

Treasury Committee

Oral evidence: Insurance, HC 228

Wednesday 17 April 2024

Ordered by the House of Commons to be published on 17 April 2024.

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Members present: Dame Harriett Baldwin (Chair); Dr Thérèse Coffey; Dame Angela Eagle; Stephen Hammond; Dame Siobhan McDonagh; Anne Marie Morris.

Questions 91 - 206

Witnesses

I: Rocio Concha, Director of Policy and Advocacy, and Chief Economist, Which?; David Mendes da Costa, Principal Policy Manager, Citizens Advice.

II: Charlotte Clark, Director of Regulation, Association of British Insurers; Colm Holmes, Chief Executive Officer, Allianz.

III: Matt Brewis, Director of Insurance, Financial Conduct Authority.

Examination of witnesses

Witnesses: Rocio Concha and David Mendes da Costa.

Q91 **Chair:** Welcome to this afternoon's Treasury Committee session on insurance. We have structured it with three sessions. We are starting with consumer groups to give their views on what is going on in the insurance industry. Then we have industry coming in for the second session in about half an hour's time. Then we have the insurance side of the regulator, the FCA, to talk to us in the third panel session this afternoon.

An added complicating factor is that, during the course of this triple session, we are going to have to interrupt proceedings for four votes on the Rwanda Bill. I will suspend the Committee, but I am hoping that, by the time we get to that, we will have had time to hear from our first panel. I would like our first panel to introduce themselves, please.

Rocio Concha: I am Rocio Concha, director of policy and advocacy and chief economist at Which?



HOUSE OF COMMONS

David Mendes da Costa: I am David Mendes da Costa, principal policy manager at Citizens Advice.

Q92 **Chair:** You are both consumer representatives here this afternoon and we are going to try to talk to you for about half an hour. Are we right, as a Committee, to be concerned about what is going on with insurance premiums across the board?

Rocio Concha: Yes, absolutely, and we welcome your interest not only on the premiums but also broadly on insurance. We are seeing a big increase in prices in insurance. You are going to have the industry later and they can explain what is driving that price increase. I expect that they will say that there are increases in repairs, so their costs have increased. It is impossible for us to see what is driving the price increases, because that information is with the regulator and with the companies.

Because we are worried about these price increases, we are looking at certain products and whether the prices of those products can be justified. You have probably seen today that we publish research we have done that looks at the interest rate that some of these insurance companies are charging consumers who pay monthly for their insurance.

Q93 **Chair:** We will get on to that issue. We are right in thinking that insurance seems to be a particular issue. We have ONS data that shows that, across all insurance premiums, they are up 17% this year. Is that what you are seeing at Citizens Advice as well?

David Mendes da Costa: Yes, across the board. The clearest trend that we are seeing at Citizens Advice generally is more and more people who are unable to afford the essentials and are being priced out of essential markets. Insurance is no different to that. We regularly talk to our advisers, as you would expect, to understand what they are seeing. In 2022, we surveyed our advisers to ask them how far they are seeing clients who have had to cancel car insurance either because of rising bills or because it is unaffordable for them. It was 5% of advisers who had seen that in 2002. Last year, it was over half. We are seeing a clear rise in the number of people who are coming to us for help who are unable to afford their insurance.

To be clear, insurance really is an essential, especially when it comes to car insurance at least. People need it to drive, and they need to be able to drive in order to look for work, get to work, make hospital appointments or run their kids to school. The people who are coming to us for help often are having to make genuine impossible choices between whether to pay for their car insurance, which in some cases they are finding is unaffordable, or to put food on the table. We have had people come to us with food bank referrals because of the rising cost of insurance, or they are unable to make job applications.

Chair: We are right to think that it is an issue.



HOUSE OF COMMONS

David Mendes da Costa: Yes, absolutely.

Q94 **Chair:** The second question is around what has already been done by regulators to try to address what we thought a year ago, when we last had the industry in, was already a pretty sharp rise in premiums. One thing that had happened was this loyalty penalty that I think everyone has come across. You get your renewal and it looks like a big hike. You shop around and you get something better by shopping around. There were steps taken to try to end those kinds of loyalty penalties. Companies were told they could not charge new customers less than they were charging existing customers. Has that just had the effect of sending all premiums higher?

Rocio Concha: We do not think that that is the case. We think that that intervention was the right intervention. It is not the only intervention that we want to see to deal with this issue and I welcome the opportunity to discuss that with you. As you would expect with an intervention such as this, there is some rebalancing of the pricing of the different products and different customers, but there is no real evidence that shows that that intervention is what is driving these big increases in prices that we are seeing.

Q95 **Chair:** What do you think is driving the increases? It is a very competitive market. People can shop around. What is driving the increases?

Rocio Concha: That is a question for the industry because we do not have access to that data. It is also a question for the regulator. In some products we are seeing prices that are difficult to justify. The fact that they are facing some increases in cost does not matter. That is what I was trying to say before about this, for example when you pay monthly, which is related to affordability. The people who pay monthly for their motor or home insurance are people who have a low income. We are seeing that some insurance companies, not all, but a large part of the industry, are charging interest rates that are quite high, so, for example, up to 39% for car insurance.

Q96 **Dr Coffey:** Which ones?

Rocio Concha: We put it in the press release that we put out today and you will see that all the companies have been named.

Q97 **Dr Coffey:** What press release are you talking about?

Chair: We will get you a copy.

Rocio Concha: You have it and I have it here. I can list them. Can I finish the point for one second? Looking at the number in isolation, it does not give you a lot of insight. It is when you compare it, for example, to a credit card on the same basis.

Q98 **Chair:** You have done some very important work and we thank you for your important work on the fact that there is a penalty for paying in



HOUSE OF COMMONS

instalments from lots of providers. The premium itself has also gone up, so that was the bit I was trying to focus on. You are saying that you do not have enough sight of that to do more than observe that they have gone up.

Rocio Concha: Can I make another point, sorry? It is also whether this is a fair value. You need to look not only at the price but also at the number of complaints. We are seeing an increase in complaints. Even though you are paying a higher price, you are not getting the right service. We are seeing that, when you have the problem, you are not getting that.

Q99 **Chair:** We will definitely be asking about that as well. On this question of the loyalty penalty and premium rises, are there any other observations that you want to make?

David Mendes da Costa: I agree that it is incredibly difficult, both from the consumer's perspective and for us as consumer groups, to disentangle what is driving higher prices, be that higher premiums and the rise in premiums, or the different prices faced by different groups of people. We know that people on lower incomes tend to be charged more for their insurance, setting aside this question of annual versus monthly. Also, we see in our own data that people of colour are charged on average £250 more for their car insurance than white people.

At the moment, we think that none of this is direct discrimination. No one is collecting this data in order to do so. We think that it is indirect discrimination in the way that postcodes are treated and the way that risk is attached to it. There is no clarity on what is driving that and what risk factors or cost factors are attached to postcodes. It is really not for us or for consumers to figure that out. It is for the FCA to ask insurers to collect the data and work out what factors are driving it. Until it does that, we cannot move the conversation forward to how we solve things like the poverty premium or the ethnicity penalty, or try to work out ways to more fairly apportion risk or costs. We cannot move that forward without that data.

Q100 **Dame Angela Eagle:** By definition, insurers make sweeping generalisations about postcodes or ages in order to work out their risk factors, as anyone who has seen the cost of insuring a car for somebody under 25, wherever they live, will know. A more individualised approach, taking into account previous behaviour, claims and all of that, might be helpful when it can be done. I am sure that there is an AI tool being developed, even as we speak, to be able to do that.

My constituents and many people who write to the committee feel that insurance is becoming more of a rip-off, because the price is going up and it is harder to make a claim. People, when they make a claim, often have to wait a very long time or are not dealt with very fairly. That is particularly the case for insurance that is compulsory, such as driving insurance. Is that the kind of approach that you see at Citizens Advice?



Do people think that? We know the prices are going up, but it is trying to get a handle on how much of this is justified and how much is unjustified.

David Mendes da Costa: This is it. The people who come to us for support have no idea what is going on. They are offered the price that they are offered and have no idea what is sitting behind it. Often, they are not even going to be aware of the fact that, on the basis of where they live and their postcode, for example, they might be being charged a lot more than someone who could even just be across the road from them or a few streets down. There is not the transparency.

That lack of transparency is probably what drives the low levels of trust that we see in the sector. The FCA's financial lives survey pretty much, I think, found that insurers were bottom of the pile out of mainstream financial services in terms of levels of trust. Transparency is absolutely key to that. Consumers are not going to figure that out by themselves. This is why it really needs the FCA to come and look into what precisely the drivers are. If insurers say, "There is a lot of competition. You are getting fair value", test that and show it. The regulator needs to be able to tell a story that explains, "This is why prices are going up"—or that actually they should not have gone up so much—or, "This is why people on low incomes or people of colour are being charged more", then to say whether that is fair, and, if it is not fair, to act.

Q101 **Dame Angela Eagle:** Increasing transparency of pricing would be a reasonable thing to do, so that people can work out how much of the price is hidden commissions, such as we had in buildings insurance recently, which the FCA has picked up on. We have had the sale of credit in the motor market, which has a huge impact on the price of the final product. There has been a lot of that going on, it seems to me.

David Mendes da Costa: To some extent, more transparency is always useful. Arguably, we do not want to put more and more information in front of consumers and assume that that means people will make better decisions, especially if that information is not something that they are able to necessarily act on.

Rocio Concha: In a previous study, the FCA found that some insurance companies use up to 400 data points to calculate the premium. You cannot put that information in front of the consumer and pretend that they will be able to do something with this. A key component of the consumer duty is fair value. We need the regulator to make sure that these companies are providing a fair value for consumers. That is not only looking at price but also looking at the issues that you mentioned about, when you have a problem, what kind of service you are receiving from these companies and whether the process for claiming is fair.

