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Opening statement

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At the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

12 November 2019

I am joined today by Gráinne McEvoy, Director of Consumer Protection, and Domhnall Cullinan, Director of Insurance Supervision.

Thank you for this opportunity to speak to you today about the Central Bank's work in regulating and supervising the Irish insurance industry and specifically the practices of differential pricing and dual pricing.

Insurance serves a critical role in the functioning of a modern society, through reducing uncertainty by protecting people and businesses against the risks of future events. Policyholders rely on insurance to provide support in the event of loss or serious accident, to plan for retirement, to enable them to confidently invest in and run their businesses and much more besides. A functioning financial services system, that sustainably serves the needs of the economy and its consumers, therefore requires fully functioning and trustworthy insurance markets and firms.

We are responsible for the prudential supervision of insurance companies and for overseeing compliance with the Central Bank's Conduct of Business Rules. We are also responsible for the supervision of conduct of business in Ireland, including consumer protection. Prudential supervision seeks to ensure that insurance firms remain solvent, that is to say, that insurers are able to pay claims in full, as they fall due. Given that claims are paid long after the premiums are set, this requires a forward looking assessment with respect to the entire business of the insurance company including its solvency.

Our risk-based supervision of insurance firms seeks to ensure that the system, as a whole, and individual firms operating within it, are, appropriately resilient. It seeks to ensure that regulated firms:

- Have sufficient financial resources (capital and liquidity), including under a plausible but severe stress;
- Have sustainable business models to enable them to operate through the economic cycle;
- Are well run, appropriately governed, have effective risk management and control functions and appropriate cultures; and
- Can recover if they get into difficulty or can be resolved without significant taxpayer support

The Consumer Protection Code 2012 which protects the interests of consumers in their dealings with insurers, is central to our conduct of business mandate. Regulated insurance firms which underwrite and sell insurance must act honestly and fairly in the best interests of both their customers and the integrity of the market. Firms must fully disclose all relevant information, including all charges, in a way that seeks to inform their customers. In particular, we expect firms to:

- Focus on delivering fair outcomes for customers and not solely on maximising shareholder return
- Ensure all consumers are treated fairly at all stages of their relationship; and that treating customers fairly is an integral part of the good governance and corporate culture of all firms.

Strengthening protections for consumers

Our prudential and conduct supervisory tools include onsite inspections, thematic reviews and regular engagement with industry including Board and senior management. Over the last two years, in particular, we have focused on mitigating potential risks to consumers from a hard Brexit scenario, and addressing cross-border emerging risks. Other core work included focusing on emerging issues such as cyber risk and recovery and resolution. Our 2018 annual performance statement specifies the work undertaken, in particular, to protect consumers from the risks of disorderly failure and inadequate reserving at certain firms.

In addition, in line with the Report of the Cost of Insurance Working Group, the Central Bank has set up the National Claims Information Database which will provide further public information about the relationship between insurance premiums and related costs.

In recent weeks, we have further strengthened protections for consumers in two key areas.

Firstly, on 1 November, the Central Bank introduced new regulations requiring insurers to provide individual policyholders with details of the premium paid for private motor insurance renewals in the previous year. This information must feature prominently on the same page as the renewal premium. Motor insurers must also now provide a quotation for each policy option available to the customer such as comprehensive, third party fire and theft cover, or third party only.

In addition, insurers must also extend the renewal notification period from 15 to 20 working days for motor, health, damage to property and general liability insurance to allow policyholders more time to seek comparison quotes.

These measures provide greater transparency to customers and will help them to make more informed decisions when purchasing motor insurance.

Secondly, in September, we introduced new rules to ensure transparency of commission arrangements between financial intermediaries (such as brokers and financial advisers), and product producers (such as banks and insurance firms), and to minimise the risk of conflicts of interest relating to commissions.

From 31 March 2020, intermediaries will be required to publish details of the commissions they receive from product producers on their website. The Central Bank will no longer permit intermediaries to describe themselves and their regulated activities as 'independent' where they accept and retain commission in circumstances where advice is provided. Free hospitality for intermediaries such as golf trips and sporting event tickets will also be prohibited under the new rules.

