Swiss Re

In collaboration with Oxbow Partners

Our survey said…

How the market has reacted to the FCA's new pricing fairness regulations

Since the FCA proposed its deceptively simple plan to fix renewal price walking back in September 2020, the UK personal lines market has been awash with speculation over exactly how and when the new rules will be implemented. In such a time of uncertainty, Oxbow Partners and Swiss Re came together to offer some much-needed clarity through our targeted survey of executives and directors at Insurance companies, Brokers, and Price Comparison firms. Our survey includes responses from senior figures at some of the biggest names in UK insurance and therefore gives a unique insight into the views of executives across the market. For ease we divided the survey into four key areas we felt warranted attention; these are Implementation, Pricing, Market Dynamics and Product Strategies. The results have revealed both agreement and disagreement among market players on different issues from an expectation that motor and home prices will increase after the rules change to disagreement as to the extent of product development pre-implementation. We hope you find the results as interesting as we do.

Key survey takeaways

- Almost 60% believe the FCA's original 4-month timescale for implementation was too short
- The new 7-month time line is still shorter than many respondents believe is required with 9–12 months a more realistic estimate for many
- Pricing is the number one area concerning insurers ahead of implementation
- Neutral effect on Motor and Home pricing before the rules come in
- 38% expect a moderate increase in motor pricing post-implementation of around 5–10%
- 67% expect increases in Home pricing after implementation potentially of more than 10%
- Long term impact on PCWs will be neutral (60%) or negative (40%)
- 75% of insurers expect a reduction in market churn with 50% expecting a small reduction of under 10%
- Customer switching expected to take 1 to 3 years to normalise after implementation
- 50% foresee a significant expansion of brands as a result of the new regulations
- 95% expect an increase in product development with the new rules in place

Charitable Giving

We would also like to thank all of those who completed the survey. This will help to provide funds to children's mental health charity Place2Be. Place2Be provides mental health support in schools through one-to-one and group counselling.

Place 2Be

Results Analysis

Implementation

One area we know has been concerning many insurers in the run up to implementation is ensuring that they have the infrastructure in place to be fully compliant with the new rules. This has several aspects to it, from orchestrating new business and renewal pricing in tandem to ongoing reporting to the FCA that the 'spirit of the rules' is being adhered to. The original 4-month time frame set out by the FCA was too short. Nearly 60% of our respondents stated that it would not be possible to implement the rules in that space of time. Indeed, during DLG's most recent earnings presentation CEO Penny James became the latest industry figure to assert that the proposed 4-month timescale set out by the FCA is simply too short for the industry to achieve.[1]

The FCA has now extended the requirement for full compliance to the end of 2021. While this gives insurers a further three months to make the required changes to their pricing systems it is worth noting that more than half of those in our survey expected it to take over 7 months to implement the new rules. What we don't know is how the FCA will manage the situation if firms are not ready by the deadline.

Of the key areas concerning insurers, 57% cited Pricing as the one which would require most effort ahead of implementation, followed by Governance (26%) and Renewals (13%).

Figure 1 – Can the new rules be implemented in 4-months?

