General Insurance Pricing Practices Market Study Interim Report

Annex 3: International Comparisons

October 2019

1 Introduction

Background

1. As part of the General Insurance Pricing Practices Market Study, we looked at home and motor insurance markets in other countries. The aim of this work was to understand how general insurance pricing practices in other countries differ to the UK, as well as how this impacts on competition and consumer outcomes. This will help to inform our analysis of potential remedies.

2. Within this annex, we set out the findings of our international comparisons work. This includes a review of regulation relating to general insurance pricing in other countries. It also looks at the wider market context, including differences in how general insurance products are distributed, the types of contracts that are available, and broader interventions that may have impacted on insurers' pricing practices.

3. While the findings from our international comparisons work will be used to inform our analysis of potential remedies, we must inevitably be cautious when drawing conclusions from other countries. This is because factors such as the market structure, cultural and social norms, as well as the economic climate vary considerably. Therefore, any interventions must be considered within the context of that particular jurisdiction.

Our Approach

4. In selecting countries to include in our international comparisons work, we focussed on the following three areas:
   - The types of home and motor insurance products available to consumers. This includes differences in contract features – for example, the typical duration of a contract.
   - The current regulatory system, in particular any regulation specific to the pricing of home and motor insurance products, and how this impacts on competition and consumer outcomes.
   - Recent interventions to address concerns relating to consumer outcomes in the home and motor insurance markets. For example, interventions to improve the transparency of pricing or encourage switching behaviour.

5. Based on this information, we selected the following countries to include in this review: Australia, Belgium, Denmark, Hungary, Ireland, Italy, Switzerland, and the United States.

6. To inform our analysis, we contacted the relevant regulator(s) in the jurisdiction concerned and conducted desk-based research of publicly available data and information. There are some exceptions to this – for example, in the case of the US, we contacted the National Association of Insurance Commissioners, a standard-setting and regulatory support organisation, rather than individual state regulators.

7. We are very grateful for the assistance provided by the following organisations in informing our international comparisons work:

- Australia – Australian Securities and Investments Commission (ASIC), Australian Competition and Consumer Commission (ACCC)
- Belgium – Financial Services and Markets Authority (FSMA)
- Denmark – Danish Financial Supervisory Authority (Finanstilsynet), Danish Competition and Consumer Authority
- Hungary – Hungarian Competition Authority (Gazdasági Versenyhivatal, GVH)
- Ireland – Central Bank of Ireland
- Italy – Italian Institute for the Supervision of Insurance (Istituto per la Vigilanza sulle Assicurazioni, IVASS)
- Switzerland – Swiss Financial Market Supervisory Authority (FINMA)
- United States – National Association of Insurance Commissioners (NAIC)

8. We would also like to thank the European Insurance and Occupational Pensions Authority for their assistance in suggesting countries to include in this review.

2 Market overview

9. The UK general insurance market is one of the largest in the world. According to data published by the OECD, the UK market was the 4th largest in terms of gross premiums in 2017 after the US, Germany, and France.

10. Table 1 shows this information in euros for each of the countries reviewed, reflecting the broad range of markets covered in terms of size. Note that the definition used here differs to that in the interim market study report because it includes products in addition to home and motor insurance, such as business insurance.

Table 1: Non-life insurance gross premiums (euros, billions) in 2017

UK	*Australia*	*Belgium*	*Denmark*	*Hungary*	*Ireland*	*Italy*	*Switzerland*	*US*
86	*27*	*12*	*9*	*2*	*7*	*33*	*25*	*1,177*

Gross premiums for each country (including the UK) are shown in euros as this is how it is reported by the OECD.

11. The largest market in this review, the US, is regulated at a state level. This review will primarily focus on California and New York – two of the largest states in terms of gross premiums. This will enable a comparison of regulatory landscapes and consumer outcomes between states, whilst not going beyond the scope of this review.

Premium trends

12. According to data published by Insurance Europe in 2018, the UK general insurance market is characterised by relatively high premiums compared to other European countries.[1] However, due to the varying nature of risks between countries (for example, due to differences in the likelihood of certain catastrophic events), as well as the broad range of economic factors involved, it is difficult to make meaningful comparisons between average premiums in different countries.

13. It is notable though that there have been concerns in several countries about the increasing cost of insurance. For example, the Department of Finance in Ireland published a Report on the Cost of Motor Insurance in 2017, which investigated the factors that had led to a dramatic increase in motor insurance premiums. Similar concerns have also been raised in other European countries in recent years, including Hungary and Italy.