Q102 **Dame Angela Eagle:** Coming on to that, there has been a huge increase, according to the Financial Ombudsman Service, in complaints about insurance, I think, with car and motorcycle insurance featuring, hire purchase for buying cars featuring and buildings insurance in there



as well. What insight can you give us on what is driving those increases in complaints?

Rocio Concha: You mentioned before that an AI tool may be developed. We are using an AI tool to look at all the decisions that the Financial Ombudsman Service has published in particular markets. We are looking at home, motor, travel and pet, because they are the usual products consumers use. We were able to look at 8,000 decisions that the Financial Ombudsman Service has published where it upheld the cases of the consumers. We found that the number of times that the insurance companies have caused additional distress to the claimers has increased since 2019. This is evidence that the process is getting worse rather than better despite increasing prices.

Q103 **Dame Angela Eagle:** When my own constituents have cause to claim on their insurance, they often come to me because of the slow and unacceptable nature of the response, even when it is a fairly open and shut case that ought to be dealt with fairly quickly. Are you seeing that at Citizens Advice, David?

David Mendes da Costa: The main thing that we are seeing is not so much problems that come to do with people having to claim, but people who just are not able to get the insurance in the first place. When insurance is essential, for instance to drive a car, and you have to have it, it is people who are coming to us saying, "I don't know what to do. I don't know how to choose between my grocery budget and the cost of insurance, because I need to get to work. I need to make my hospital appointments. I have to get the kids to school. There is no other way to do that. I can't lose my job so what do I do?"

That is the situation that people are coming to us with. That is why it is essential for us, and the FCA, to be looking into, as Rocio said, whether we are seeing fair value in this market. In particular, how are prices being distributed to different people? You talked about broad brush assumptions or generalisations being made, but there will be winners and losers of every assumption that is made. The worry is that the losers, time and time again, are the people on low incomes and people of colour. Potentially, this is why we are seeing much higher prices for these groups. That is what really needs looking into, not just whether we have lots of competition in the market.

Q104 **Dame Angela Eagle:** That is the postcode lottery involved there. There would be more likely to be people of colour living in particular postcodes, so you get the increase in prices for ethnic minority people just because they happen to be living in a particular place. It is not about whether they are a good driver. It is where they park their car.

David Mendes da Costa: It is exactly that. It is not about them as individuals. It is based largely on their postcode. What we do not understand is what it is about those postcodes that is driving the higher



HOUSE OF COMMONS

premiums. Is it higher risk, in which case what are the risks? Is it higher cost to serve, in which case what are the particular costs?

Whenever we ask the question, what I hear from industry or from trade bodies tends to be, "This is very difficult", and they just leave it at that, or a hunch, which is usually based on quite lazy stereotypes, or just throwing an idea out. One I heard was, "It is proximity to garages and there are fewer garages in certain areas".

We do not need guesses. This is insurance. It is data-rich and these are empirical questions about risk and cost. There are very smart people working in insurance companies. I do not believe that these are very difficult questions to work out what is driving the poverty premium and the ethnicity penalty at a postcode level. I am certain that insurers, if they put their brains to it, could find out what the answers are and pass that to the FCA. I appreciate that they cannot pass it to each other for commercial reasons, but there is no reason that they cannot share that with the FCA and then we can move this forward.

Q105 Dame Angela Eagle: The consumer duty might, if it is properly applied by the FCA, lead to some of that kind of information being made available, not publicly available, but available for oversight and overseeing by the regulators. Is that what you are saying? Is that what you are hoping the consumer duty will do?

Rocio Concha: Yes, absolutely.

Q106 Dame Angela Eagle: Are there any signs of that beginning to happen yet? It is quite early days for the consumer duty.

Chair: I think, Anne Marie, you have some further questions on consumer duty.

Q107 Dame Angela Eagle: You are coming on to that. The fair value issue is where that might be unpicked.

David Mendes da Costa: Yes. The consumer duty is recent, but the requirement for fair value for insurance has been in place since 2022. We have had enough time to see that bedding in. The regulator has the powers to ask for that information and make that assessment.

Q108 Anne Marie Morris: Turning then, as Dame Angela has commented, to the consumer duty and looking at whether it will make a difference, in theory it moves the focus away from the company to the consumer. It effectively says that the consumer has to be at the heart of the decision-making in terms of how it defines and describes its product and services, sells them and engages with those who buy insurance. The principle effectively sets out that the insurance company has to deliver good outcomes for a customer. It has to avoid foreseeable harm and help them pursue their financial objectives.

Those things are going to be very different for different consumers, because some are going to have a much better understanding of



HOUSE OF COMMONS

insurance products and risk than others. How do you see this being applied by the insurance companies in reality? Some of the insurance companies that have responded to us have effectively said that the areas they think they can deal with are through trying to consumer proof, if I can put it like that, the products and services they offer, although I suspect that that is something we will be looking at much more closely going forwards, and likewise with price and value.

It is the bit about consumer understanding and consumer support that I think they are grappling with trying to interpret. From your perspective, are you seeing a change in the approach of insurance companies in the way they explain their products and services or the way they support their consumers? I can see a shake of a head from Ms Concha. My question is whether you are seeing a change, to which the answer may be a straight no. If the answer is a no, what would you like to see being done differently by the insurance companies to actually deliver on those four things they are supposed to be delivering on, particularly the difficult ones, which are consumer understanding and consumer support?

Rocio Concha: It is much easier on the fair value, as you were saying. The reason I am negative about seeing a change is that we are seeing the number of complaints increasing. When you engage with these companies, when you need to make a claim, we are seeing an increased number of people who are dissatisfied with how that process has gone. That tells me that they are actually not complying with the consumer duty and the consumer duty is not having enough of an effect on this.

You can have a brilliant regulation. We think that the consumer duty, with the focus on outcomes and on the areas, is a good regulation, but having a good regulation that is not properly enforced is a problem, because it has to be properly enforced. We would like to see more of the FCA looking at these issues that you mentioned, saying why these complaints are increasing, what the experience is like for claimants when they have to put in a claim and which companies are not providing a good customer service. We need to also see enforcement.

David Mendes da Costa: One really interesting thing with the consumer duty, as you say, is this focus on outcomes. The consumer duty is very clear that outcomes are going to vary depending on different groups and different groups will have different needs. In particular, it is very clear around people in vulnerable circumstances, people with protected characteristics and the steps that firms need to take to ensure that they achieve the same outcomes, or just as good outcomes, as any other customer.

This is where we, or at least I, feel that it is not really clear that industry has fully taken that on board. We have not seen the kind of movement or a step change in conversation around the points that I have been highlighting, for instance around the ethnicity penalty and the fact that



HOUSE OF COMMONS

we see people of colour paying £250 more for their car insurance than white people on average.

Viewed through the lens of the consumer duty, that is a protected characteristic group that is facing a different outcome on pricing than another group. The consumer duty says that firms should be monitoring that. It is not clear that they are. Where they see outcomes like that, they should be able to explain what is going on and be able to show why there is that difference in outcomes.

We are not seeing the monitoring, as far as I can see. We are not seeing any explanation to say that that difference is on an objective basis and we are certainly not seeing steps to try to mitigate it, avoid that difference or bring the outcomes to a more level playing field. The consumer duty is absolutely the right tool for the job, but, as a tool, it does not seem to be delivering the outcomes that it is meant to, be that because of the industry not fully getting on board with how to do that or doing it, the regulator not putting enough pressure on them to do it, or, more likely, a combination of the two.

Q109 Anne Marie Morris: While consumer duty has been introduced, there has been a lag time, which the regulator has allowed. At one level, one could say, "Maybe you are seeing what you are seeing because the insurance industry is having to work up its system as to how to implement all of this".

Now is a good time for you to give your input as to what you would like the insurance companies to do differently in terms of the data they collect to ensure this duty is being complied with, but also the sorts of things you would like to see them do differently with regard particularly to helping consumer understanding and consumer support. I do not know, Ms Concha, whether you have any thoughts about what you would like to see the insurers build up as a process to make sure that they comply with this consumer duty.

Rocio Concha: The first thing that I will say is that insurance is a priority for us. I absolutely agree with you that this is an area where we need to produce analysis and engage with the companies and the regulator. What is the exact process? We do not design the process. That is for the regulators, with the company. What we can show is when the process is not working well, and we constantly publish research on this.

We are going to publish new research in May that also looks at the claim process, for example. We are seeing that people in vulnerable circumstances, whether the claim was accepted or not, are having a worse experience than other consumers. We will share that evidence and have that conversation with the companies on why that is happening. There is the same issue with the research that we have been doing, looking at the Financial Ombudsman Service decisions. We are going to highlight which companies are consistently letting down consumers, hold



these companies to account, put it there and say why consumers are having that experience.

Q110 Anne Marie Morris: Mr Mendes da Costa, in a way you are in a slightly different position, in that you are at the rock face with the individual consumer who is having a problem. What advice would you give to the regulator, the FCA, in terms of what it should be doing? I do not mean sorting out enforcement and collecting data. I am trying to look at something more granular, because you are seeing what is actually happening. You are seeing how consumers are suffering, if I can put it like that. You can see which bit of the insurance process is not working and where therefore the regulator needs to absolutely laser-like focus. What advice would you give the regulator about what practical things it should do to make sure this duty works?

David Mendes da Costa: For us, the critical concern is affordability and people who are not able to access these products. In terms of the regulator, what is needed is to extract from insurers a clear understanding of what risk factors and cost factors are driving different pricing for people on lower incomes, who are predominantly the people who are coming to us for help. Then from that, once it is clear what the risk factors and cost factors are, there is this question, as Rocio said, of whether there is fair value. Let us assume for a second that there is fair value. What are the issues that are driving different prices, meaning that people on low incomes are being locked out of key markets such as insurance?

