

Australian General Insurers Navigating Through ASIC GI Pricing Practices Reviews

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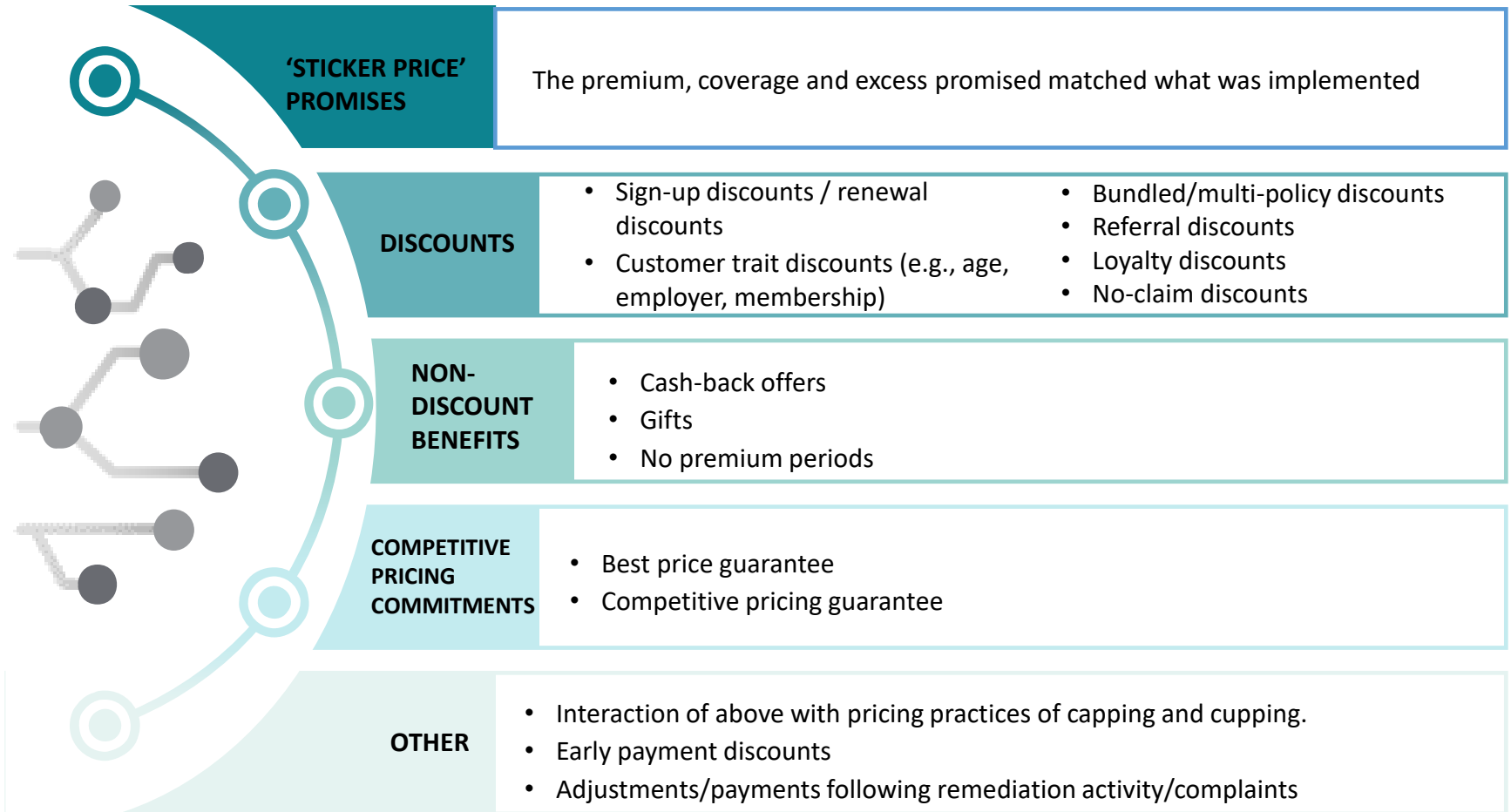
Agenda

1. What is a pricing promise?
2. How these pricing promise developments initially began
3. Launch of the ASIC pricing promises review
4. Current state of the industry from a pricing promises perspective
5. Strategies for enhancing pricing practices in the future
6. Q&A

1. What is a pricing promise?

What is a pricing promise?