14. In the US, consumer bodies, such as the Consumer Federation of America, have also raised concerns about the rising costs of motor insurance in some states. For example, in New York the average motor insurance premium is $805, having increased considerably in recent decades. In comparison, the average motor insurance premium in California is just $490 and has remained relatively stable. These variations could be due to several factors, such as differences in the regulatory landscape, or differences in claims and expenditure costs.

15. In Australia, an increase in the cost of home insurance has been on the radar of the competition regulator. In particular, concerns have been raised about affordability for consumers living in certain areas, such as Northern Australia. The North Australia Insurance Inquiry identified that increasing premiums were largely due to unusual

[1] Of the 29 countries included, the UK had the 8th highest motor insurance premiums and the 4th highest property insurance premiums (see pg. 24 and 26).

market dynamics. For example, it identified that insurers were not actively trying to win market share in some areas, which was resulting in 'soft competition'.

16. Following concerns about increases in premiums, several regulators have taken action in an attempt to support and protect affected consumers. These interventions are outlined in the final section of this annex.

Competition indicators

17. A competitive general insurance market can result in lower premiums for consumers, as well as a wider range of products for them to choose from. There are several indicators that reflect the level of competition in a market. Below we compare how two of these indicators, market concentration and profitability, compare for the UK with other countries.

18. Market concentration looks at the number of firms in a market and their respective shares. In the UK, the home and motor insurance markets are not highly concentrated, with the top five countries accounting for 48% and 57% of these markets, respectively. In contrast, the Australian Government Productivity Commission have expressed concerns about high market concentration in both the home and motor insurance markets, with the four largest insurers holding a combined share of over 70%.

19. Some of the European countries in this review for which we could source data are more similar to the UK in terms of market concentration. For example, data published by the Swiss Insurance Association indicates that the five largest insurers in Switzerland have a combined market share of below 50%. In Italy, the five largest insurers account for 51% of the market according to data published by PwC.

20. Data published by the NAIC indicates that market concentration in the US varies considerably by state. For example, for motor insurance the market concentration in New York is higher than in California, whereas for home insurance the reverse is true although the difference is less significant.

21. The profitability of an insurance market can be measured using combined ratios. A report published by the International Association of Insurance Supervisors (IAIS) in 2017 indicates that the combined ratios for Australia and Europe were lower than the UK, indicating that these markets were more profitable. However, this was not true for all countries within Europe – for example, combined ratios for Belgium and Italy were comparable to the UK.

22. For the US, the combined ratio reported by the IAIS was slightly higher than the UK, indicating that the market was less profitable. However, the relatively high combined ratio for the US was largely attributed to a high frequency of catastrophic events and so may not reflect the level of competition in the market.

23. In summary, these indicators suggest that the UK general insurance market is relatively competitive. However, these indicators can be influenced by a range of factors, so there may be reasons other than the level of competition that can explain these differences. These should be considered when drawing any conclusions from the data.

Distribution channels

24. The ways by which consumers buy general insurance products differ between countries and can affect the competition dynamic. In the UK, a relatively high proportion of home and motor insurance policies are sold online. In comparison, the proportion of general insurance policies sold online in other countries is often lower, while the use of face-to-face channels to buy insurance tends to be more common.

25. For example, agents remain a popular distribution channel in Hungary, Italy, and Switzerland. Agents act on behalf of insurance firms and may only sell products from one specific firm. In Italy, 79% of general insurance policies were sold via agents in 2017 making it the most popular channel for consumers to access these products, according to a report by PwC.

26. The composition of online sales also differs between countries. In the UK, 31% of all motor insurance policies and 13% of all home insurance policies are sold through price comparison websites (PCWs). In other countries, the use of PCWs is generally lower. However, it was highlighted as an area of growth in several countries, including Australia, Belgium, and Italy.

27. These differences can be explained by a range of factors. For example, as discussed in the previous section, market concentration in the UK is relatively low compared to some countries. Where market concentration is low, consumers may find tools that help them to compare products from a range of providers more useful. This is supported by our consumer research, which found that PCWs were one of the most common ways for UK consumers to choose to search the general insurance market.

28. Supply-side factors can also explain these differences to an extent. For example, the competition regulator in Australia highlighted that many large insurers are reluctant to engage with PCWs due to their ability to drive down prices. The option to not engage with PCWs may also be helped by the relatively high levels of concentration in the market.

29. The high prevalence of PCWs in the UK has a significant impact on how firms compete, as well as on consumer behaviour. One impact may be on the switching rate, which is relatively high in the UK compared to other countries. This may partly be explained by the fact that PCWs tend to emphasise price and the need to shop around. In contrast, face-to-face channels, such as agents, are more likely to focus on product quality and promoting customer loyalty. One reason for this is that face-to-face channels provide more of an opportunity to fully explain the benefits of one product over another.