Then we need to be able to take that information to say either what needs to change in the market to make insurance more affordable for people on low incomes or what steps need to be taken. We hear a lot from the insurance agencies that this is not regulatory policy; this is social policy. Without the information on what is driving the issues, we cannot move forward the social policy question either. That is the clarity that we need.

Chair: In this very helpful first session, you have set the stage. You have recognised that there is an issue and that we are right to be looking at it. I have heard a message around transparency. It is the transparency that in particular you are keen to see in terms of a solution.

We have had far too little time to actually ask you the questions we want today. In drawing this to a close so that we can start the next panel, I wonder whether you would be kind enough to share with me those data points that you have covered in today's session. Also, in a follow-up letter to the committee, could you list what you see as being the essential solutions to move things forward for consumers?

That draws this first consumer panel to a close. We are incredibly grateful to you for coming in and setting the stage, and for doing that very valuable work in terms of the poverty penalty on the instalment

payments, ranking everyone and getting that data out there. Thank you very much.

Examination of witnesses

Witnesses: Charlotte Clark and Colm Holmes.

Q111 **Chair:** Can I ask the second panel to introduce itself for the record?

Charlotte Clark: Hi. I am Charlotte Clark. I am the director of regulation at the ABI.

Colm Holmes: Hi. I am Colm Holmes. I am the CEO of Allianz Holdings UK.

Q112 **Chair:** Can I start by thanking you in particular, Colm, for being an industry representative outside the body of insurers? We wrote to a number of other insurers, such as Axa, Direct Line and Aviva. Admiral was unable to make today's date. We give you credit for coming here and representing your firm. We are publishing today written responses from those other firms when we followed up with letters. I am going to start with the same basic question. Are we right as a Committee to be concerned about what our constituents are experiencing in terms of increased insurance premiums?

Colm Holmes: The short answer is yes, because insurance premiums are rising very quickly. If you look at the performance of the industry in the UK in 2023 and use EY data, which is independent data, for every pound of premium that insurance companies received they paid out an average £1.14 in claims. The industry actually lost money in 2023, as it did in 2022, in both motor insurance and home insurance, so it is not a profiteering issue but rather an issue related to the cost of claims.

Q113 **Chair:** Where have you seen the biggest increase in your costs?

Colm Holmes: Vehicle repairs have gone up about 31%. That is largely made up of the cost of labour, which has increased quite significantly. There is a shortage of people to do the work. The average cost of car hire has gone up 35%. The length of time over which cars are actually off the road has extended because we cannot get parts. There are issues with supply chain. The other one I would point to is that theft actually increased by 23% in 2023 over 2022, so we have seen a very material increase in cost, which has led to the insurance industry being loss making in the main. There will be exceptional insurers, but the main insurance companies are loss making.

Q114 **Chair:** Those are all car examples and cars have been particularly expensive to insure, but we have seen hikes across the board. Are there any other things you would highlight outside car insurance?

Colm Holmes: For household insurance, if you look at 2023 there were a number of storms towards the end of year and the freeze event at the start of the year. You have seen a 30% increase in premiums, but it is



HOUSE OF COMMONS

massively below the extra 20% increase in claims year on year. Looking forward, household insurance for a number of insurers is still close to 120% core. Whereas I expect motor will start levelling off, I expect home insurance to continue to need additional premium as we go through 2024 and beyond.

Q115 **Chair:** Charlotte, you were here last year. We were worried last year about the hikes that we had seen. They have been even worse over this year. Is this something that constituents are going to continue to suffer from?

Charlotte Clark: In terms of what might happen over the coming year, it is difficult to predict. Some of the challenges within the market are still there. As Colm says, in terms of the profits within the market, they are not there. This is about premiums catching up with some of the costs within the market.

It is worth making a broader point in terms of the longer-term costs of motor insurance. Part of the reason why the increases look so significant is that it is coming off the back of the pandemic, where motor insurance in particular was reduced quite significantly because the risks of being in a car accident when you are at home are quite low, so you saw quite a sharp fall in motor insurance.

Q116 **Chair:** People saw drops in their car insurance premium. Does anyone in this Committee remember that?

Charlotte Clark: The evidence is clear that there was a 20% decrease through that period.

Chair: You did, Stephen. Okay.

Charlotte Clark: People were not driving, so therefore the risks were much lower. The real price of motor insurance now is about equivalent to what it was in 2018. It has now kept track with CPI, and some of that has been met again, but what will happen next year?

Q117 **Chair:** Sorry, did you just say that there has not been a real-terms increase in car insurance since before the pandemic?

Charlotte Clark: It has gone up and down, but the current cost is about £670. That is the equivalent to what was the real cost in 2017-18, yes.

Q118 **Chair:** You are saying that car insurance premiums have not gone up more than inflation since before the pandemic.

Charlotte Clark: Yes.

Q119 **Chair:** Okay. That is different from the data we have seen.

Charlotte Clark: We can certainly share with you the premium tracker that we have. I am sure we send the press releases to you when we do it.



HOUSE OF COMMONS

Q120 Chair: What about this issue around the loyalty penalty? The industry was told to stop imposing a loyalty penalty, charging existing customers more than new customers. Has that resulted in a higher level of premiums across the board? Why is it that, when you get a car or even other insurance policy renewal, you can call up your insurer and often negotiate down to a lower rate?

Charlotte Clark: The general insurance pricing practices changes were things that we had called for. I do not think there is any doubt that the publicity around the loyalty premium did not help the reputation of insurers, but it was very difficult for single insurers to act on it in terms of rules across the whole of the industry, so that everyone was the same.

At the time, I think that we said what will happen, because these are competitive markets. If you are decreasing the cost for somebody, it is going to be increased for someone else. You would expect that to be level, so we would not have expected there to be increases across the board on average, but some people would have benefited and some people would have lost out. I am sure we will get on to poverty premium. One challenge of the GIPP changes is that the deals that were available for those people who used to shop around, who perhaps were a bit more price sensitive, are now legally not available for them.

Q121 Chair: You can still negotiate down with your existing insurer.

Charlotte Clark: Yes, you can.

Q122 Chair: That suggests that they are not offering a very competitive first offer.

Charlotte Clark: Sometimes that is saying, "Hold on, what is my excess? How many miles do you think I am actually driving?" Sometimes it is changing certain parameters of the quote. Colm can probably talk about this in a more informed way, but sometimes it is, "We would like to keep your business and maybe we can reduce the price slightly".

Chair: Can you spell out for the record what GIPP stands for?

Charlotte Clark: Sorry, general insurance pricing practices.

Q123 Dame Siobhan McDonagh: My constituent, Mrs R, would be desperate to be here to tell you about her experience of trying to renew her esure car insurance, but you are going to have to put up with me instead. She is in her 70s and she and her husband were jointly insured. Unfortunately, Arthur has dementia now, so he cannot drive. When she rang up to renew her car insurance policy this year, she was initially offered renewal at £750, which she was happy with, but they would not let her pay over the phone. They said that the only way she could pay was online.

She does not have access to the internet, so she looked for an alternative. The cheapest alternative she could find was £1,200. Eventually, her son found her insurance where she now has to have a



HOUSE OF COMMONS

black box in her car to be insured. She has driven for 30 years, has not ever had a claim and feels ashamed that, at this point in her life, she is now required to be restricted in this way simply because she is not on the internet. Is that not discrimination against older customers?

Charlotte Clark: I do not know the detailed specifics of the case, but, from the way that you have described it, while I do not want to describe her as vulnerable, she would certainly be under the vulnerable customers definition that the FCA would have. I would have expected esure to have at least considered whether paying over the phone was an option.

Q124 **Dame Siobhan McDonagh:** No, at length she phoned and she phoned, and she was told, no, she could not. I do not want to delay the Committee, but she got involved with trying to show her the number that you get to ensure that the payment—and she got herself in a terrible mess. She cares for her husband, her husband has dementia and this was a real big challenge for her.

Charlotte Clark: It is one of the challenges and I am sure we will get on to poverty premiums and ethnic penalties. It is one of the issues, where, maybe because people are high risk—it is not the case here—there might be a higher cost, so the cost of somebody not being able to do business over the internet means that they place a higher cost. To what extent it is acceptable for them to bear that cost or whether that cost should be more collectively based is a broad question, but it is not a question an insurer can answer.

Q125 **Dame Siobhan McDonagh:** You have a consumer duty and wider responsibilities to society, as very big, respectable companies that make a large amount of money. It is not just insurance companies. We speak frequently at this Committee about bank branches closing and access for vulnerable customers. Does the insurance industry not have a responsibility to provide insurance to longstanding loyal customers who have not been claiming frequently even if, by virtue of probably their age, they are not on the internet?

Colm Holmes: The short answer is that, if they are not on the internet, somebody will be deemed vulnerable and there would be a phone available. There are certain covers that are only sold digitally, so you can only buy them on the internet. There is no phone service. There is no person-to-person service, and that is related to the cost of that cover. They are typically cheaper covers.

In relation to age, I can only speak for Allianz. We differentiate between new customers we would write over a certain age and existing customers. For existing customers, we would retain that business to a much older age than we would for new customers we would write. We very much take into consideration the fact that the customer has been a customer of LV= or Allianz for a number of years and we would retain that business longer, despite the fact that the risk associated with age is very clear in terms of the loss ratio impact.



Q126 **Dame Siobhan McDonagh:** Your competitor, esure, is not taking that position. Last year, she could pay over the phone. This year, she cannot.

Colm Holmes: I cannot comment for esure. There are circumstances of vehicle change, location change or other changes where you would re-underwrite the risk. Typically for an existing customer and an existing vehicle we would take a different view as to whether we would retain a piece of business that we may not write as new business because of restrictions we would place on ourselves in terms of concentration risk within certain age brackets.