Pricing promises are **representations made by insurers** to help customers save money when purchasing insurance policies, provided they meet certain eligibility requirements. **Examples** of commonly used pricing promises are:



2. How these pricing promise developments initially began



Many insurers overseas failed to deliver on their pricing promises



FCA confirms measures to protect customers from the loyalty penalty in home and motor insurance markets

Press Releases | First published: 28/05/2021 | Last updated: 28/05/2021

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The FCA has implemented a package of remedies to improve competition and protect home and motor insurance customers from loyalty penalties. This includes new rules so that renewal quotes for home and motor insurance consumers are not more expensive than they would be for new customers.

These measures address the issues identified in the FCA's September 2020 market study, which found that millions of home and motor insurance customers lose out if they renew repeatedly with their current providers. In 2018, 6 million loyal policy holders would have saved £1.2 billion had they paid the average price for their actual risk.

Many firms increase prices for existing customers each year at renewal – this is known as price walking. This means that consumers have to shop around and switch every year to avoid paying higher prices for being loyal.

It also distorts the way the market works for everyone. Many firms offer below-cost prices to attract new customers. They also use sophisticated processes to target the best deals at customers who they think will not switch in the future and will therefore pay more.

The FCA's new rules will stop firms price walking. Insurers will be required to offer renewing customers a price that is no higher than they would pay as a new customer. It is likely that firms will no longer offer unsustainably low-priced deals to some customers. However, the FCA estimates that these measures will save consumers £4.2 billion over 10 years, by removing the loyalty penalty and making the market work better.

FCA fines LBG £90 million for failures in communications for home insurance renewals between 2009 and 2017

Press Releases | First published: 08/07/2021 | Last updated: 08/07/2021

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The FCA has fined LBG (Lloyds Bank General Insurance Limited, St Andrew's Insurance Plc, Lloyds Bank Insurance Services Limited and Halifax General Insurance Services Limited) £90,688,400 for failing to ensure that language contained within millions of home insurance renewals communications was clear, fair and not misleading.

Mark Steward, Executive Director of Enforcement and Market Oversight at the FCA said:

'Firms must ensure their communications with customers are clear, fair and not misleading. LBG failed to ensure that this was the case. Millions of customers ended up receiving renewal letters that claimed customers were being quoted a competitive price which was unsubstantiated and risked serious consumer harm.'

Between January 2009 and November 2017 LBG sent nearly 9 million renewal communications to home insurance customers which included language to the effect that they were receiving a 'competitive price' at renewal. LBG did not substantiate the 'competitive price' language included in the renewal communications by taking steps to check that it was accurate. Policies were renewed in respect of approximately 87% of renewal communications containing this language.