30. In summary, there are significant differences between countries in terms of how general insurance products are distributed. These differences are likely to be driven by a range of supply-side and demand-side factors. The relatively high proportion of policies sold online in the UK is likely to impact on insurers' pricing strategies, as well as the effectiveness of any interventions in the market. Therefore, we must consider these differences when reviewing interventions used in other jurisdictions.

3 Contract features

31. The types of general insurance contracts that are offered by insurers can also impact on their pricing strategies, as well as on consumer behaviour. Two key features of a contract include its length and the renewal process. There are some countries where these features differ considerably to general insurance contracts in the UK.

Contract duration

32. In the UK, contracts for home and motor insurance are typically one year in length. However, in Switzerland and Italy multi-year contracts are available. This is where the annual premium is fixed over several years. These contracts can be attractive to risk-averse consumers as they provide some certainty that the premium will not increase at renewal.

33. In Switzerland, it is common for insurers to offer multi-year contracts for both home and motor insurance. According to FINMA, they are usually between 3-5 years long, but can be up to 10 years in some cases. They are typically discounted by 5-10% when compared on an annual basis to a one-year contract. Some insurers also provide several months of cover for free in the first year.

34. While the annual premium is fixed for the duration of the contract, it usually includes a clause that allows the insurer to amend the premium under certain conditions (for example, if inflation increases above a certain level). If this clause is activated, then the consumer has the right to cancel the policy and to switch insurer if they choose to do so.

35. While multi-year contracts are still available in Switzerland, according to FINMA there has recently been a trend towards shorter contracts. This is likely to have been driven by several factors, such as: better financial education, increased price competition, and a shift towards online channels, such as PCWs, which are more likely to encourage switching.[2]

36. FINMA also emphasised that many insurers believe that there are benefits associated with longer-term consumer relationships, in particular that they are associated with customer loyalty. It is because of this, that insurers will often offer rebates to agents, as well as consumers, to incentivise the sale of multi-year insurance contracts.

37. However, the use of multi-year contracts has also been associated with negative consumer outcomes. This has been highlighted in Italy, where these types of contracts have been subject to some scrutiny in recent years. As a result, there have been several changes to the law:
    - Until 2006, home and motor insurance contracts could be up to 10 years long and consumers were unable to cancel during this period. This led to a high number of complaints from consumers unable to switch to a better deal.
    - In 2006, the law was changed allowing customers to cancel home and motor contracts annually with 60 days' notice. This effectively prohibited the traditional form of multi-year contracts for home and motor insurance.

[2] For example, the website of the Swiss insurance comparison service Moneyland suggests that consumers opt for a one-year contract as it allows them to switch insurer and take advantage of better deals when they become available. See https://www.moneyland.ch/en/car-insurance-switzerland-save-premiums-tips.

- In 2009, the law was changed to permit multi-year contracts as long as the consumer was able to cancel annually after the fifth year and was given a discount compared to a one-year policy. This was criticised by several consumer organisations, some of which argued that it led to an increase in the cost of insurance, a decline in the quality of services, and greater barriers to new entrants.
- In 2012, multi-year contracts were abolished for third party motor insurance (but not for other types of insurance). The aim of this was to increase flexibility in the market and to drive down premiums.

38. There is limited research assessing the impact that the ban on multi-year contracts for third party motor insurance has had since 2012. This is partly because there have been a range of interventions and market developments within this period and so it is difficult to separate out the effect it has had. However, according to the Italian Association of Insurance Companies (ANIA), average premiums have declined for motor insurance since 2012, in part due to the economic recession, but also due to increased competition. The increase in competition may have been driven, in part, by this ban.

39. In Belgium, the law limits the length of general insurance contracts to one year. In other countries, including the UK, there are no restrictions on contract length, but it is standard practice for insurers to only offer one-year contracts. However, for some countries, such as Ireland, where one-year contracts are the norm, some insurers have recently started to also offer multi-year contracts for home insurance.[3]

40. There is evidence to suggest that consumers may prefer multi-year contracts in some circumstances. For example, a US based study in 2013 found that when people were offered a choice between multi-year and one-year contracts, the demand for insurance increased. Furthermore, when the contracts were offered at an actuarially fair price, five times as many people opted for a multi-year contract. This finding persisted even when the cost of the multi-year contract was increased by 10%.