Q127 **Dame Siobhan McDonagh:** My second question is about an issue that I think the Chair has already raised, and that is about the cost of paying monthly as opposed to up front. That is a challenge for a lot of my constituents. Having insurance or not having insurance is a difficult issue for people when they cannot afford their regular bills, but they are paying approximately £309 more than their more wealthy counterparts. Some insurers, as we have heard from the panel before, are charging 35% APR. Matt Brewis, the director of insurance at the FCA, called it a tax on the poor. Do you think that it is right that poorer households are paying more for their insurance? It does not really sit well with the consumer duty for price and value, does it?

Charlotte Clark: It is important that there is a monthly facility. The average is now £650. I completely accept that not that many people have £650 spare to be able to pay for an annual premium up front. The importance of being able to budget and the availability of that is quite key.

There are additional costs to paying monthly in terms of extra administration. You have the cost of capital, so you do not have all of the money in up front as an insurer and so you cannot invest that money. There are what I would say are legitimate costs that are right in terms of perhaps an additional cost from paying monthly to paying annually.

We have been discussing as an industry what the right sort of approach is and whether we can give greater clarity about what would be appropriate. Our colleague from Which? already mentioned fair value. Each company would have had to do a fair value assessment on its monthly payments and on its premium finance, as it is called, within the industry. It is very hard to sit here and say that 40% feels reasonable.

We have considered whether things such as a voluntary cap for the industry are the right way forward. There are very good competition reasons why you cannot do those sorts of things, which we understand, having spoken to the regulator. I think that we understood them before we spoke to the regulator, but it is always worth checking. It is an area where we are concerned.

Colm chairs a group across the ABI looking at motor affordability and whether there is more that we can do to try to help people who want to



use monthly payments. We have to try to make sure that, in saying, “We can make these cheaper”, it does not suddenly mean that insurance is less available to certain people because certain companies are not willing to take on those people as a risk because they cannot make money from them.

Q128 Dame Siobhan McDonagh: Mr Holmes, under the new consumer duty the FCA expects firms to appoint a consumer duty champion at board level to assist the chair and CEO. Would you be able to name your consumer champion?

Colm Holmes: Yes, Alison Rayner. I have split our risk function in our business between what I would consider prudential risk, which is like the maths end of it, and the chief compliance and customer officer, who is Alison Rayner. We appointed her and I have two risk executives on my group exec, so recognising that there are very different ways of looking at risk on the consumer side.

At the board level, we have a compliance and customer risk subcommittee of the main board, chaired by the non-exec. Teresa chairs them. That focuses specifically on consumer outcomes and customer outcomes, and the MI surrounding that. We have completely rebuilt our entire MI and customer data suites to be able to provide much greater granular data around customers.

For LV= and Allianz, this is something that was very much at the heart of our business anyhow. We were focused on consumer duty, customer support and customer journeys to ensure that they understood the risks. With GIPP and fair value, we had already dealt with how you would manage product and price in the market. It is very central to what we do, but it always was. Consumer duty did not really change a huge amount, but rather the testing of how our customers see our data and our communications with them was more critical. From our perspective, we already were very close to ensuring fair value and now good customer outcomes was at the heart of everything we did.

Q129 Dame Siobhan McDonagh: Her title does not sound like she is a community duty champion. It sounds like you are finding some of your customers a risk.

Colm Holmes: No, not at all. It is about good customer outcomes. It is about ensuring that in our product design, our implementation and our sales process. It is across the board. It is soup to nuts. We look at the customer journey and ensure that everything within that delivers a good customer outcome. As well as looking at this on a daily basis, which we do, we very closely track all matters associated with customer outcomes. We track that right through. If you look at our Trustpilot score, it is 4.4 for LV= and 4.5 for our Allianz brands out of five. We track it on a weekly basis. I have my own exco subcommittee that specifically looks at customer, customer risk and customer outcomes. That is the sole purpose of that meeting.



Chair: I am going to move things on because we only have you for an hour and we also have the risk that we may be interrupted by votes before then, and it would be great to have finished this session.

Q130 **Dr Coffey:** Have there been any unintended consequences from the introduction of the consumer duty?

Charlotte Clark: It is probably too early to say.

Colm Holmes: Yes, none that we can see. There might be certain elements that might change. We will find out in time. GIPP had a much bigger impact on how insurance is sold, priced and managed than consumer duty did.

Q131 **Dr Coffey:** Recognising that consumer duty was initially for new customers and will next apply to legacy products, do you anticipate any impact on the insurance market from that?

Charlotte Clark: Do you mean in terms of the changes that are likely to come in? The legacy products that come in this year on the anniversary of the consumer duty are largely in the long-term savings area, so they will be legacy pensions products. Some of those are incredibly old. Going through them is the reason why it was done the year after. I do not expect there to be massive changes. I think that some companies have already said that they have put some money aside in terms of the changes they may need to do and how they may need to support customers. I think that Phoenix has said that it has put aside £75 million, which is a large amount of money, but not in the grand scheme of the scale of Phoenix.

Q132 **Dr Coffey:** Mr Holmes, thank you for coming today. Your own website says that you carried out a gap analysis of where you were not meeting the requirements of consumer duty, particularly regarding customer understanding and customer support. What were your own identified shortcomings and what are you going to do about it?

Colm Holmes: We looked at 3,000 of our separate customer journeys and made 200 changes across that. It was around understanding of insurance, plainer English and greater explanation with regards to why premiums move, for example. We completely retrained all our staff to understand that.

With the premium increases, it really is important to us that our customers understand why premiums are increasing. We have been very clear with our customers as to what is driving the cost of the increases in insurance and the constituent parts of that so they fully understand it. It is an incredibly competitive market and we want to retain the vast majority of our business. We have done a huge amount of work in looking and testing each of those customer conversations and customer journeys to ensure that the customer feeds back to us how they interpret them and what more they need from us.



Q133 Dr Coffey: Coming back to you, Ms Clark, your own roadmap to tackle insurance costs states in step 1 that the industry should do more on transparency around which vehicles are more costly to insure. It is well known that there has been a significant increase in theft, particularly in very high-premium vehicles already. Does that mean the people—how can I put it—not quite with the old bangers, but they are reliable cars, are paying the price for a bunch of Chelsea tractors?

Charlotte Clark: No. Because it is risk-based pricing, it would be highly unlikely that they were somehow being pooled with your Chelsea tractor. That is why people who have Range Rovers and other cars where there seems to be a specific problem are facing very large increases for their insurance because of issues around theft and, indeed, in terms of cost of repairs of some of those cars as well.

Q134 Dr Coffey: Dame Siobhan mentioned her constituent. For the record, I used to be with the AA. It wanted to put my premium up by 50%. I did not even bother haggling. I just went to somebody else and it was a 1% uplift. It feels to me that, at the moment, in terms of transparency, that is not necessarily coming through. It feels that it takes a lot of effort. And should we not be in a situation where insurers are just giving their best price, as opposed to somebody having to get on the phone, haggle around and threaten to leave? That is what the removal of the loyalty penalty was supposed to try to get away from, but it still feels that it is there.

How are your members going to get to it so that we do not have to spend lots of time using a variety of whatever, insurance brokers and similar? These are big differences. I appreciate risk may be done separately, but there are big gaps in what people are trying to do and scrambling around so they can actually still use their car to get to work.

Charlotte Clark: I have a lot of sympathy with what you are saying. It is very difficult for people who are outside, looking at it and trying to understand why an insurance company may have a very different price than another insurance company, partly because they probably think that they have certain innate risks and those are the things that are being priced. It could be other things, such as insurance companies feeling that actually they have enough cars insured in a particular area. If you are the next person to come into that area, they are thinking, "No, hold on, I need to balance this" or, "I have too many older drivers so I am looking to try to get younger drivers as a way of managing the risks across the company". That is very difficult when you are a customer.

Q135 Dr Coffey: That could mean that, if you are older person who happens to be trying to renew number 101, all of a sudden your premium can go skyrocketing because they already have 100 people on their books. Is that fair in terms of how it works?

Colm Holmes: It would not be quite that. In commercial it is much more sophisticated around appetite management and exposure management.



HOUSE OF COMMONS

In personal lines you look at the exposure against peril and location. You would look at certain vehicles. For example, it has been reported that at LV= we decided to stop insuring Honda Jazz cars because of the theft of catalytic converters. I know that it got a lot of publicity.

We could keep insuring those, but, because of the difficulty of pricing it, that would have had a knock-on effect on every customer's insurance. To be fair to our existing customers, it was easier for us just to stop insuring them. You can still insure a Honda Jazz in the UK, but not with LV=.

Certain insurers would tend to specialise. Certain insurers are very good with young drivers. Some are better with the 30 to 50-year-olds. We do Age UK, which would be very good with older age brackets. Some are better with sophisticated cars and use different methods of pricing. While we are all insurers in the market, people tend to find niches where they are particularly strong, but everybody is trying to expand and that is where you can get big variations.

Q136 Dr Coffey: If I go back again to Ms Clark, step 5 of your roadmap talks about tackling insurance costs and calls for the option of graduated driving licences and similar, so a full-phased approach. Do you think this is really possible? I am in a rural constituency. There was definitely a challenge of young people being able to get to work because they could not get their driving test and so on. We are past that now. It feels that young people who do not have the London bus network or whatever cannot get to work without that sort of thing.

Charlotte Clark: I do not think that it is about saying that they cannot start driving at 17. It is saying that in other countries there might be restrictions on, say, motorway driving until you are 21. There might be restrictions on the number of passengers the same age you may have within the car.

We know that there is a particular problem about the cost of insurance for young drivers. It is very high but that is reflecting the risk of young drivers, so what can you do about that? You can try to support them to become better drivers through these graduated schemes where you have restrictions on how fast the car can go and other things, as a way of developing good habits after people have passed their test.

Q137 Dr Coffey: Preventing late-night driving is one of your policy suggestions. I strongly feel that that shows that you are not in tune with a lot of young people trying to work in our countryside and coastal areas.

