# **Consumer Price Setting Policy**

We are required to have in place policies and procedures to ensure compliance with the Consumer Price Setting Rules.

Should there be any material changes to the firm’s pricing practices, pricing models or products they should be reviewed against this policy. The firm must not do anything that would contravene the Consumer Price Setting rules or the rules relating to Fair Outcomes for Customers of longer tenure.

[Name of Firm] recognises that it is important that consumers have a realistic picture of the long-term cost of their chosen product at inception and are not penalised for being a loyal customer to the firm.

Where we carry out the following activities in respect of Home Insurance or Motor Insurance: -

1. Setting the renewal price or
2. Setting the price of any additional product offered to the customer at renewal or
3. Determining the level of remuneration, including any fees earned by the firm when distributing a product at renewal

We must ensure that the renewal price is not greater than the **Equivalent New Business Price (ENBP)**.

The ENBP includes where we forgo commission in whole or in part when selling to a new business customer or when we offer cash or cash – equivalent incentives to new business customers and also deal with renewals.

Where a customer is paying for their policy through premium finance, the APR at renewal should meet the requirements of not being greater than the ENBP (APR at inception).

Where we have a closed book of business i.e., where we no longer offer the policy to new business customers but invite renewal to existing customers we must still ensure that the renewal price is not greater than the ENBP. We can use a close matched policy to assess this.

If we cease to offer the additional product at new business, then at renewal we must treat the additional product as a closed book.

**Assumptions**

In determining the ENBP, it must be assumed that the existing customer has approached the firm through the same channel as they used when they first purchased the policy.

If we no longer accept business through the channel that the customer originally used, or where the channel can no longer be identified, we must assume that the customer approached the firm through the most commonly used channel.

Where the customer has used more than one channel when they purchased their policy, we must determine the ENBP using the channel or combination of channels that was used to determine the price of the customer’s policy at new business.

Examples of business channels: -

* Appointed representatives
* Introducers
* Introducer Appointed Representative
* Website
* Sub broker
* Cold calls

We can calculate the ENBP on the basis the customer is using a different channel than they used when they first purchased their policy where: -

1. The customer has agreed to take out a different product to the one they took out in the last insurance period.
2. The product the customer is taking out is most frequently purchased via a different channel
3. It is in the customer’s best interest to take out the new product

If we offer cash or cash equivalent incentives (wholly or partially funded by the firm) at inception, these must be considered when calculating the ENBP if the customer would be eligible if they were a new business customer. A cash-equivalent incentive is any incentive that can be readily expressed as having a monetary value: -

|  |  |
| --- | --- |
| **Cash or Cash-Equivalent Incentives** | **Non-Cash Incentives** |
| A percentage discount on premium | Toys |
| A monetary discount on the premium | Carbon off setting |
| Part of the insurance term given for free e.g. one month free | A percentage change to win back the premium |
| A free additional product |  |
| Cashback |  |
| Retail vouchers  |  |
| Points in a retail loyalty scheme |  |

Incentives which are not cash or cash equivalents are excluded from these rules.

As a firm we should ensure that we communicate the incentive to the customer in a manner which is Clear Fair and Not Misleading. We must present incentives in a way that makes clear both the overall price of the product, not including the incentive, and (if different) the price the customer will actually pay. (ICOBS 6B 2.15G)

The ENBP must take account of any individually negotiated discounts the firm agrees with an equivalent new business customer for the product. In taking these individually negotiated discounts agreed with new business customers into account, we must be able to demonstrate that: -

1. The equivalent new business price does not discriminate on grounds of tenure and
2. The firm has taken account the best interests of its customers in determining its method for calculating the ENBP

**Missing information**

Where we do not have the same information for an existing customer as we do for a new business customer we can decide how we approach this situation. If it is because we have changed the information we obtain from new business customers when providing a quotation we should endeavour to obtain this information from existing customer prior to renewal.

In contrast to the above, we may acquire additional information during the term of the policy that has an effect of either increasing or decreasing the ENBP for existing customers - examples of information we may obtain includes telematics data or fraud risk indicators.

**Changes to contractual parties**

Where we rebroke a policy at renewal and place the customer with a different insurer at renewal, this customer must be treated as a renewal customer by our firm however, the new insurer will be treating the customer as a new business customer.

It is important that renewing customers are recoded as such on the system and even where the insurer has changed, they must still show as renewed with us even though they are new business to the insurer. It is only through accurate inputting we will be able to demonstrate that customers of longer tenure are not disadvantaged.

**Notifications to the FCA**

It is our duty to notify the FCA if we become aware that any other firm in the distribution chain is not or may not be complying with the pricing rules.

**Sales practices**

At no time should our firm discriminate against customers based on the length of time the customer has been with the firm (tenure).

We should not discourage customers of longer tenure from shopping around for an alternative policy. We adhere to the transparency at renewal rules that support this.

We should not communicate with customers of longer tenure with the intent of discouraging the customers from contacting the firm to negotiate the renewal price of the policy nor should they be more likely that other customers to readily accept the renewal process.

Where we do communicate a renewal price to a customer in line with the pricing remedy, we may subsequently agree a discount to a renewal price in individual negotiations with the customer.

It is not in our practice to treat renewal customers as new business customers to achieve a better renewal price.

Where we do treat existing customers as new business customers to ensure they get the ENBP we must make and retain written records including details of the assessment we have undertaken to assure that the customers’ best interests rule has been met and the difference this action has made to the price the customer pays compared to the price they would have paid.

We must not participate in or carry out any steps where the primary impact on existing customers affected by the steps is to increase the price they pay. (ICOBS 6B.2.43)

It is not our practice to have opaque pricing structures we are open and transparent with customers, insurers, brokers and others in the distribution chain.

**Records**

Where we have a price setting role, we must make and retain written records of how we continue to satisfy ourselves that we do not systematically discriminate against customers based on tenure in contravention of ICOBS 6B.2.39R

The written records must include details of: -

1. the assessment we have undertaken to evaluate whether the equivalent new business price for customers of longer tenure systematically exceeds that for new business customers
2. the controls we have put in place to ensure that any pricing model used to generate ENBP or the renewal prices for customers in closed books, where we are unable to identify a close matched product, does not generate prices which are systematically higher the longer the customer remains with us.
3. the evidence we have gathered and the assessment we have undertaken to evaluate whether prices offer fair value to the customers of longer tenure
4. the assessment we have undertaken to evaluate whether the fees we charge to customers of longer tenure systematically exceed those charged to new business customers and
5. any appropriate independent oversight of the assessments and controls of the points above.

The records must set out: -

1. the basis on which we are complying with the rules in this chapter
2. how we have resolved any areas of discretion, ambiguity or potential uncertainty in our determination that the pricing meets the pricing rules
3. appropriate expert input and advice which we have relied on to satisfy ourselves that we are in compliance with the rules.

The following are examples of the records we should retain: -

1. Minutes of pricing committee meetings or other appropriate meetings
2. Any analysis showing whether similar customers face different pricing outcomes
3. Analysis demonstrating that the firm has not discriminated against customer of longer tenure.

The records should be provided to the person responsible for the attestation and to the FCA on request.

**Attestation requirements**

Annually we must provide the attestation confirming that we are and have been complying with the rules in this chapter throughout the reporting period. The attestation must be provided by a senior manager annually on or before 31st March in the year following the end of the reporting period.