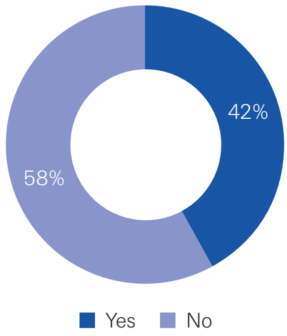
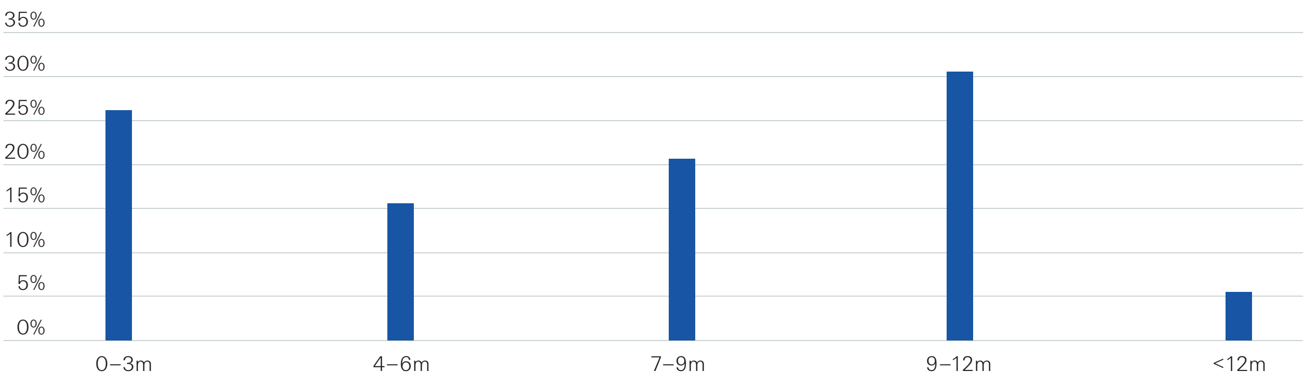


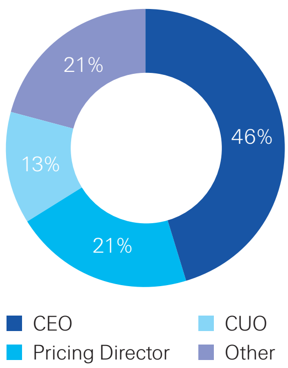
Figure 2 – The market is split on how long it will take to deliver the changes (in millions)



On the subject of Governance, while there is clearly some concern, most insurers appear confident that their management information (MI) systems are already sufficient with 62% believing they will require no extra work ahead of implementation and 33% saying that only a few add-ons will need to be built to draw out the relevant data.

As to which member of management will ultimately be responsible for attesting to the FCA that the rules have been followed, almost half of respondents expect this to be the CEO with others suggesting it could also be the Pricing Director (21%), CUO (13%) or another position. Regardless of whoever this burden falls to, they will need to be fairly confident their pricing won't come under scrutiny as no insurer will want to fall foul of the FCA.

Figure 3 – Compliance sign-off is most likely to rest on the shoulders of the CEO

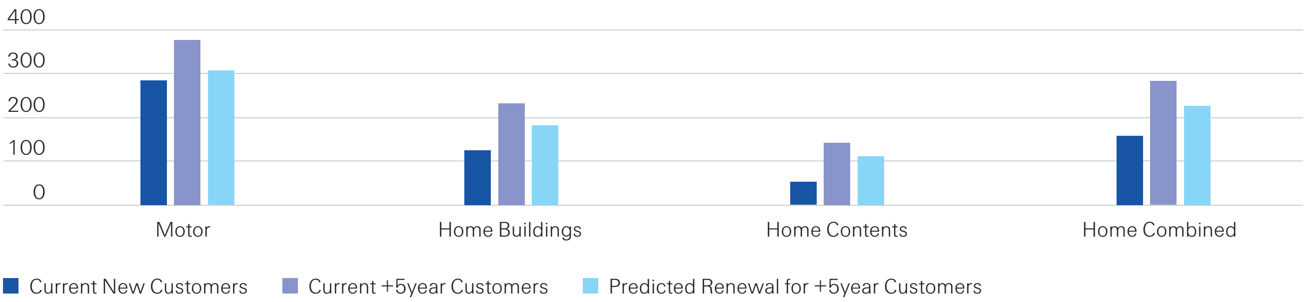


[1] DLG 2020 Full year Earning Presentation

Pricing

In its Final Report on pricing practices released back in September, the FCA's focus was on bringing renewal prices down for those who has been unfairly price walked. However, as figure 4 shows, if renewal and new business pricing must now broadly match each other, then new business prices across the motor and home markets are bound to rise.