Charlotte Clark: These are ideas. We are looking at where the risks are and whether there is anything we can do to reduce those risks. Clearly, if you are a young person and you are working shifts, that is a bit of a challenge, but these are just ideas.

Q138 Dr Coffey: This is my last question because I know other people want to come in. This is just a clarification on what you said earlier. Can I take it that you do not believe that the consumer duty is pushing up consumer



HOUSE OF COMMONS

premiums? I asked you whether it had any impact on the insurance market and you said no.

Charlotte Clark: You said “unintended”.

Q139 **Dr Coffey:** Unintended, okay. I do not think that the consumer duty was ever intended to push up premiums.

Charlotte Clark: No, I do not think that that was its design. There are costs to regulation. There clearly are. Within the insurance sector, because we had the general insurance changes a few years prior to consumer duty we were probably a bit more used to them. Do I think it has pushed up prices? It is so difficult to tell because the other things that are going on are so significant. There has been inflation through this year, and issues with the supply chain and the cost of cars. I cannot imagine that consumer duty is significant compared to those.

Colm Holmes: For us, it is very minimal. It is not relevant in terms of the cost of insurance.

Q140 **Chair:** We have done some calculations ourselves. CPI is up 28% since 2016 and car insurance premiums are up 78%. We would be very interested in your calculation as to how they have not gone up more than inflation.

Charlotte Clark: I am very happy to share my statistics.

Q141 **Stephen Hammond:** Good afternoon and thank you for coming. I want to ask a question about building insurance but I want to ask a couple of questions about evidence we have heard already. At the start of your evidence, Mr Holmes, you set out for our Chair the reasons for the number of cost increases, why they are happening, etc. Were you surprised, as I was, to hear the previous group of panellists suggesting that they did not understand why costs were going up?

Colm Holmes: Yes is the short answer. The slightly longer answer is that I think that they understand broadly but they wanted some more specific data around it. Categorically, for example, we do not use ethnicity. That is just a fact. We do not. There is a lot of evidence out there around data that supports the cost of repairs, car hire, etc. It is very much public data.

Q142 **Stephen Hammond:** You raised that point. I was going to raise that question with you because the gentleman from Citizens Advice twice raised the issue that some people of certain ethnic backgrounds were being charged on average £250 more for insurance. I am assuming that you would say in response to that, first of all, that there would be no ethnicity bias, but there will be other risk factors that were taken into account, possibly where they were living, for instance, among other things. Would you care to explain what might explain that rather than ethnicity?



HOUSE OF COMMONS

Colm Holmes: We do not collect ethnicity data ourselves or through any of our data providers. We just do not. With regards to why postcode is important, you are looking at population density, vulnerable road users, the nature of the streets and the number of accidents that take place within that postcode or the probability of criminality within that area. These all factor in. There is distance from resources, which he mentioned, to be fair.

These are all factors that would come into our algorithms. He said 400. I do not know how many we have in each algorithm, but these are some of the key factors that you would look at, as well as obviously the vehicle, the age of the driver, etc. These are key factors.

Postcode is the key determinant of risk because we know what happens in certain postcodes. If you are living in a city, there are more vulnerable road users, such as pedestrians, cyclists, motorbikes, etc, that get hit more often versus living outside the cities. The frequency of those losses is significantly different.

Q143 **Stephen Hammond:** I have one final question. We have not explored the issue about the cost to the consumer and the industry of drivers who are deliberately uninsured as opposed to, as Dame Siobhan was identifying, those people trying to get insurance. Is there any industry data on how much that costs?

Colm Holmes: The Motor Insurers' Bureau would have some data, but, to give you some idea, we estimate that there is about £1 billion of fraud that is undetected each year in the industry; there is £1 billion in claims that we detect; and then there is a further £1 billion that we detect at the point of underwriting. The first £1 billion probably does find an insurance company that is willing to cover them. It is a very material impact. It is about 4%, if I recall correctly.

Charlotte Clark: Yes, it is 4%.

Colm Holmes: Some 4% of the cost of insurance is directly related to fraud. It is something we invest very heavily in. In terms of purposely uninsured drivers, I personally do not have data.

Charlotte Clark: I think 4% is the uninsured drivers cost. The fraud one might be slightly higher.

Q144 **Stephen Hammond:** One of the other areas where we have seen significant price increases over the last five years has been building costs and building repairs.

Colm Holmes: Yes, and the cost of flooding.

Stephen Hammond: Of course, yes.

Dame Angela Eagle: It is storms as well as flooding.

Q145 **Stephen Hammond:** When people come to take out buildings insurance,



HOUSE OF COMMONS

what advice are you giving them? If they insured a building at £100,000 last year, for instance, should they be looking at £110,000, £115,000 or £125,000? Are you giving them advice? Clearly, you will have a better sight of all those risks in any one area and what an appropriate rebuild cost would be.

Colm Holmes: We automatically inflate where the cost of building is going up. On our website, we refer everybody to BCIS data, which allows them to do a very simple calculation. At LV= Allianz, we take quite a simplistic approach. The very minimum cover for replacement is £500,000. For Allianz Plus customers, which is the majority, it is unlimited. We will replace it. Our middle tier is £1 million. £500,000 is more than the stated cost to rebuild a property.

If somebody does not have sufficient cover to rebuild their property—these are very rare occasions where you have to rebuild a property—unless we know they maliciously misrepresented the facts, we will just pay for the rebuild. It is really not as much of an issue in personal insurance as it is in commercial.

Q146 **Stephen Hammond:** You were talking particularly for your company.

Colm Holmes: That is correct.

Q147 **Stephen Hammond:** I am assuming, Ms Clark, that we could take that as the general position across the industry.

Charlotte Clark: Yes, I would say it was pretty general in terms of the general inflation of rebuild costs. Coming back to the consumer duty, it would be strange for a customer to understand how the cost of rebuilding their house had changed year on year. You would think that that was the responsibility of the insurer.

Stephen Hammond: Those two answers have taken away most of my other questions on this particular point.

Chair: The bell still has not rung and I know there are still some further questions. We are going to keep going until the bell goes. There will be four votes when the bell goes. We will end your session at that stage, suspend the Committee and then reconvene for the regulator.

Q148 **Siobhan McDonagh:** Mr Holmes, this is a bit mean because you have at least agreed to come and speak to us. I apologise for my question. Your website says you have done an extensive gap analysis of where you are not meeting the FCA's consumer duty. You have noted some gaps in consumer support. Can you tell us a bit more about what your failings have been and how you are going to address them?

Colm Holmes: As I said, we tested 3,000 different customer journeys. We focused on the most important ones from a customer perspective. The vast majority was around understanding insurance and clarity. Our communications with customers were unclear. Their interpretation of what we were saying was different. A lot of it has been about rewriting



HOUSE OF COMMONS

the language to simplify it so it is clearly understood what is covered and what is not covered.

There was never an issue for us in terms of being contactable, going back to the example you mentioned. Customers have not said that they could not access us for contact. It was predominantly around communications, the clarification of cover and fair value, and the customer's rights being very clearly articulated. We have changed some of the prioritisation, if you like, of how we communicate with them.

Q149 Anne Marie Morris: If I may, Mr Holmes, can I press you a little further on some of the issues that have been raised with regard to insuring buildings? Mr Hammond has raised some very important points. They all assume and your answer assumes that every insurance company will always ask the customer what the rebuild cost is.

I have come across companies that do not ask for an evaluation of the property, that do not ask for any rebuilding costs even when that information is offered and that do not ask for information about the age of the building or whether indeed it is listed, and yet they offer insurance.

Are they breaking the rules? What happens with the consumer duty if the consumer has offered to provide that information and the insurance company says, "We do not need it; you are covered"? What happens if there is a claim?

Charlotte Clark: It could be quite similar to what Colm has said. The insurers may have asked you, "Is the rebuild cost more than £500,000?" Given the average house price, most people would answer that it is going to be less than that. They may not have gone into the specifics.

Q150 Anne Marie Morris: They do not ask at all—no limits, no nothing. They do not want any information about the property.

Charlotte Clark: They have not asked for the value of the house in valuing the insurance of the house.

Q151 Anne Marie Morris: They have not asked anything about rebuild costs.

Colm Holmes: Once we have somebody's name and address, we can pretty much find out most of the data that we need with regard to the property. We would typically survey properties anyhow when writing home insurance to see what the positioning of trees is relative to the property, especially with regards to subsidence.

Q152 Anne Marie Morris: Despite the customer not having to provide that information, they are covered by the consumer duty. If there is an incident and they claim, they can rely on you having done that research.

Colm Holmes: The policy limits would be the policy limits. I cannot speak for other insurers.

Q153 Anne Marie Morris: I appreciate that. What astounds me is that this particular company said there were no limits, which I find utterly



HOUSE OF COMMONS

extraordinary.

Colm Holmes: Most of our covers would be unlimited for property rebuild.

Q154 **Chair:** As we bring this part of the session to a close, I know the ABI has put out a document recommending that the industry takes certain steps in order to reverse this increase that we have seen across the board, particularly with car insurance. There were 15 steps in your recommendations to bring down the cost of—

Charlotte Clark: There were 10.

Q155 **Chair:** In the time until the bell goes, can you just update us on how you are seeing progress on those 10 recommendations?

Charlotte Clark: They were published just over a month ago. As I mentioned, Colm chairs a group across the ABI of the CEOs who run motor. On each of them we are trying to make progress. Some of them sit with us. Some of them are things like cutting the amount of IPT. That is insurance premium tax, sorry.

Dame Angela Eagle: I know what that is. Do not worry.

Q156 **Chair:** There are things over which you have no control and there are things that you can control. On the things that you can control, how are you making progress?

Charlotte Clark: Specifically, a lot of our focus has been on the fraud side, on the relationship that we have with police and whether there is more that we can do there to try to clamp down.