Insurance pricing

The Central Bank does not have a role in setting prices of insurance policies or in the approval of proposed increases in premium rates. However, insurance firms must treat customers fairly and comply with the Consumer Protection Code 2012 (The Code).

We are on record – both through our Behaviour and Culture report, in hearings with this Committee, and through numerous other channels – as to the culture we expect to see in the financial services firms we regulate, including insurance firms.

In our supervisory engagements with Chairs and chief executives of insurance firms, we drive home the message that culture is set from the top down.

Boards and senior management must ensure that firms' pricing practices are compliant with the Code. The Central Bank also requires Boards to be aware of, have oversight of and able to stand over pricing and underwriting strategies.

In 2018, the Central Bank conducted a thematic review, examining a sample of the pricing and underwriting information supplied to Boards at 12 general insurance firms. We found that two-thirds of this sample required improvement. As a result, we instructed firms to improve their oversight and governance of pricing strategies to ensure that they are subject to appropriate board challenge and scrutiny and meet the high standards required.

As with all the sectors we regulate, our assertive, risk-based supervision of insurance firms is underpinned by robust regulatory and enforcement action.

In February 2018, we directed an insurance firm to cease writing business with immediate effect and successfully applied to the High Court to appoint a provisional administrator.

In December 2018, we fined and reprimanded a leading insurance firm after finding the firm failed to establish and maintain Technical Reserves in respect of all underwriting liabilities assumed by it, failed to have administrative and accounting procedures and internal control mechanisms which are sound and adequate and failed to have robust governance arrangements.

Differential pricing

Before describing our work in the area of differential pricing in more detail, some context may first be helpful.

Differential pricing differentiates between customers on considerations other than the expected cost of claims and expenses. It describes a range of techniques that combine information about expected claims experience, customer behaviour, e.g. tendency to renew or shop around. Differential pricing techniques are being widely used across many industries, for example airlines, hotels, telecoms and on-line retail sites.

While differential pricing has been used in the insurance industry for some time, in more recent years, the tools available for differential pricing have become increasingly sophisticated with greater access to big data, more granular assessment and more accurate modelling techniques brought about by new technology. The environment is increasingly complex and the Central Bank, in common with other national competent authorities, is adjusting our supervision of insurance firms to oversee changes in pricing practices from a conduct perspective.

Dual pricing is one example of when firms seek to charge customers with similar insurance risk profiles different prices for the same or similar insurance policies.

It's important that such a practice is consistent with the need for firms to act fairly as set out in the Code.

The Central Bank Review

Our review into differential pricing will focus on motor and home insurance, as the most widely held insurance products in Ireland. It will be carried out in three phases, market analysis; quantitative analysis and consumer insight; and findings and recommendations.

The review will:

I. Seek to establish the impact of differential pricing on consumers while at the same time establishing the drivers of consumer behaviours, including how consumers engage with the insurance industry;
II. Assess the extent to which these pricing practices lead to outcomes that are consistent with the Consumer Protection Code.

A comprehensive data-gathering and analysis is essential in order to move beyond anecdotal evidence or individual case studies which, while potentially pointing to problematic practices, do not establish a comprehensive view across the industry. The consumer insight phase will include meetings with consumers to understand their experience of switching or choosing to stay with their providers.

We will shortly write to the CEOs of the relevant insurance firms setting out our terms of reference and expectations for the review, and will provide you with a copy of that letter.

We will liaise directly with the UK's Financial Conduct Authority (FCA) on the work it is doing in this area, and engage with key domestic stakeholders, including the Competition and Consumer Protection Commission, which has a competition mandate, as part of the review.

We will consider the potential range of policy responses, if any are required, once we have sufficient evidence to hand, in line with our domestic and European legislative mandates.

Conclusion

In conclusion, the Code sets out that firms must act honestly, fairly and professionally in the best interests of their customers and make full disclosure of all relevant material information.

Our review will look to establish the facts. Once the facts are established, we will then establish what action, if any, needs to be taken.

I welcome your questions.

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