Figure 4 – Average Motor and Home premiums[2] (GBP)

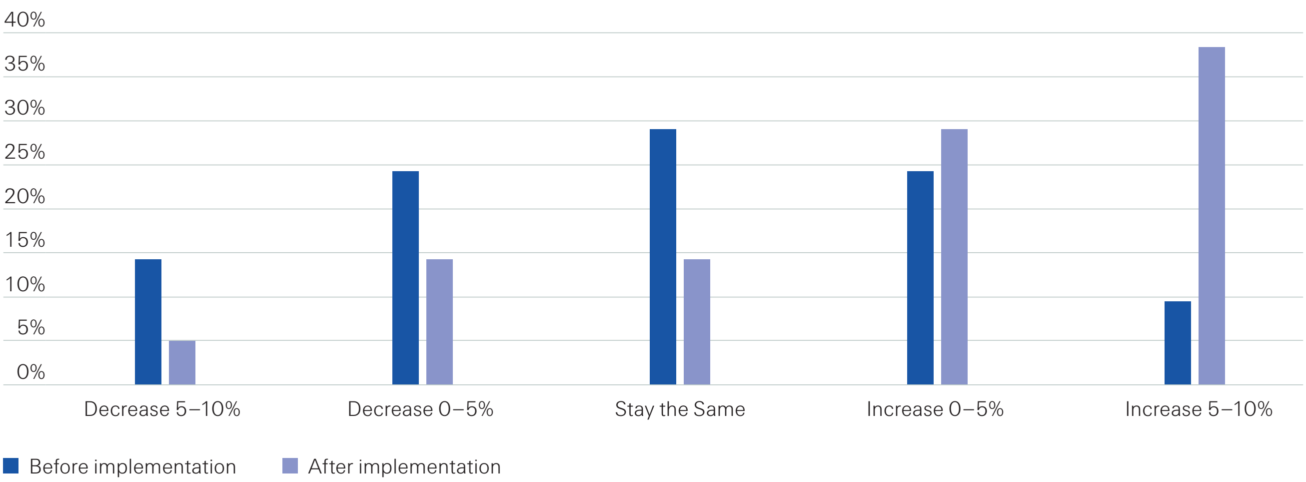


Motor Pricing

We asked our survey respondents how they believed new business prices for motor and home insurance would change before and after implementation with a distinct trend that most agreed prices would rise significantly after implementation.

Overall, respondents appear to believe that motor pricing will experience almost as much of an increase after implementation as home pricing. Prior to implementation opinion on motor pricing is evenly split with 24% expecting a decrease of 0–5%, 24% expecting an increase of 0–5% and a majority (29%) expecting no change at all. However, a clear majority (38%) believe motor pricing will rise 5–10% after implementation followed closely by 29% who expect it to rise at least 0–5%. This would suggest that the motor market was already fairly competitive on pricing and the FCA rules will actually drive up prices for many consumers which will present new challenges for insurers in terms of retention and attracting new customers.

Figure 5 – Post-implementation motor prices are expected to rise



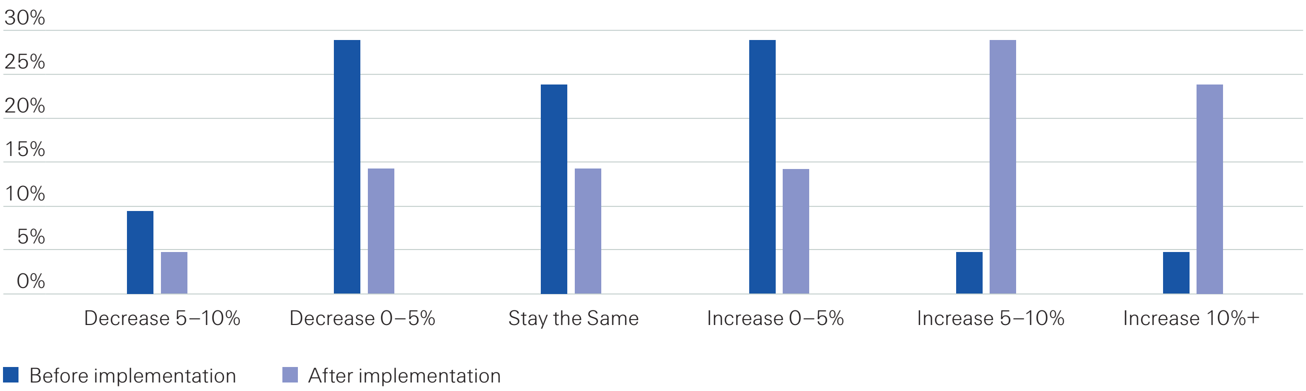
[2] Based off FCA's model of predicted reductions for 5+ year customers in FCA Final Report