Q157 **Chair:** Are you working with the Society of Motor Manufacturers and Traders on some of these issues around vehicles being easier to steal? Is it electric vehicles that are more expensive to replace? What are the big things you are working on? Are you working with the car industry?

Charlotte Clark: A lot of the car industry is looking specifically at this. Where there has been focus on cars that are easier to steal, they have been investing, and rightly so, to make them more secure and safer so the insurance on them is lower.

We have been working with them in terms of looking at where the problems are. Colm mentioned the Honda Jazz. Where there are specific things, we are collecting that information on what the problem areas are and we are feeding that through.

Q158 **Chair:** To go back to the 10 steps over which you do have control, how much progress has been made?

Charlotte Clark: In a month?

Chair: Yes.



HOUSE OF COMMONS

Charlotte Clark: These are not straightforward things to do. They are about working in partnership. We are putting forward cases for things like graduated driving licences. We are making the cases for some of the things that are there. It is absolutely a priority. Both of us spend a fair amount of our time trying to address these things.

Could I point to something and say, "We have done that this month"? One of the things that we have been working on over this month has been a particular focus on premium finance. That is looking at principles for what you should be looking at when you are looking at monthly payments. How can you explain to someone what you are charging them and make sure that is completely transparent and completely in line with the fair value rules of the FCA?

Q159 **Chair:** It is early days. That is really what you are saying. If I had to ask you whether you would be back here in another year to explain exorbitant increases in premiums again, would you disagree with me on that?

Charlotte Clark: If you look at something like the EY study, there is no profitability in the industry, so costs will continue to increase. An industry cannot last if it is paying out more than it is taking in. We have to look at whether more can be done to tackle the cost of claims. If that can be done, that gap closes. If not, premiums will have to continue to increase. I hope not at the rates that they have done, but I could not sit here and give you a cast-iron guarantee that we will not see increases over the next year.

Q160 **Chair:** On this issue that was raised by the first panel around discrimination, it is illegal to discriminate between female drivers and male drivers, is it not?

Charlotte Clark: Yes.

Q161 **Chair:** On any other protected characteristic, it is still possible to price differently, is it not?

Charlotte Clark: No. It is illegal to directly discriminate.

Q162 **Chair:** What about age?

Dame Siobhan McDonagh: You are clearly doing it on age.

Chair: You have spent the whole session telling us about how you discriminate on the basis of age.

Charlotte Clark: You cannot discriminate unless you can justify that there is a reason for it. On the ethnic penalty area, we have discussed some of the challenges. Again, it is risk pricing and postcode pricing. Similarly, on the age one—

Q163 **Chair:** You cannot charge female drivers less. That is specifically excluded.



HOUSE OF COMMONS

Charlotte Clark: Yes.

Dame Thérèse Coffey: That was European law.

Charlotte Clark: Yes.

Q164 **Chair:** For everything else, if you could make the case, you could discriminate on that basis. You could price differently on that basis.

Charlotte Clark: You could indirectly discriminate, if you could justify it.

Q165 **Chair:** That includes age.

Charlotte Clark: Yes. It is a valid risk.

Q166 **Chair:** It sounds like the biggest variable is, in fact, age.

Charlotte Clark: Yes.

Colm Holmes: It would be one of them, yes.

Charlotte Clark: It is age and location.

Colm Holmes: It is location and age.

Q167 **Chair:** It is location and age, not distance driven.

Colm Holmes: Mileage will be critical. There are a number of factors: mileage, age of the car and engine size are all critical. We typically do not ask health questions, but increasingly the problem is, when people are in their 70s and 80s, you can have one person who is incredibly able-bodied with great eyesight, great hearing and great awareness, and somebody else of the exact same age who has diminished eyesight, diminished hearing and diminished capability. Because you do not distinguish between the two, the average cost of the premium for both people will become higher.

Chair: Are there any other questions from colleagues? In that case, we will draw this nicely to a close just in time for our vote break. I am going to suspend the Committee after this second session until after the votes. They will probably take about 45 minutes. We will then reconvene and speak to the regulator.

Examination of witness

Witness: Matt Brewis.

Q168 **Chair:** We can now start the third session of our inquiry into the insurance market. Could our witness introduce himself for the record, please?

Matt Brewis: I am Matt Brewis. I am the director of insurance at the FCA.



HOUSE OF COMMONS

Q169 **Chair:** Thank you for bearing with us while we did our voting. We have heard our constituents' concerns. Have you been concerned as a regulator about the insurance sector?

Matt Brewis: Do you mean around the rising prices?

Q170 **Chair:** Have you been particularly concerned about what is happening in your sector recently?

Matt Brewis: Many of the letters that you have received have also been passed on to me. I have had direct correspondence from consumers. Some of them are really heart-wrenching stories of people making decisions as to whether they can continue in their current roles versus putting food on the table and how they can continue to support their families.

Q171 **Chair:** Does your data show that there has been a spike in problems in the insurance sector?

Matt Brewis: There are various data sources. It is clear that there has been a significant increase in the pricing of motor and home insurance over the last two to three years for a number of reasons, which I am sure we can talk about. It is clear that there has been a rise in complaints, predominantly around motor and home insurance. People feel they have not received the value that they expected from those products. There is an increased level of dissatisfaction with—

Q172 **Chair:** It is more than just a rise in complaints. It seems to be a 50% rise in complaints from the Financial Ombudsman data.

Matt Brewis: The Financial Ombudsman said that it received just over 4,000 complaints last quarter. The majority of those related to issues around motor insurance. Those were generally around the time it was taking for fixes to be done to their vehicles, how much they were receiving in payouts when their cars had been written off and delays or poor customer service.

Q173 **Chair:** Is car insurance a particular problem at the moment?

Matt Brewis: Motor insurance is the one where we are seeing the greatest level of consumer complaints.

Q174 **Chair:** What are you doing about it?

Matt Brewis: There are a number of pieces that we have been looking at. First, at the inception, there is the price, and then, at the back end, there is the claims side of things, so when you take out the product and then when you need to use it. Those are the two areas where consumers are most focused when looking at their motor insurance products.

In terms of price, we have been looking at the data that the ABI has produced. We have seen the increase in costs that insurers have faced from supply chain issues, the rising cost and complexity of vehicles, and the rising number of claim instances that people have suffered. That goes



HOUSE OF COMMONS

in the home sector as well. All of that shows the effect of inflation in the wider economy and how that has impacted on the motor sector.

The insurance sector has not done a particularly good job of forecasting the impact that inflation will have on its supply chains and protecting those parts of its business, to the level where we have seen it make significant losses. On the previous panel, Colm and Charlotte spoke about how many firms and the market as a whole made underwriting losses last year. They are seeking to recoup those losses and ensure they are pricing in future inflation as well. We are seeing those costs.

Q175 **Chair:** What are you, as a regulator, doing about it? You have looked at some data.

Matt Brewis: Yes.

Q176 **Chair:** Are you taking any steps to ensure that, for example, the consumer duty that you have brought in is being applied properly in this sector?

Matt Brewis: Yes, absolutely. There are a number of areas where we focus. First of all, it is a very competitive sector. Last year, there were over 48 active insurers writing motor insurance.

We see “innovations” in the market. To give an example, last year a couple of insurers put a new line in their terms and conditions that said, “If you have an accident and do not tell us about it in the first 24 hours after it has happened, you will have to pay an additional £500 excess”. As soon as we became aware of that through customer complaints, we spoke to the two insurers we were aware of that did it and told them that it had to stop.

Because of the level of competition in the motor market, firms look to see whether others are getting away with making these changes and improving their profitability or reducing their costs by doing things like that. We act quickly to stop that before it becomes a common trend across the market. We have a market monitoring function that is looking at those changes.

In terms of costs, we are assessing the fair value assessments. We are meeting with price comparison websites, brokers and consumers, through our consumer panel, which is one of the statutory bodies that the FCA has, to understand the concerns of consumers and where they are seeing issues. Through that, we are able to see examples like the one you gave earlier of the significant rise that your constituent was facing in their insurance premium. For older customers, we are seeing a greater increase in the percentage charges.

Q177 **Chair:** How many times in the last 12 months have you made these interventions?



HOUSE OF COMMONS

Matt Brewis: There are different types of interventions. My teams are doing those not daily but very frequently with individual firms where we see individual cases coming up. If we were aware of a case like the one that you mentioned, I would expect a consumer to be able to pay over the telephone, for example, if they needed to. We would intervene in that type of case.

We speak to the ombudsman. We work very closely with the ombudsman to understand where these problems are bubbling up and to intervene swiftly.

Q178 **Chair:** How many industry-wide interventions have you taken in the last 12 months?

Matt Brewis: Industry-wide, claims is the main one that I would focus on. A few weeks ago we made a publication around motor total loss, where customers received less than they should have done for their car being written off. We have undertaken reviews of a number of firms and are requiring repayments to be made to those customers. We have set out very clearly our expectations of all insurers in the future under the consumer duty.

Q179 **Chair:** That is the one intervention, is it?

Matt Brewis: That is one. Another one is around a product called gap insurance. This is still around motor, but it is not motor insurance. When you buy a new or sometimes a second-hand vehicle, if you take out finance on that and your car has to be written off, there can be a gap between the level of your payout from the insurer for the value of the car and the finance cost. A policy called gap insurance is often sold by garages that pays the gap between those two.

Our value measures—this is the data that we receive on this—found that for every £1 that insurers took in premium 70p of that was used to pay commission to the garages and only 7p of that was used to pay claims. We regard that as a poor product. We reviewed the fair value assessments done by firms and found them wanting. We intervened with those insurers to stop them selling that product until it could be amended to provide fair value to customers.

I would expect us to be doing a further number of those more market-wide interventions around those types of products over the coming year.

Chair: That is two.

Matt Brewis: Pardon me. You asked for market-wide ones. In terms of individual—

Chair: Yes, you have done two market-wide ones—brilliant.