41. However, this study was specific to hurricane risks in the US and so the results may not be applicable to the UK general insurance market. Furthermore, a UK based study reported that the price of a multi-year contract would need to be considerably higher than a one-year contract for several reasons, such as increased capital requirements, greater uncertainty, and changes to insurers' expenses. Therefore, demand for multi-year insurance contracts is likely to be relatively low. The firms in our market study also told us that they have withdrawn offers of multi-year contracts due to poor customer uptake and because they were too difficult to price competitively.

42. In addition, the European Commission expressed concerns in its Business Sector Inquiry from 2007 about multi-year contracts having potentially negative effects on competition. It argued that these contracts can restrict access to new business and therefore act as a barrier to entry. While the report was specifically addressing the business insurance sector, this could apply to retail insurance as well.

43. In summary, it seems that while multi-year contracts can offer some stability and convenience to consumers, the growing use of digital channels, amongst other factors, has meant that more consumers are valuing the option to switch provider regularly. Furthermore, there is evidence to suggest that multi-year contracts can, in some cases, contribute to negative impacts on both competition and consumer outcomes.

[3] For example, Zurich in Ireland offers multi-year home insurance contracts of up to three years. See https://www.zurich.ie/home-insurance/multiyear/.

Automatic renewal

44. Automatic renewal (sometimes known as "tacit renewal") is where an insurance contract is extended for another year unless the consumer or the insurer explicitly objects to it. In the UK, it is common for consumers to agree to automatic renewal when they buy insurance. There is also no limit on the number of times a contract can be renewed.

45. This contrasts to the situation in Italy, where automatic renewal for third party motor insurance is banned, and for most other types of general insurance, it is limited to two years. These rules have been in place since 2005 to encourage consumers to shop around and to switch provider if a better deal is available.

46. Despite the ban on automatic renewal, insurers can still offer existing customers a new insurance contract for the following year. However, unlike in automatic renewal, the customer must actively agree to the new contract. One downside to this is that customers wishing to stay with their existing insurer may not realise that they need to act, which could inadvertently result in some customers becoming uninsured.

47. To reduce this possibility, the rules in Italy also require insurers to notify customers 30 days before their existing contract is going to expire. Furthermore, after the contract has expired, the insurer must provide cover for an additional 15 days. This gives the customer a minimum of 45 days to agree to the new contract or to switch to a new insurer.

48. In other countries, automatic renewal is generally common practice. Insurers are usually required to give a certain amount of notice before renewal, so that the customer has sufficient time to shop around. The amount of notice that insurers are required to give varies between countries – for example, 50 days in Hungary compared to 15 in Ireland (although this is currently in the process of being extended). In some US states, insurers are required to give more notice if the renewal premium is expected to increase above a certain level.

49. In our conversations with regulators in other jurisdictions, several highlighted the challenges associated with engaging consumers at renewal. A lack of engagement at the renewal stage can enable firms to offer less competitive prices to these customers. However, rather than restricting automatic renewal which can help prevent consumers from becoming uninsured, most regulators have used consumer-led interventions aimed at improving engagement. These interventions are discussed in the final section of this report.

4 Regulatory landscape

50. The regulatory landscape for general insurance differs considerably between countries, including in relation to pricing practices. This has a significant impact on firms' ability to charge customers different prices for insurance using factors that do not relate to a consumer's insurance risk. Below we set out some of the key differences between countries in terms of how insurance pricing is regulated.

Europe

51. General insurance markets have been progressively liberalised within the European Union, particularly with the formation of the Single Market in the early 1990s. This has limited the ability of regulators to control the price of insurance as, amongst other restrictions, it forbids any system that has automatic or mandatory effects on premiums.[4]

52. Liberalisation had varying effects on the cost of insurance. In Italy, rates had been too low prior to liberalisation and so many insurers increased their rates. However, it is widely accepted that, in general, liberalisation led to an increase in competition which resulted in lower premiums and a wider choice of products for consumers.

53. Another impact of liberalisation was that insurers started to use more variables to better classify risk. However, insurers in the UK had already had the freedom to set their own prices for motor insurance for some time. Therefore, relatively complex pricing models had already developed in comparison to many other European countries.

54. Despite these differences, similar concerns about the use of non-risk based factors in the pricing of general insurance have been raised in some of the other European countries in this review. As a result, some countries have introduced rules to restrict insurers' ability to use certain factors in the pricing of general insurance. Some of these examples are outlined below.

55. **Belgium**: In Belgium, legislation was introduced in 2014 requiring insurers to be able to objectively justify the price of some types of general insurance, including third party motor and home insurance. In other words, any factors that are used to price customers insurance policies differently must be linked to their underlying insurance risk. This legislation was introduced due to concerns that unlimited differentiation between consumers could result in certain groups of consumers being priced out of the market, which in turn could reduce access to basic insurance products.