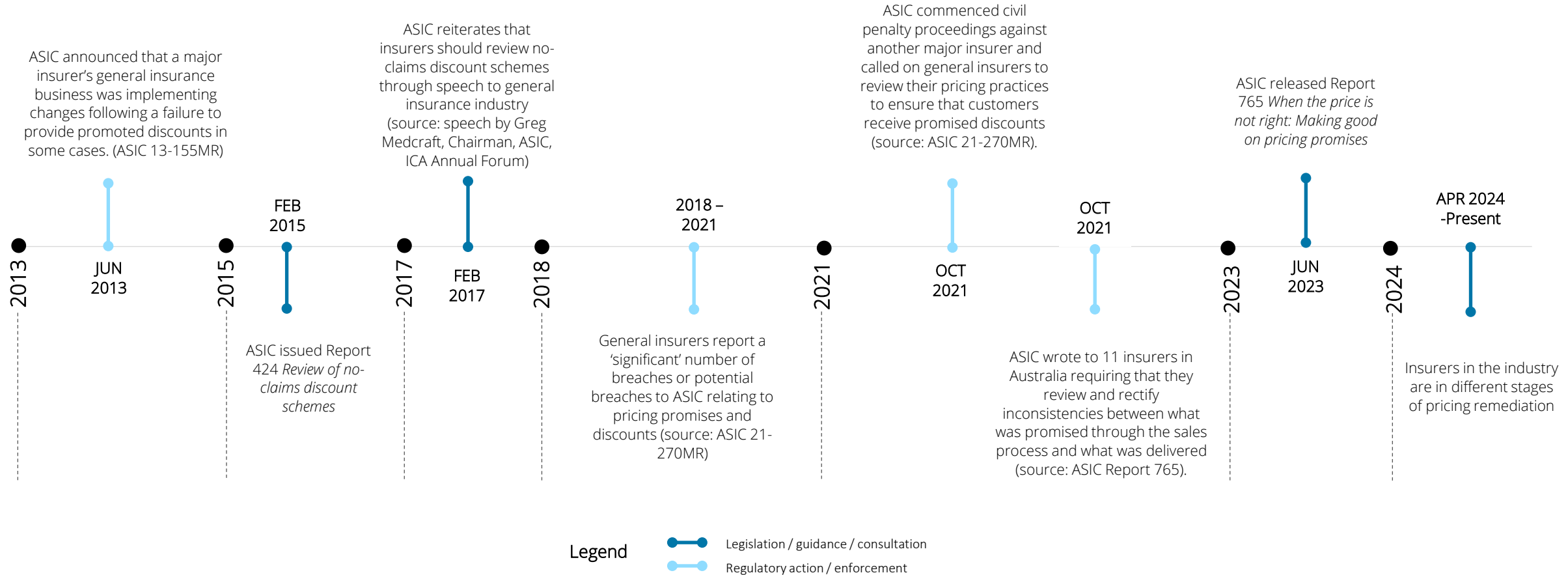
Although LBG rewrote its renewal communications and began to remove 'competitive price' wording from 2009 onwards, the language remained in a substantial number of renewals communications throughout the Relevant Period despite repeated missed opportunities to address it.

Source:
FCA confirms measures to protect customers from the loyalty penalty in home and motor insurance markets | FCA
<https://www.fca.org.uk/news/press-releases/fca-fines-lbg-90-million-failures-communications-home-insurance-renewals-2009-2017>
<https://www.theguardian.com/business/2023/sep/01/direct-line-to-pay-30m-to-overcharged-car-and-home-insurance-customers>



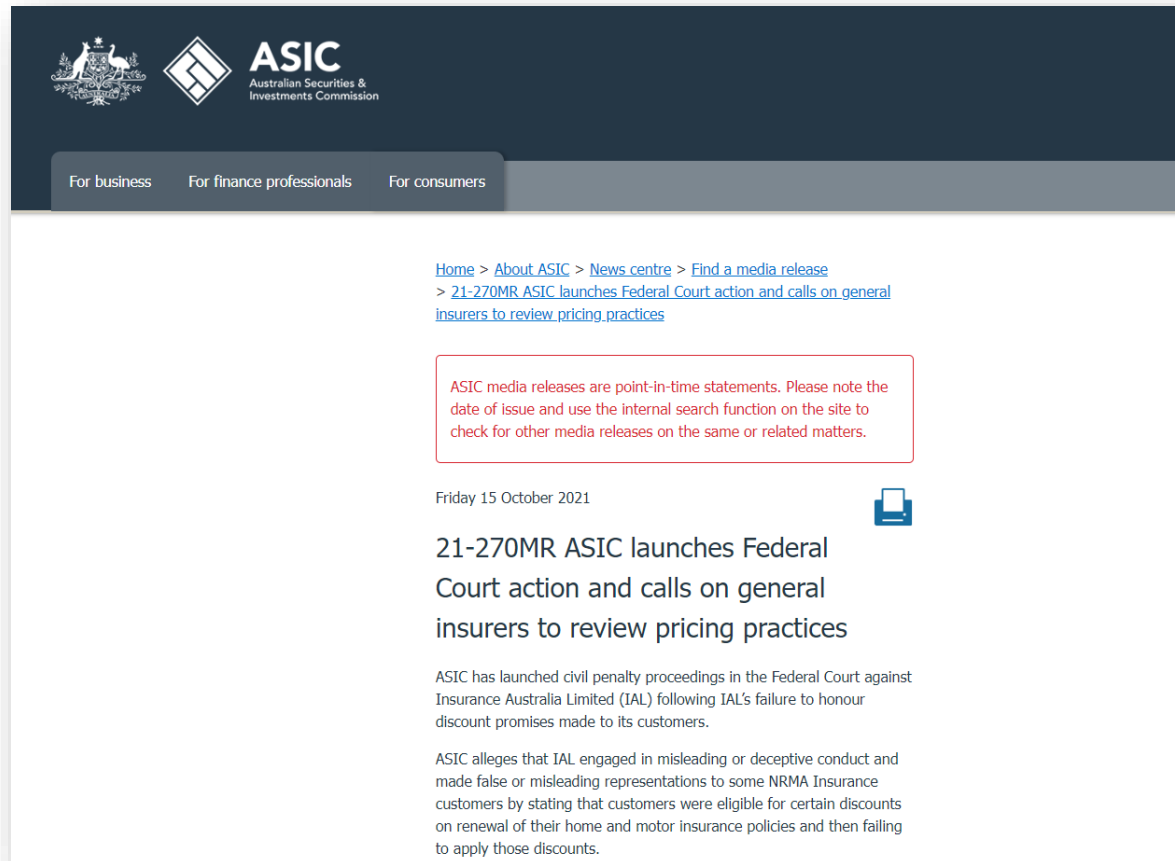
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Events leading to the ASIC Pricing Review