Q180 **Stephen Hammond:** Can I pick up on a number of points? Going back to the consumer duty, I accept that it is early, but can you give us a view



from the FCA about how you see it working at the moment and where you may need to put more pressure to make it work more effectively than it is currently?

Matt Brewis: We are seeing firms make good efforts to implement the consumer duty. Our CEO, Nikhil Rathi, has given a speech around exactly this issue, where we have seen good practice from firms making changes around all kinds of areas across financial services, such as advice, charges and other actions.

In the insurance sector, Colm spoke earlier about some of the changes Allianz has made. They are not dissimilar to what we have seen. We have seen a great focus from firms on customer understanding and simplifying their policy wordings.

There are areas where they can do more. There is a lot of learning to do. Where something goes wrong—we could take the earlier example—how do they feed that back into their systems to make sure it does not happen again? How do they understand the root causes of their complaints? That feedback loop is an area that is developing, but there is significantly more for firms to do to embed that continuous learning. That will come over time, but overall we are seeing good progress.

It is going to be an ever-rising bar as the duty gets embedded, as the lessons are learned and as we publish good and poor practice, and guidance on where we want firms to concentrate. That would be the main area for now.

Q181 **Stephen Hammond:** Have you been explicit enough with firms in defining “in good faith” and “avoid causing foreseeable harm”? Are there any discrepancies in the industry’s understanding of what those phrases mean?

Matt Brewis: Those are generally quite well understood terms. One thing that we are doing in insurance and across the board is publishing these good and poor practice guides. They set out where we are seeing progress being made, where there are things we like and things we do not. That helps the industry understand where that bar is. It colours in the grey areas. There are bits that are black, bits that are white and a grey area in the middle. It gives that greater clarity that reduces those areas of concern. There is more for us to do.

Q182 **Stephen Hammond:** We heard Mr Holmes say that he did not think that it had necessarily put a cost increase through the industry. I have spoken to others who think it has. Have you had representations back about the level of extra cost burden as a result of the consumer duty?

Matt Brewis: As Colm said, there have been a number of changes to regulation over the years. The general insurance pricing practices rules, which were introduced a couple of years prior, introduced many of the rules of the consumer duty and did come at a cost.



The consumer duty has cost money for firms to implement. We regard it as a competitive advantage for firms to win business by offering and selling products that customers want and thereby gaining greater market share. It is a good thing for good businesses. It will make them more profitable. We want firms to be profitable. That is definitely possible.

In terms of your direct question on representations, another part of my role is the life insurance sector, which has had less new regulation around this in recent years. They have a bigger lift. As Ms Clark spoke about, those firms have some very long-term saving products that require a greater level of work. That is costing more.

Whilst I have not received direct representations, a number of CEOs have spoken at their results about the cost of implementing the consumer duty primarily because of some of the legacy products they have on their books from old acquisitions.

Q183 Stephen Hammond: Can I just ask a couple more questions, then? The Chair spoke about the 50% increase in complaints that the Financial Ombudsman has received. We talked about there being about 4,000. If you look at the products that are most complained about in financial services at the moment, two of the top five are insurance products. Do you have the right resources to look at the regulation and the resolution of those complaints inside the FCA?

Matt Brewis: Yes, I believe we do. As I mentioned before, we work closely with the ombudsman to understand what those trends are and where issues are increasing so we can do more work on those specific areas.

One of the interesting problematic areas, when it comes to mandatory insurance like home and motor, is that for many it is something they are buying because there is a legal requirement to do so. It is a grudge purchase. Because of either their ability or their willingness to pay, people want to pay as little as possible for those products.

Some 58% of new home and motor customers are buying them from price comparison websites, which provide the really helpful service of ranking products. You can go to one place and see how cheaply you can get the product. However, that does not tell you a huge amount about the value, what customer service is like at that firm, how quickly they will be able to deal with any claim you have, what their processes are or the average length of time to resolve it. Those are all the things that people are complaining about.

At the outset, people care about price. When they need to use the product, they care about the value. Insurers are trying to be at the top of price comparison websites because that is where they get the business. Consumer research shows that most people are buying from the top five or six. They buy from either the very top one, if they are the most price-elastic purchasers, or the first name that they have heard of as they go



down the price comparison website page, where they have a good view of them.

That leads to what is known as the hollowing out of products, such as the removal of a phone number to call if you have a concern. New for old, courtesy cars, windscreen cover and other things that might have been more traditional in these products in previous years are taken off, all of which leads to a cheaper product. That means it ticks one box for customers but not the one when it comes to value. That is quite a conundrum for us as a regulator, the market and the users.

Q184 Stephen Hammond: This is the problem. When we heard from the consumer panellists at the beginning, they were talking about what they viewed as the lack of transparency in the industry. Clearly, there are these sites. Quite often, the reality is that, when I am sitting here with my current policy, I go to the website and it says, "Go to site one". You have to do quite a lot of work to ensure that what you are being offered there, even if you put in broad parameters, is what you have already.

One of the issues, particularly for the number of people who are perhaps not as computer literate or otherwise literate, is that it is quite difficult to work out what you are getting in terms of A versus B or whatever. That transparency is still difficult to achieve.

Matt Brewis: That transparency is difficult to achieve. We are putting that challenge to those websites and to insurers to make it really clear. Some of them call themselves essentials brands. They believe consumers know what it means to buy an essentials product versus one that is called gold or something like that. There is a focus on naming around that, but what constitutes a product and how you compare product A and product B is a challenge that we are putting to the sector.

Stephen Hammond: I could go on, but I will stop there.

Chair: I will bring in Siobhan, and we will see how we are doing for time.

Q185 Siobhan McDonagh: Thank you for raising my constituent's issue, which was all about her attempting to renew her car insurance with the same company only to find that she could pay by phone last year but could not pay by phone this year. Can you require esure to allow current customers to still be able to pay using their historic payment method? Can you intervene with esure, on the car insurance industry as a whole? Can you stop the discrimination of older people who do not have access to the internet?

Matt Brewis: I cannot talk about individual firms and I do not have all the details of the case. Let me put those caveats in before we start.

We have expectations around how people treat vulnerable consumers. You mentioned earlier your constituent's husband who had dementia and was not computer literate. You would expect a firm to class those as



HOUSE OF COMMONS

potential signs of vulnerability in its policy and to have routes to assist them in order to deal with the product that they have with the firm.

I would advise your constituent to make a complaint and go to the Financial Ombudsman in the first instance. When it comes to vulnerability rules, however, I would expect any firm to have clear policies in place for how to deal with issues such as the one you mentioned around consumers who are unable to pay by certain channels.

Q186 Siobhan McDonagh: This is the same problem as the idea of the informed consumer. Some people have so much going on in their lives that they cannot spend all this time complaining to the ombudsman or doing price comparisons. This was a lady who simply wanted to be able to continue her car insurance with a company that she had been using. She cares for a husband with dementia. Is it reasonable to expect that she should have to go through making a complaint?

Matt Brewis: If she is unhappy with the service she is getting, it should be really simple. We talk about these things called sludge practices. This is where firms make it difficult for you to cancel your policy. You can buy it with one click, but you have to phone up and hang on the phone for an hour in order to cancel it. For insurance firms, if you can buy it online, you need to be able to cancel it online. That is a requirement. It is one of the things that I am happiest about, as a consumer, that we have that requirement in place.

In the situation you talk about there, it should be as simple, in my view, as the customer saying, "I am unhappy with how I am being treated. Please treat this as a complaint". It needs to be easy for customers to raise their concerns with firms. Firms then have a time period to deal with it.

In the scenario you talk about, you would hope that there would be an easy resolution and they would be able to make a payment on the phone. The ombudsman is free and easy to use for consumers, where they have difficulties in doing so. I take your point. It would be a frustration. It would be time-consuming at a time when somebody does not have time. I am afraid I do not have a solution to do it more quickly.

Q187 Siobhan McDonagh: The FCA cannot say that people who do not have access to the internet should not be discriminated against.

Matt Brewis: Your concern was around how the payment was being made. For example, some online banks offer a product where you get a better interest rate because it is online only because there are reduced staff costs. You do not need to have a call centre to monitor it. Where there are reduced costs for providing a product, it is the same situation.

Q188 Siobhan McDonagh: My point is that, in this particular case, she was not asking for new or different. She was asking for the same.

Matt Brewis: I understand.



HOUSE OF COMMONS

Q189 Siobhan McDonagh: Looking at the whole issue of paying interest if you want to pay monthly, in 2021 the FCA banned a practice called price walking, where loyal customers were made to pay more for the same insurance. Which? has told us that insurance companies could get away with it because their loyal customers would not notice the price difference. It has led to 6 million people paying 50% more in fees. Who has been the worst offender to date? Have they improved their game after the ban came into effect?

Matt Brewis: This is around the loyalty penalty. Our rules came in in early 2022. Effectively, they require that, whether you are a new customer or a renewing customer, you are offered the same price for your product. We see firms complying with those rules.

Occasionally, firms have made mistakes. In at least one case we have made that public, but there are firms that have made honest mistakes and that have subsequently rectified it. They have sent out cheques to those customers who have been charged too much.

We are currently undertaking a review of the impact of the loyalty penalty ban, which we will be publishing towards the end of this year or early next year. That will cover how it has been implemented and its effectiveness. Overall, as I sit here today, I am not aware of there being significant breaches of the rules.

Q190 Siobhan McDonagh: If we turn to instalment payments, which you said was a tax on the poor, Which? has revealed that 1st Central Insurance charged customers 39.11% interest on their loans. It quoted one customer an extra £504 just for choosing to pay monthly. Only NFU Mutual and Hiscox said they do not charge interest on monthly repayments. Is this something you are going to review? Will you include fair interest rates as part of the consumer duty?