56. **Switzerland**: Switzerland's regulatory system for general insurance shares similarities with other European countries, partly due to mutual recognition with the European Union. Like Belgium, there is regulation in Switzerland which states that any discrimination between customers must be legally or actuarially justified. This again implies that the use of non-risk based factors is not be allowed in the pricing of insurance.

57. **Italy**: In 2016, the Italian Code of Private Insurance was supplemented by the Competition Law. This requires firms to make sure that a new customer within the

[4] Prior to this, each country could place controls on the price of insurance. For example, in Italy insurers were only allowed to use three variables which were controlled by the Government to set prices. See Heikes, A., *The Pricing Effects of European Union Insurance* (2006).

same “bonus class” as an existing customer (which is based on the consumer’s no-claims history), should receive the same premium conditions if their risk profile is the same. This was due to concerns that consumers were being charged different prices due to non-risk based factors associated with their geographical location, such as the level of fraud in the area, and that this practice was restricting access to insurance in some areas.[5]

58. The rules in Belgium, Switzerland, and Italy should limit the use of non-risk based factors in the pricing of insurance. This should, in principle, prevent insurers in these countries from engaging in price walking strategies, where the price is increased for consumers that renew. The regulators in each of these jurisdictions were not aware of any evidence for price walking, which supports this assumption.

59. However, not only were we unable to identify any evidence for price walking in these jurisdictions, we were also unable to source any data on the differences in premiums for new and existing customers. Therefore, we do not know for certain how the rules in these countries relating to the use of non-risk based factors impact on firms’ pricing strategies and consumer outcomes.

60. Anecdotally, it has been suggested that price walking may occur to an extent even where there are rules to prevent the use of non-risk based factors in pricing. This is because these types of rules can be difficult for regulators to enforce, largely due to the relative complexity of the pricing models used in insurance, as well as the costs associated with overseeing them from a regulatory perspective.

61. On the other hand, there are several reasons why price walking may have emerged in the UK general insurance market, but not in other European countries. This could include differences in market dynamics, such as a traditionally greater use of online channels to buy insurance in the UK. It could also be partly explained by the fact that the market in the UK has been liberalised for longer and so insurers pricing models have had longer to evolve.[6]

Australia

62. The regulatory system in Australia for the pricing of general insurance also shares similarities with the UK as insurers are generally free to set prices using a range of rating factors. Historically, pricing models used by insurers in Australia have been less advanced, with, for example, fewer firms explicitly analysing renewal rates according to the Institute of Actuaries of Australia. However, most large insurers now have highly sophisticated pricing models like those used by firms in the UK.

63. Not only are there similar pricing models used by firms in Australia, but similar pricing issues have also been identified by the competition regulator. For example, the North Australia Insurance Inquiry found evidence that some insurers were charging higher prices to customers at renewal. A number of issues relating to the transparency of pricing were also identified.

64. Furthermore, the Emergency Services Levy Insurance Monitor found that some insurance companies were charging existing customers higher premiums than new customers for home insurance. This gap in prices could not be explained by differences in factors such as introductory discounts. This could mean that the differences are due to firms extracting higher margins from loyal insurance

[5] See Porrini, D., *The Italian motor insurance market, Will the recent interventions solve the old efficiency problems?* (2014).

[6] This is supported by research that suggests competition tends to lead to increased price discrimination over time. For example, see Guy Thomas, R., *Non-risk price discrimination in insurance* (2012).

customers. However, the report also added that there may be other factors which can explain the difference.

65. To address these issues, several recommendations were made to improve pricing transparency in the market. These included proposals to introduce component pricing, which is where firms are required to give consumers a breakdown of their premium, and the provision of more information about premium increases at renewal. These proposals are discussed in more detail in the final section of this annex.

United States

66. In the US, general insurance is regulated at a state level. Therefore, the degree to which pricing is regulated varies between states. In general, pricing is subject to much more stringent regulation in the US than it is in UK.

67. In most states, the law requires that general insurance rates are not excessive, inadequate, or unfairly discriminatory. According to a White Paper by the National Association of Insurance Commissioners, unfair discrimination exists if differences in price do not reflect the differences in expected losses and expenses.

68. Despite this law, there have been concerns raised in recent years that insurers are deviating from traditionally accepted standards of price setting. In fact, some consumer bodies have found evidence that existing customers are more likely to be overcharged on their insurance compared to new customers.[7] This could indicate that some insurers in some states are price walking consumers.