Home Pricing

Similar to motor, opinion on home pricing before implementation was split with most respondents expecting a slight increase (29%) or slight decrease (29%) in pricing of around 0–5%. More importantly, opinion post-implementation leans heavily towards expectation of significant increases in prices. 67% of respondents expect home insurance prices to rise with 24% expecting rises of over 10%. If anything, it is surprising that this figure is so low as the FCA's own predictions implied that home insurance prices (for combined policies) could increase from GBP 165 to GBP 232, an increase of 41%.

This reflects the fact that price walking has been more prevalent in home insurance than motor and therefore new business prices have traditionally been more subsidised in home.

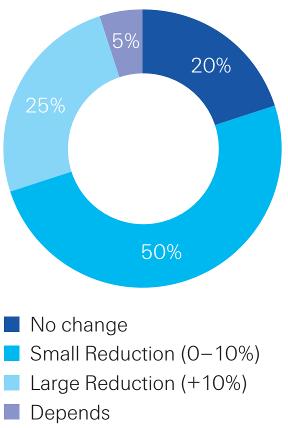
Figure 6 – Home insurance prices could see significant increases after the rule changes



Market Dynamics

With prices expected to increase across both the home and motor markets it would not be a stretch to expect that as a consequence market churn may reduce if switching becomes less attractive to consumers. When asked about this, respondents agreed that customer switching would reduce as a consequence of the new rules with 50% expecting a small reduction in churn of around 0–10% and 25% expecting a significant reduction (+10%). 90% of respondents also felt that it would take at least 1–3 years for customer switching to normalise post-implementation.

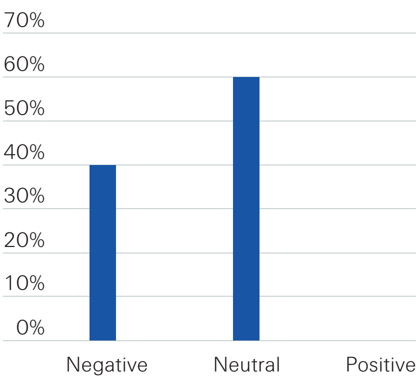
Figure 7 – 75% believe there will be a reduction in market churn



The possibility of reduced switching has led many to speculate about the regulations' long-term effect on Price Comparison Websites (PCWs). Interestingly, none of our respondents believed the FCA's rules would have a positive effect on PCWs and a majority (60%) believed the effect would neutral or negative (40%). Directionally, this would suggest there is only one way things can go for PCWs; however, from a customer perspective price comparison has become a habit they are unlikely to break any time soon. Even after the new rules come into effect the real proof of the pudding will be whether consumers see any significant change to their experience at purchase or renewal.

It could be around two years before the rules change is truly felt at a customer level and therefore the prediction that the effect on PCWs will be neutral is probably true for now.

Figure 8 – none of our respondents see the change as positive for PCWs



Product Strategy

Assuming that lower pricing differentials reduce switching in the market, it will be harder for insurers to grow and protect their existing portfolios. In response, strong brands may play a greater role in customers' decisions to purchase a particular policy. Equally, insurers may wish to differentiate brands within their business to a greater degree to allow for different pricing in different segments of the market. For example a PCW focused brand and a direct brand. We asked whether our respondents expected to see an expansion of brands in the coming years as a result of the rules change. While 30% believed this was unlikely to happen, a clear 70% did expect an expansion of brands with 50% believing this will be significant.

