Society of Actuaries in Ireland

Non-Life Insurance

Amendments to the Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007

Response to Central Bank of Ireland Consultation Paper (CP 114)

February 2018

Preface

The Society of Actuaries in Ireland ("Society") is the professional body representing the actuarial profession in Ireland.

We welcome the opportunity to submit this response to the Central Bank of Ireland Consultation Paper CP 114, "Non-Life Insurance: Amendments to the Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations 2007".

We would be happy to respond to any questions on this response – please contact Philip Shier, Actuarial Manager, at Philip.Shier@actuaries.ie.

Response to consultation questions

Question 1: Do you agree that motor insurers should provide additional information to consumers on the breakdown of premiums (when a person first gets a quote for a policy as well as at renewal notice stage), setting out the element of the premium related to the mandatory motor insurance (third party) in addition to the non-mandatory element (e.g., comprehensive)? Please outline the reasons for your view.

We believe that policyholders should be provided with adequate detail to enable them to make a reasonably "like-for-like" comparison and allow them to make an informed choice at the point of sale.

We note that there is a balance between providing sufficient information to allow an informed decision and providing excessive and overly detailed information which may be confusing for current or prospective policyholders.

We think that no distinction should be made between a policyholder who is renewing his or her policy and a policyholder who is obtaining a first quotation. Some consideration may be needed as to whether policyholders who are requesting a mid-term-adjustment (MTA) also need to receive a similar breakdown. This requirement may be difficult to implement in a timely manner for such MTAs and could represent an inconvenience to policyholders who need to effect such a MTA urgently.

Our understanding is that the proposed requirement to provide a separate quote for "mandatory coverage only" is an attempt to facilitate a "like-for-like" comparison as much as is possible. We agree that this is a sensible objective but we note that achieving a consistent comparison is still fraught with difficulty.

We can envisage a number of technical difficulties in presenting a breakdown of premiums that is on a "like-for-like" basis across different insurance companies. There will remain differences in product features even for no-comprehensive cover. There will be differences in the way that insurers build their premium rates or tariffs. There will be differences in the order in which the "add-ons", such as cost loadings etc., are applied. These will affect the presentation of the result.

Another potentially confusing factor will be that the cost of the third-party element may be more expensive for non-comprehensive cover than for a fully-comprehensive cover. This is typically due to the difference in average claims experience in these two cohorts. This is clearly counter-intuitive and will be confusing for policyholders.

We note that there is a risk that the provision of a separate "quote" for the mandatory third-party-only cover may encourage more policyholders to elect to take that type of cover. This may not be a desirable outcome from a public policy perspective.

The pricing of commercial fleet business involves a blend of both experience rated (based on the policyholder's loss experience) and exposure rated (based on the type of exposure(s) insured). Insurers will use different assumptions in their respective experience and exposure algorithms. Even if a breakdown could be constructed, the comparison with other insurers may not be meaningful. The level of information available to the existing insurer when providing a renewal quote would typically be richer than for other insurers providing a new business quote. This will have an impact on the credibility attached to the historic experience in the pricing process. Note that, for this business, the exposure measure is often not accurate at quotation stage (it is not unusual that the insurer is not provided with a full list of vehicles for which cover is to be provided) and the premium is subject to an adjustment with a declaration at the end of the policy term.

We suggest that the Central Bank carry out and publish an analysis of the information that consumers would be likely to receive, for a range of sample policies and covering a number of different (anonymised) insurers, so that an informed view can be reached on whether providing a breakdown of the premium into that element related to mandatory cover and the non-mandatory element is likely to help consumers to make more informed purchasing decisions.

Question 2: Is there any other formulation of the premium breakdown proposal, outlined in Question 1, that would better inform consumers on their level of cover and its cost? Please outline the reasons for your view.

We do not have a view on this at present. It is possible that the results of the analysis suggested above could be used to formulate a different, more effective approach.

Question 3: What do you consider to be an appropriate lead-in time for any necessary system changes for motor insurers to reflect the requirements for the additional breakdown in the premium make up? Please outline the reasons for your view.

The Society does not have any insight into the appropriate lead-in time for the implementation of system changes at insurance companies. However, we refer to our response to question 1 above and note that there are technical challenges to the presentation of the additional information. These challenges in presenting the breakdown consistently across product lines and between companies may present significant difficulties when developing a system implementation. Those challenges may be especially difficult for companies operating older IT system architectures and/or multiple legacy systems rather than a single operating system.

Question 4: Do you agree that the current renewal notification of a policy of motor insurance should be extended from 15 working days to 20 working days to allow motorists to compare pricing when purchasing motor insurance? Please outline the reasons for your view.

We are supportive of this proposal since it provides more time for policyholders to make a decision on their renewal.

That said, we understand from our members who work in insurance companies that most companies currently operate a process that delivers the renewal notification well in advance of the minimum 15 day notification period. Therefore, across the market as a whole, it seems unlikely that extending the minimum notification period to 20 days will have a significant impact on policyholder behaviour.

Question 5: What do you consider to be an appropriate lead-in time for any necessary system changes for the application of this increased timeframe? Please outline the reasons for your view.

The Society does not have any insight into the appropriate lead-in time for the implementation of system changes at insurance companies.

Question 6: Please provide your views on extending the current renewal notification from 15 working days to 20 working days for all other classes of non-life insurance that fall within scope of S.I. No. 74. Please outline the reasons for your view.

We are supportive of this proposal since it provides more time for policyholders to make a decision on their renewal.

That said, we understand from our members who work in insurance companies that most companies currently operate a process that delivers the renewal notification well in advance of the minimum 15 day notification period. Therefore, across the market as a whole, it seems unlikely that extending the minimum notification period to 20 days will have a significant impact on policyholder behaviour.

Question 7: Do you believe that the lead-in time for any necessary system changes for the application of this increased timeframe should differ to any views expressed in Question 5? Please outline the reasons for your view.

The Society does not have any insight into the appropriate lead-in time for the implementation of system changes at insurance companies.

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