Matt Brewis: This is a product that I care a lot about, and I am very concerned about the additional cost it can have on consumers. It is an essential product for those consumers who cannot afford to pay in one lump. Roughly 50%—it is about 51% or 52%—of people in the UK pay monthly for motor insurance. For home insurance, that number goes up to about 60%. It is a large swathe of the population. It is not just those on the lowest incomes who use it.

My concern is around the credit risk that is charged. There is very limited credit risk when it comes to these products. If you do not pay for your insurance, it can be cancelled. The cost of it is being used, in my opinion, to reduce other costs in the insurance chain.

We will consider the Which? data. That is information that we are aware of. One of the areas we are concerned about—this is linked to your previous question around the loyalty penalty—is something called the waterbed effect. Because the insurers are not making significant profits, if we reduce their income from this type of charging, it will come in



HOUSE OF COMMONS

somewhere else. If we remove premium finance as a cost, it will not be the case that insurers will just eat that cost. It will appear somewhere else as an increased cost.

It is really important to understand the implications of any action that we take around it. The firms have all created fair value assessments. Their role under the consumer duty is to show that they are providing fair value to their customers. Every firm that offers premium finance will be producing these fair value assessments to set out why they believe it is so. It is one of those areas that we will be looking at. Generally, across the market, we have seen the rate charge come down. It is not by a huge amount, but generally the average is ticking down.

With the loyalty penalty, there was a first-mover disadvantage. If one firm reduced its prices for existing customers significantly, it would have had to raise its new customer price. That would have made it uncompetitive. I do not really see that as such a big issue in this market. You named two firms that are not charging for premium finance. It is possible for firms to charge less or not at all. We see distinctions between the home market, where more firms do not charge, and motor.

We are looking at it. We will continue to look at it. We will continue to push and encourage firms to take action themselves.

Q191 Dame Angela Eagle: I just want to ask a few questions around different sorts of insurance. Given that car insurance is a mandated product and car owners have to purchase it to be legally on the road, should there be greater scrutiny of insurers' profit margins and absolute amounts of profit on car insurance products?

Matt Brewis: The FCA is not a price regulator in that way in terms of our objectives. Therefore, as it stands, that does not come under our remit. Any debate around that would be one of social policy.

Q192 Dame Angela Eagle: You are not interested in profit margins.

Matt Brewis: We are interested in understanding what they are and how firms are making them, but the capping of those—

Q193 Dame Angela Eagle: I asked whether there should be greater scrutiny of insurers' profit margins and absolute amounts of profit on car insurance products. Surely, as a regulator, you would be interested in looking at that for any product to see whether it was being done fairly.

Matt Brewis: Apologies, I misheard. In terms of greater scrutiny, absolutely, it is an area that we look at. We consider how much firms are making, along with our colleagues at the PRA, who have to consider the solvency of firms. We work very closely with them to understand business models and profit margins. As part of fair value assessments, price is a key aspect of that. It is an area that we scrutinise, yes.

Q194 Dame Angela Eagle: What has been going on in the last period? The



HOUSE OF COMMONS

cost of car insurance, which is a compulsory insurance, has been soaring. What has been going on with profit margins? Are you worried about it?

Matt Brewis: From an underwriting perspective, as Colm and Charlotte said in the panel before, independent analysis has shown that firms have not been making an underwriting profit on selling insurance. They have been making profits on add-ons and other products sold alongside. A focus of our work has been on those add-ons. Things like premium finance, for example, which we regard as an add-on to motor finance, have been areas where we have been increasing our scrutiny.

Q195 **Dame Angela Eagle:** Your analysis shows that car insurance, which is compulsory, is not profitable unless you put add-ons on to the premiums. Is that what you are saying?

Matt Brewis: Yes. If I may just explain a bit more, I can understand your concern.

Q196 **Dame Angela Eagle:** The people who talk to me about their soaring levels of car insurance would take with some surprise that there is no profitability at all.

Matt Brewis: We have seen significant increases in claims across many insurance products, not just home and motor. There has been a significant increase in the number of claims. We publish our value measures data, which shows the amount taken in premium and the amount paid out in claims. Motor is the highest. The percentage of premiums taken used to pay claims is in the mid-60s.

What has happened? There have been supply chain difficulties, delays in fixing cars due to lack of labour, higher demand globally post the pandemic for new vehicles. This is not a point about electric cars specifically, but cars more generally are becoming more sophisticated. What would have been a little tap on the bumper that could have been solved by a trip to the scrapyard 20 years ago requires a few thousand pounds of replacement cameras and other sensors in the bumper.

Q197 **Dame Angela Eagle:** There are plenty of older cars on the market, I suspect. The issue here, though, is that the more that the price of car insurance goes up, the more you are likely to have uninsured drivers on the roads. We know it is a criminal offence and all that, but there is a cost to having an increase in uninsured drivers on the roads as well.

Matt Brewis: Yes.

Q198 **Dame Angela Eagle:** How do you take account of that in your analysis of whether insurers are being fair to all customers? If you are hit by an uninsured driver, it is pretty dismal.

Matt Brewis: There are a number of insurers that have pledges around that. It is not consistent across the market. There are a number of insurers that have pledges to not increase your premiums in the event that that were to happen. As you say, it is a criminal offence.



Q199 **Dame Angela Eagle:** You do not consider how much price mitigates access to something like a car when Parliament has, understandably, legislated to make it compulsory to have car insurance and yet increasing numbers of people cannot afford car insurance because the prices of it are going up.

Matt Brewis: Yes, you are right. As it stands, it is not a defined right by Parliament as part of Government social policy that there is an entitlement to access to a vehicle, and therefore it is regulated on a different basis.

Q200 **Dame Angela Eagle:** Why are you so worried about straying into what you keep referring to as “social policy”? You seem to be very jumpy about it. Can you explain what you mean?

Matt Brewis: They are matters for the Government and the Treasury to make decisions on, as opposed to the regulation of the market and how products are sold. When it comes to whether somebody is deserving of a social tariff or something like that, that kind of regulation is one for Government rather than the regulator.

Q201 **Dame Angela Eagle:** Can you just very briefly—I suppose I should declare an interest as someone who lives in a multi-occupancy building—say something about the effort you are making to resolve the commission issue, which you highlighted last year, and how you are getting on with that?

It emerged that the huge increases in buildings insurance for those who live in multi-occupancy buildings were made up of large amounts of undeclared commission over many years. How are you working to resolve that unfairness? People in multi-occupancy buildings can often be on very fixed incomes, like pensioners in social or sheltered housing.

Matt Brewis: I gave evidence to this Committee last year and to the Leasehold and Freehold Reform Bill Committee a few weeks ago on the progress that we have made around that.

There are a number of areas that we can talk about where significant progress has been made. Our new rules, which came into force at the end of last year, require leaseholders to be treated as customers. To take a step back, what was happening was that leaseholders were paying the bills, but they were not customers and had no rights. We were seeing that leaseholders were not being taken into account by insurers, freeholders or any part of the chain.

Our rules require that insurers and brokers treat leaseholders as part of the insurance chain and consider their needs as a customer. We still do not regulate them because they are not financial companies; they are the managing agents of those buildings.

The legislation that is currently going through would seek to ban the payment of commissions. We have stopped regulated firms making those



HOUSE OF COMMONS

payments to an extent. This Bill will make even stricter changes to that. The most significant recent development around that has been the ABI's implementation of a recommendation that we made in our 2022 report, which was for the buildings that were worst impacted in terms of fire safety to have a system in place for the pooling of risk and reinsurance to reduce the cost of that insurance. That is about to go live shortly. Based on our analysis, that should have a significant reduction for those worst-impacted buildings.

With that should also come a reduction in brokerage because you have a one-stop shop for those buildings to be dealt with. I welcome that BIBA, the brokers trade association, along with a number of its members, has introduced a cap on commission. There is still more to do around that.

Q202 Dame Angela Eagle: We hope this legislation will achieve those things, if it ever gets on the statute book.

Matt Brewis: It will have some impact, but it will not impact the level of direct brokerage and commission that is charged. There is more that firms can do to support leaseholders around that. We are working closely with BIBA and the ABI around those issues.

Q203 Chair: You used a very useful analogy earlier on, which was the waterbed. I just wanted to clarify something. With the loyalty penalty and the rule change that you made at the beginning of 2022, which effectively said that firms cannot charge new customers less than what they are charging their loyal renewers, presumably that led to a waterbed effect, in that everyone paid higher premiums.

Matt Brewis: No, not at all. You can imagine a seesaw. You had some customers who had been—

Dame Angela Eagle: There is a seesaw and a waterbed. I am having trouble.

Chair: Yes, I know.

Matt Brewis: I am sorry. Let me try again. New customers were paying below their risk price. If you assume your price should be 100, as a new customer, the insurer was charging you 75, for example. To get you in, there was a discount. We saw some examples where people were being charged eight times their risk price, i.e. 800, for their insurance. They were cross-subsidising those people who were paying below their risk price. When our rules came in, the prices for those who were paying much more came down significantly.

Q204 Chair: Given your waterbed analogy, surely that meant that someone else's prices went up.

Matt Brewis: Those people who shopped around every year and those who were new customers paid more, yes.

Q205 Chair: That would be one of the reasons why premiums in this area have



HOUSE OF COMMONS

gone up so much, then.

Matt Brewis: It would be why there has been an increase for those people who switch every year. This might explain some of the confusion around the ABI data and your data around loyal customers versus new customers and what has happened with prices over the last five years or so.

Q206 **Chair:** I have one last question. Have you fined any insurance companies in the last 12 months and, if so, what for?

Matt Brewis: I may have to write to you on that. We have fined one broker around some issues. We have required things like past business reviews to be carried out. Those are not fines per se, but they are about fixing problems from the past. For enforcement outcomes that have resulted in fines for insurers, no.

Chair: Unless my colleagues have any further questions on insurance, I want to thank you for staying to do this delayed session. I am going to declare it over.