In order to succeed in the motor and home insurance markets once the rules change insurers are unlikely to be able to solely rely on brand recognition. The potential convergence of prices for new business could lead to customers making decisions based on the overall product value and benefits rather than simply the cheapest option. This shift may be facilitated by the PCWs who could look to compare products on value rather than price.

Figure 9 – There could be a significant expansion of brands

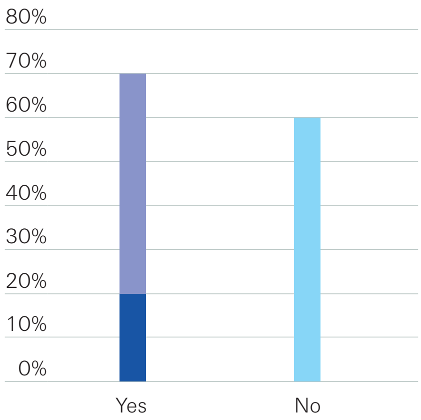
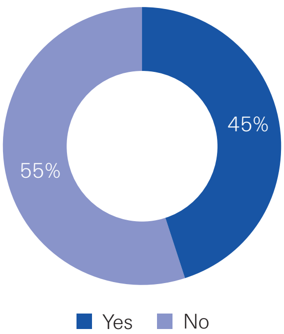
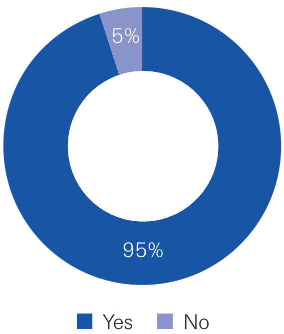


Figure 10 – Product development is set to increase significantly post-implementation

Do you expect increased product development **before** implementation?



Do you expect increased product development **after** implementation?



With this in mind, we asked our survey participants whether they expected to see increased product development from insurers either before or after the rules are implemented. The results suggest that the majority of product development will come after the rule change, with 95% of respondents expecting an increase. In contrast, only 45% believe that there will be an increase in development before the rule changes. Agility and speed of change processes will be key for insurers in order to be able to quickly react to the developments brought in by others in the market. It is clear that the product set that insurers have now is unlikely to be sufficient to meet the customer demands in the future. As we have seen in other fast-moving industries such as tech, the winners may not be the companies that come up with the best idea first but those who have the ability to react quickly and the brand strength to deliver it to customers.

The view from Oxbow Partners and Swiss Re

With the FCA's consultation on the new rules having closed in January and a policy statement expected at the end of May, this is certainly not the time for insurers to rest on their laurels. Insurers concerns on the implementation timescale have been listened to but the time line remains tight for many and ensuring you are well poised to win in the new world will be crucial.

The results of our survey suggest that there is still a broad range of opinion in the market on what the outcome will be for new business pricing, brands and product development. This in itself could cause some market dislocation once the rules are implemented. Market participants expecting price decreases and significant brand expansion could upset the status quo and take market share if others move prices up for new business customers. The question is whether the rest of the market move prices lower in response.

We hope our survey results have shed some light on how individual opinions compare to the wider market's and now there are certainly many areas for insurers to consider acting on ahead of implementation. Oxbow Partners and Swiss Re are both able to offer help to insurers before and after implementation.

Contact

Oxbow Partners is a management consultancy exclusively serving the European insurance industry. Our clients include leadership teams at the world's leading insurers, reinsurers, brokers and private equity firms.

Our consulting engagements span growth, operations, technology (including data) and M&A.
Our Market Intelligence team offers unique analysis into the UK market and global reinsurance. Magellan™ provides deep insight into the complex and quickly evolving insurance technology landscape.

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For 150+ years, Swiss Re has been on a mission to make the world more resilient. Today more than 1500 insurers worldwide collaborate with Swiss Re to build smarter solutions together. Swiss Re P&C Solutions leverages risk expertise, strong capital base and intelligent technology to help drive revenue growth, operational excellence, and innovation across the insurance value chain.

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