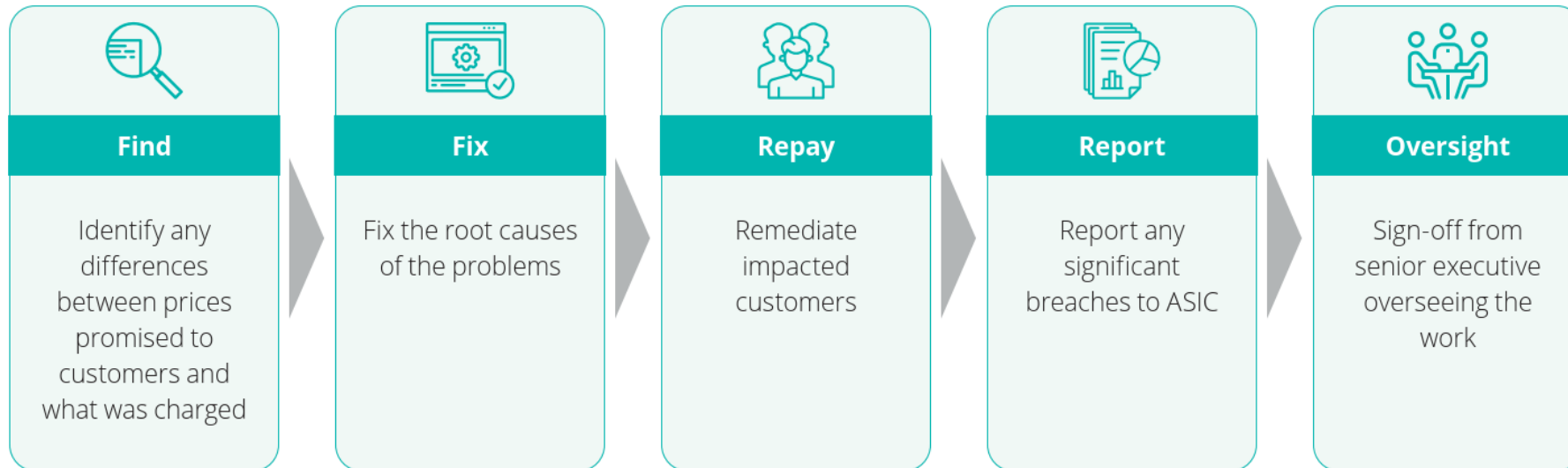


3. Launch of the ASIC pricing promises review

Launch of the ASIC pricing review



What ASIC expected insurers to do



General Insurers in the news



Daily Local Corporate Regulatory & Government Life Insurance The Professional

RACQ makes \$253 million provision for pricing remediation program

04 December 2023



RACQ says it has “fully provisioned” its pricing remediation program after the Federal Court last month found the insurer failing to deliver on premium discounts.

The \$253 million provision, disclosed in its financial results, covers refunds, taxes, and interest, as well as legal costs in court proceedings launched by the regulator.



