely on price potentially masks the benefit of the proposition of providers that invest heavily in customer service and claims experience.
- That any cost of implementing the remedy(ies) that the FCA might consider should not erode the benefits to customers by increasing the cost to serve.
- It is not uncommon for a broker to consider the breadth of cover under a policy and the claims-paying history (likelihood) of the insurer providing the policy and determine that while a financial saving for the client may be made, it would not always be in the client's best interests to recommend a switch to the cheaper insurer at renewal as a cheaper policy may not be suitable.
- The insurance market continues to suffer from a restriction in price setting that if removed, would permit firms to offer lower prices to better reflect distribution costs. This restriction is known as 'most favoured nation clauses'. BIBA recommends the FCA and Competition and Markets Authority to outlaw these clauses.
- BIBA is of the view that the Product Oversight & Governance (POG) rules, brought in with the transposition of the Insurance Distribution Directive and supplemented by the FCA's work on general insurance distribution chains, will go some way to resolving ongoing pricing issues.

Annex 1:

GPAPS Original Guidance

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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.

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.

- 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.

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)