69. Furthermore, the Consumer Federation of America (CFA) alleged in 2015 that the insurer Allstate Property & Casualty Company (Allstate) was charging higher prices to motor insurance customers who were less likely to shop around. Subsequently, the CFA sent a letter to State Insurance Commissioners about Allstate's use of 'marketplace considerations' as a risk factor, which had no relation to consumers' level of insurance risk.

70. To address these concerns, the NAIC proposed that State Insurance Commissioners should issue bulletins to prohibit or restrict the use of non-risk based factors in the pricing of general insurance. Many State Insurance Commissioners have taken action that related to this guidance. For example, the California Insurance Commissioner issued a notice regarding unfair discrimination in 2015, which stated that any use of non-risk based factors in the pricing of general insurance is unfairly discriminatory and therefore in violation of California law.

71. Much like in several other US states, the California Insurance Commissioner systematically oversees insurers' pricing models, including the rating factors that are used. Insurers must also seek prior approval of pricing models before they can be used in California. In addition, the California Insurance Commission also seeks to constrain motor insurance premiums by requiring insurers to use three mandatory rating factors (driving record, miles driven, and years of driving experience). Each of these factors must have a greater impact on the premium than any other factors used in the pricing model.

72. There is a large body of research that supports California's approach to general insurance price regulation. For example, a report by the Consumer Federation of America in 2013 concluded that California's approach to regulation was associated

[7] For example, the Office of Public Insurance Counsel in Texas reported in 2012 that consumers staying with the same motor insurance company for 7-8 years could save an average of 14% on their premium if they were to switch provider.

with greater competition and lower insurance premiums for consumers. However, it should also be noted that others have argued that this type of model restricts insurers' ability to adapt to respond to changes in the market.

73. In contrast to the state of California, some states do not require prior approval or oversee insurers' pricing models to the same extent. This is the case in New York, where there have been several significant changes to motor insurance regulation over the past three decades:

- Prior to 1995, a 'prior approval' system was in place, meaning that insurers were required to seek approval before they could implement new pricing models.
- In 1995, a 'flex rating' system was introduced, meaning that insurers could adjust their pricing models as long as motor insurance premiums remained within a specified range.
- Then in 2001, New York reverted back to the prior approval system.
- Finally, in 2009, New York once again converted to a flex rating system.

74. The Property Casualty Insurers Association of America have reported that following the shift from a 'prior approval' to a 'flex rating' system in 1995, competition actually increased and motor insurance premiums stabilised. Furthermore, after New York reverted to the prior approval system in 2001, the opposite effect on competition and consumer outcomes was reported. This suggests that allowing insurers to set their own rates can have beneficial effects on consumer welfare.

75. In summary, there have been some reports in recent years of price walking practices in the US. This is despite a law in most states that general insurance rates must not be unfairly discriminatory, which illustrates that difficulties in preventing these types of practices. As a result, many State Insurance Commissioners have taken further action to prevent the use of non-risk based factors in the pricing of general insurance. This has been approached in various ways and it is difficult to assess the impact of these rules. States also take different approaches in overseeing changes to and the implementation of new pricing models. However, evidence as to whether more restrictive, and costly, forms of regulation are associated with better consumer outcomes, compared to systems that allow insurers to set their own rates freely, is mixed.

5 Interventions and industry measures

76. Several regulators have attempted to address consumer issues in general insurance markets with non-price specific interventions. There have been a range of interventions used or considered in an attempt to improve consumer outcomes, which have focussed on:
    - Increasing the transparency of pricing practices
    - Improving consumer engagement and understanding
    - Promoting product quality as well as price
    - Ensuring data portability and interoperability

77. These interventions can have an indirect influence on insurers' pricing strategies by changing the competition dynamic and helping consumers to make more informed choices. This can benefit consumers by helping them to find a better deal and the right product to suit their needs.

Increasing the transparency of pricing practices

78. In several of the countries included in our review, regulators have taken steps to improve the transparency of insurance pricing. By providing consumers with more information about how their premium is calculated or why it has changed, this can help them to understand whether they might benefit from shopping around.

79. **Explanation for premium increases (Ireland and Australia)**: The Cost of Insurance Working Group was set up in 2016 to examine the cost of motor insurance in Ireland. Due to a lack of pricing transparency, it recommended that insurers should provide the reasons for large premium increases at renewal.

80. Similarly, the Senate Economics References Committee in Australia highlighted the need to improve the transparency of insurance pricing in 2017. Therefore, it recommended that insurers should have to explain an increase in a premium at renewal.

