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Dame Harriett Baldwin MP
Chair, Treasury Committee
House of Commons
London
SW1A 0AA

10 May 2024

Dear Dame Harriett,

Thank you for offering Citizens Advice to appear before the Committee on 17 April to discuss insurance. In your summation, you asked if I would write to you and the Committee to share any data points that were covered in the session; and to list what we see as being the essential solutions to move things forward for consumers. I have set this out thematically below.

The impact of vehicle insurance price rises

For many, driving is an essential part of daily life, not a luxury. It is therefore essential that we have a car insurance market which is affordable and which people trust. We are currently failing on both counts. Trust in the sector is generally low - according to the FCA in 2022, consumers have lower levels of trust in insurance companies than they do in mortgage lenders, pension companies, credit card companies and financial advisers. Pricing is extremely opaque, for both consumers and for consumer organisations like Citizens Advice who look to represent their interests - which is likely a significant contributor to the low level of trust. In our view, it's the job of the regulator to improve consumer trust by ensuring clarity and transparency around pricing.

We know from our frontline advisers that people are struggling with insurance costs - and that the pressure has only increased over the past couple of years. We've seen a sharp increase in the proportion of our advisers reporting seeing or knowing of clients who've had to cancel car insurance because of cost-of-living pressures - just 5% of advisers reported this in 2022, whereas over 50% did in summer last year.

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Affordability for those on low incomes

Insurance is an essential for anyone who needs to drive a car, either for work or other essential parts of life. When people have to cancel their policies because they've become unaffordable, they experience real, tangible harms as a result.

Our research[1] shows that more than 4 in 5 people who cancelled motor insurance in the first half of last year found essential tasks more difficult as a result. This included looking for work, looking after dependents or getting to healthcare appointments. We see these harms played out in our local offices too, with clients missing job interviews or Job Centre appointments due to having to cancel their car insurance - or having to resort to vastly more expensive temporary cover for the days where they can't do without their car.

Our research has also shown that:

- 16% of people had to cut back or stop spending on motor insurance in the first half of 2023 - with almost 1 million cancelling their cover entirely.
- People on Universal Credit were more than 6 times as likely to have cancelled their insurance as people not on Universal Credit.
- Racially minoritised people were more than 3.5 times more likely to have cancelled car insurance than white people.

Unfair and discriminatory pricing

Greater transparency is also needed to help understand why certain groups are charged significantly more for their car insurance. An important group in this respect are people of colour who we have found pay more for their insurance, on average, than white people.

[1] All figures in this section are based on analysis of an online poll conducted by Walnut Unlimited on behalf of Citizens Advice. A nationally representative sample of 4268 adults aged 18+ in the UK were surveyed. The figures have been weighted and are representative of all UK adults (18+). Fieldwork was conducted between 2nd–12th June 2023. Walnut's social research team is a member of the British Polling Council and abides by its rules.

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As of 2022 our research found:

- People of colour may be paying at least £250 a year more for their car insurance than white people, on average.
- People of colour pay 40% more than white people - this rises to 49% for Black people.
- We estimate 725,000 people of colour paid a total ethnicity penalty of £180 million on their car insurance in 2022.

Our research found that in areas where there are large communities of colour there are, on average, higher insurance prices. We're concerned that our research suggests that areas with large communities of colour may be inadvertently identified as more risky, even when objective risk or cost factors are controlled. As markets evolve and the use of 'big data' and algorithms in setting prices becomes more prevalent, there is a risk that these inequalities are perpetuated and amplified.

There is no suggestion that insurers are directly or intentionally discriminating against people of colour. Many factors are likely to drive these unequal outcomes: from individualised pricing in insurance to algorithmic bias. What we are seeing is, instead, indirect discrimination which is only permissible where insurers can explain and objectively justify why, in this case, postcodes where people of colour are more likely to live also attract higher premiums for their insurance. Both the Equality Act 2010 and the FCA's Consumer Duty[2] are clear that insurers have this responsibility. However to date we have seen no adequate explanation of what is causing people of colour to be charged more on average for their insurance..

For insurers to take serious steps towards providing an adequate explanation of unequal outcomes, they must go beyond platitudes, assertions or hypotheses and build a robust data driven understanding of the problem. Without transparency around the factors being fed into pricing models, there's no way to know whether pricing differentials for certain groups can be adequately justified. There is a clear role for the FCA to drive this forward.

We have focused here on the effects of postcode pricing on people of colour, as this is where our own research has been. However, similar concerns exist around the impact

[2] We have set out some of the ways that the Consumer Duty applies to the issue of discriminatory pricing and the links with the Equality Act 2010 in a paper which can be found here.

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of postcode pricing on low income households (‘the poverty premium’). While the Equality Act would not apply in this case, we would expect the Consumer Duty still would.

Recommendations for action

The question of what is driving higher premium costs - both higher, and potentially unfair, prices for specific groups, and price increases across the board over the past year - is a crucial one to get to the bottom of, to understand which policy levers are needed to address these issues.

That’s why we think the FCA should act swiftly to provide clarity on these questions and report on what is driving both the sharp rise in costs and the factors causing postcode pricing which drive the poverty premium and ethnicity penalty. This is a crucial first step in assessing what further regulatory or social policy levers may need to be pulled to tackle these problems.

Depending on the findings of this review, we’d want to see appropriate next steps taken as follows:

- If the factors driving postcode pricing - and associated poverty and ethnicity premiums - are justifiable in relation to risk factors, then the FCA should provide clarity and transparency on this. By identifying what factors lie behind the higher prices faced by people often least able to afford car insurance, this would allow policymakers to identify if there are steps to target these factors and reduce prices for these consumers.

- If they are not justifiable on these grounds, the FCA should make clear that unequal outcomes for those on low incomes and racially marginalised groups are discriminatory, and set out expectations for how firms should address this via implementation of the Consumer Duty.

The above process is important to understand what lies behind postcode pricing, to ensure that pricing complies with the Equality Act and to restore some trust in the sector. However, it is unlikely to be quick and there is no guarantee that at the end people on low incomes will be able to afford to access this essential market. We

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therefore think there is a case for the Government and the FCA to look at whether a social tariff should be introduced for car insurance, targeted at those on the lowest incomes. This would bring this market in line with other essential services like energy, water and broadband.

Longer-term, we'd also like the Government to consult on the introduction of a statutory advocate for financial services, including insurance, learning from the impact a statutory advocate has made on behalf of consumers in the energy sector. A well-resourced advocate with information gathering powers would play a key role in improving consumers' experience in the insurance market, driving a move to greater transparency and supporting the industry to improve their practices, including for vulnerable and minoritised consumers.

Yours sincerely,

David Mendes da Costa
Principal Policy Manager