Daily Local Corporate Regulatory & Government Life Insurance The Professional Insurance

RAA Insurance to pay \$25 million in pricing remediation

17 October 2023



RAA Insurance is to contact around 180,000 members to offer mostly small refunds in the next few months after a review found some may not have received premium discounts they were entitled to.

The SA insurer has provisioned \$25.56 million for the remediation program in its results for the year to June 30. Refunds will range from \$20 to a few hundred dollars, depending on the number and length of policies and other factors.



Daily Local Corporate Regulatory & Government Life Insurance The Professional

QBE admits pricing promises 'not fully delivered'

19 July 2022



QBE announced today the business is setting aside \$US75 million (\$110 million) in provision for a customer remediation program after an internal review found “instances” where pricing promises were not “fully delivered” to policyholders.

The insurer says it will record the pre-tax provision – to cover also for interest payable and costs for administering the program – in its first-half financial results for the six months to June. The business will provide further details and an update on the matter when its June half results are released on August 11.

QBE carried out the review after the Australian Securities and Investments Commission (ASIC) called on all general insurers to examine their pricing systems and controls to prevent consumer harm as a “matter of priority”. ASIC made the call in October last year after launching Federal Court action against IAG over its failure to honour customer discount promises.



News Markets Regulation Super M&A Tech Appointments Analysis Video Podcast ESG

HOME / REGULATION

Regulator says insurers withholding \$815m in promised savings

23 June 2023 • By Maja Garaca Djurdjevic • 4 minute read

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The corporate regulator has slammed insurers for their inaction despite the latter being aware of pricing risks.

ASIC raised this concern in a review of insurers, which unveiled an alarming trend of ongoing pricing failures resulting in insurers withholding approximately \$815 million in promised savings from customers.

BUSINESS

Suncorp among insurance giants found to have ripped off \$815 million from customers

Australian insurance companies owe customers \$815 million related to overcharging and pricing failures since 2018, the Australian Securities and Investments Commission said.

Source:

<https://7news.com.au/news/qld/racq-to-refund-up-to-500000-customers-a-share-of-220m-after-insurers-significant-error-c-7971130>
<https://www.insurancenews.com.au/daily/qbe-admits-pricing-promises-not-fully-delivered>