81. However, due to the practical difficulties associated with providing this information, it was decided in both cases that insurers would not be required to provide this information to every individual consumer. Instead, in Ireland a protocol has been agreed to explain to consumers how premiums are usually calculated, as well as common reasons for a premium to increase. While, in Australia the proposal was updated so that insurers would only be required to provide this information if it is requested by a consumer.

82. **Component pricing (Ireland and Australia):** The Cost of Insurance Working Group also recommended that insurers provide a breakdown of the premium (both at new business and renewal) to improve transparency. It suggested that the premium could be broken down into its "mandatory" and "non-mandatory" elements, which would give consumers more clarity about the different elements that make up the price.

83. However, the Central Bank of Ireland identified several possible unintended consequences of this approach, including the potential to further confuse consumers.

Therefore, the Central Bank will instead require insurers to provide the total premium for each available policy option at renewal (i.e. comprehensive; third party, fire, and theft; and third party only) from November 2019. This aim of this is to enable consumers to make comparisons with other available products more easily.

84. The Senate Economics Refence Committee in Australia have also recommended that insurers provide consumers with a breakdown of their premium (for example, by showing the amount attributable to flood cover or taxes). However, while this proposal is being consulted on by the Australian Treasury, there is currently no accepted definition of component pricing.

85. **Publication of rating factors (Belgium):** Along with rules that require insurers to make sure that their rates are objectively justified, the FSMA also requires insurers to publish the criteria that they use to segment customers on their website. These criteria must also be specified in the insurance offer and it must be accompanied by a clear explanation of why each criterion is used.

86. According to the FSMA, insurers have made few objections to these new requirements, which have helped to improve transparency in the general insurance market in Belgium.

Improving consumer engagement and understanding

87. Some regulators have also taken steps to try to engage consumers at renewal and to improve consumers' understanding of insurance products so that they are able to make better decisions.

88. **Standardised definitions (Australia)**: In 2012, a standard definition for the term "flood" was implemented for home insurance as part of the Insurance Contract Act. This was recognised as a positive step in providing consumers with more clarity about what was included in their insurance cover.[8]

89. Since then, both the Senate and the Competition Authority have recommended that more standardised definitions are introduced for certain events (e.g. "storm"). This aim of this is to help improve consumers' understanding of different insurance products and their ability to make effective comparisons between them.

90. The Australian Treasury is currently reviewing this proposal and has acknowledged that while more definitions could benefit consumers, it could also have unintended consequences. For example, if insurers need to raise the level of insurance cover to meet the new definitions, this may result in an increase in premiums and reduce access to insurance products.

91. **Improvements to policy documents (Italy):** In Italy, there has also been a focus on improving consumer engagement in the general insurance market. Following concerns from IVASS that the structure and language used in many insurance contracts was difficult and outdated, it developed voluntary guidelines for insurance providers which have now become mandatory.

92. The guidelines state that contract information cannot exceed three pages for motor third party liability insurance. For other non-mandatory motor insurance, contracts cannot exceed five pages. In addition, IVASS has implemented a standard format and a list of key information that insurers must provide. The aim of this is to make it easier for consumer to compare policies and find key information about their policy.

[8] See *Australian Competition and Consumer Commission, North Australia Insurance Inquiry - First Interim Report* (2018) (pg. 141).

93. **Campaign periods (Hungary):** Before 2014, MTPL insurance in Hungary had a "statutory campaign period". Insurance companies could only change their prices during that period. During that week, intense press and information campaigns focused consumers' attention, raising their awareness and motivation to switch.

94. This statutory campaign period was abolished in 2014, with the aim of giving insurance companies more flexibility to react to market changes. However, the Hungarian Competition Authority (GVH) found that this has led consumers to being less motivated to switch. According to GVH, removing the statutory campaign period might have at least partly contributed to the increase in prices that started in 2014.

95. GVH have since suggested that the statutory campaign period for MTPL insurance be re-introduced to increase price competition in the market. However, this has not been adopted.[9]

96. **Automatic switching (Australia):** In March 2014, One Big Switch, a consumer network launched a campaign to help consumers access discounted home and contents insurance. The network aims to that aims to negotiate better deals on the behalf of large groups of consumers. It was reported that 81,585 members joined the campaign, which was free to access and did not come with any obligation to accept a deal. According to One Big Switch, the winner offer by Coles Insurance included a 40% discount of the standard rate of a major national insurer.

97. Existing Coles Insurance home and/or contents customers were ineligible, as were households in "high risk" flood zones. However, consumers were also encouraged to use the deal to negotiate with other insurers if they could not access the deal or did not want to switch.

Promoting product quality as well as price

98. While the price of insurance products is often an area of concern, in some countries regulators have also attempted to improve consumers' focus on the quality of products. This is particularly important in very price competitive markets, such as the UK, where insurers may "hollow out" products and services to appear more price competitive. If consumers are unaware that the low price is reflected in the quality of the product, then it may result in negative outcomes for consumers, such as a lack of coverage.

99. **Mandated standard cover (Australia):** In Australia, there is a Standard Cover Regime for general insurance products. This specifies a minimum level of coverage that an insurer must provide to the consumer. However, insurers are allowed to deviate from standard cover which should allow insurers to offer a greater variety of products.

100. The ACCC has argued that because insurers are not required to offer products that meet the Standard Cover Regime, consumers cannot rely on it as a minimum standard and so it is not meeting its purpose of helping consumers make meaningful comparisons between products.

101. Therefore, both the Senate and the ACCC have recommended that the Standard Cover Regime should be mandated to help consumers more easily compare products and to reduce the risk of under-insurance. This is currently being consulted on by the Australian Treasury.

[9] See http://www.gvh.hu/en/data/cms1036275/Piacelemzes_gepjarmuforgalmazas_javitas_kapcsolodo_biztositasi_pia.

102. **Publication of complaints (Italy):** In Italy, the regulator IVASS has used public disclosure to improve insurance companies' commitment to customer care. Since 2008, insurers have been required to report to IVASS the volume and type of complaints received every 6 months. This information has also been published on the regulator's website at a firm level since 2016, which consumers can sort and filter using a simple, interactive tool.[10]

103. According to IVASS, the service has improved consumers' ability to differentiate between insurance companies based on the quality of service provided. It has also prompted the Board of directors at several firms to address the root causes of complaints and therefore improve the level of service provided to consumers.

104. **Product quality scores (Italy):** IVASS also implemented specific corrective measures for PCWs in 2015. This followed an investigation into comparison websites which identified a number of issues, including conflicts of interest not being disclosed clearly, misleading indicators of market coverage, and comparisons based only on price. As a result, IVASS highlighted the need for comparisons to be based not only on price, but also the key features of the policy, and that these features should be presented in a standardised format.

105. According to IVASS, these measures have resulted in consumers being presented with more exhaustive information on PCWs, including more details on the differences between products. In addition, dialogue boxes are used to explain the effects of the consumer's product choices, for example on the potential for driving restrictions, with the aim to ensure that consumers select products that meet their needs.

106. **Online portals (Denmark):** IVASS is not the only regulator to have highlighted the need to improve comparison services for consumers. For example, the Danish Competition and Consumer Authority published a report on competition in the general insurance market in 2006 which made several recommendations, including the development of an online rating system to aid comparison of premiums and insurance coverage.

107. In 2012, the use of PCWs was evaluated by the authority, and the decision was made to expand www.forsikringsguiden.dk, an online portal comparing premiums and insurance coverages, in an attempt to improve consumer awareness of it. In addition, the report also proposed that the site could be developed to enable consumers to compare, in one search, several types of insurance policies, for example both home and motor insurance, to save consumers' time when shopping around. However, our understanding is that this feature was not subsequently developed.

Ensuring data portability and interoperability

108. In our conversations with regulators, the most common area of innovation highlighted was the use of telematics (or "black boxes") in the motor insurance market. This can bring a range of benefits to consumers, including premiums that more accurately reflect drivers' proficiency and better fraud detection.

109. However, the use of telematics can also limit data portability and interoperability if appropriate regulation is not in place. This can have a significant impact on consumers' ability to shop around and switch insurance providers. Therefore, several countries have taken steps to address this.

[10] This information is available at https://www.ivass.it/consumatori/reclami/index.html.

110. **Telematics (Italy):** According to IVASS, Italy has the highest penetration of telematics-based motor insurance policies that any other European country. At the end of 2016, 19% of motor insurance policies were linked to a black box, up from 11% in 2013.[11] The growth in the use of telematics is partly due to encouragement from the Government, primarily to help reduce levels of fraud.

111. Due to the high uptake of telematics-based insurance in Italy, specific legislation has been introduced to ensure that the use of this technology benefits consumers. The first rules from 2012 stated that insurers must bear the cost of black box installation, removal, and portability. The law was then updated in 2017 requiring insurers to provide a significant discount to customers if they installed a black box. It also included rules relating to the interoperability of black box devices to prevent barriers to switching. For example, by requiring that telematics data is "accessible to all parties". Further requirements relating to the portability and interoperability of telematics data are also in the process of being developed by the Ministry of Economic Development.

[11] See *Report on the activities pursued by IVASS in the year 2016* (2017) (pg. 116-117).