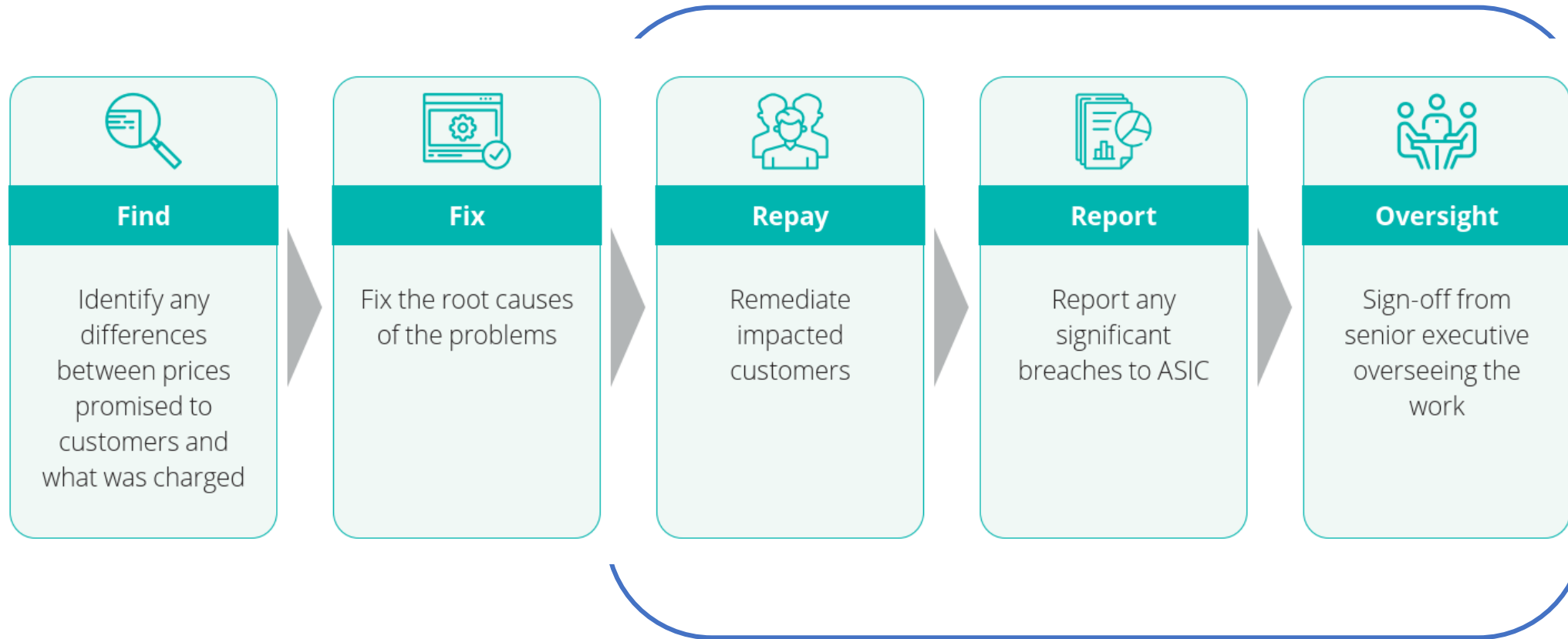


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4. Current state of the industry from a pricing promises perspective



Current State of the Industry



Insurers in the industry are in different stages of the review, with most major insurers currently in the Repay, Report and Oversight phase.



Executing Fix and Repay

The following are examples of activities conducted by various insurers for Fix and Repay

FIX

Customer Communication

Updating PDS, marketing materials, renewal schedules, call scripts etc. to align pricing

Systems

Updating systems to address any pricing limitations or issues

Pricing Algorithms

Updating algorithms to ensure discounts are applied correctly and are not unintendedly eroded (e.g. via price floors)

Customer Data / Rating tables

Updating customer data and rating tables to ensure systems and algorithms are using accurate data for pricing

REPAY

Identify Impacted Customers / Refunds

Perform calculations in line with an agreed methodology to determine impacted customers and customer detriment

Infrastructure

Infrastructure set up (e.g. email, SMS, letters) to communicate to customers on what happened and what will be done to address the issues

Issuing Payments

Issuing payments to impacted customers through cheque and electronic transfer

Post-Remediation Communication

Processes set up for handling remediation complaints, tailor-made communications and special circumstances to manage customer relations



Similar themes in New Zealand

FMA seeks penalty against AA Insurance over overcharges

According to the watchdog, AAI failed to apply multi-policy discounts, NZAA membership discounts, and guaranteed no-claims bonuses due to errors in the insurer's sales and fulfilment systems, incorrect data entry by employees, and deficiencies in policy administration systems.

Source: <https://www.insurancebusinessmag.com/nz/news/breaking-news/fma-seeks-penalty-against-aa-insurance-over-overcharges-448597.aspx>

'Inadequate controls': regulator acts on Tower policy discounts

In invoices and certificates of insurance issued by Tower, the multipolicy discount customers were entitled to as advertised was not applied, it says.

"These failures were due to fundamental flaws in Tower's IT systems and a lack of adequate controls," the FMA says.

Source: <https://www.insurancenews.com.au/corporate/inadequate-controls-regulator-acts-on-tower-policy-discounts>



5. Strategies for enhancing pricing practices in the future



Uplifts required across the value chain



PRODUCT DESIGN



RISKS

- Siloed decision making
- Inadvertent promises being made (PDS)

PROCESS & CONTROLS

- Product and process reviews

PRICING



RISKS

- Pricing algorithm inconsistency with representations

PROCESS & CONTROLS

- Appropriate checks when developing algorithm
- Automate FIND tests
- Periodic independent reviews of algorithms
- Regularly reviewed pricing emulators/calculators



Uplifts required across the value chain



CUSTOMER SERVICE

RISKS

- Customer complaints relating to pricing promises issues

PROCESS & CONTROLS

- Voice analytics, NLP to proactively identify and address pricing promise issues

ONGOING MONITORING

RISKS

- No ongoing monitoring

PROCESS & CONTROLS

- Exception reporting process
- Ongoing monitoring process with dedicated team/resources and governance structure



Q&A



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