Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Financial Services Consumer Panel: research paper on consumer experiences of insurance renewals

About the Panel

The Financial Services Consumer Panel (FSCP) is an independent statutory body set up to represent the interests of consumers (both individuals and small businesses) in relation to the regulation of financial services. Members of the Panel are recruited via open competition and have a range of experience including financial inclusion, financial services industry, consumer protection and law.

Summary

The Panel commissioned research into consumers' experience of home, car and travel insurance pricing at renewal. This research found that the majority of consumers experienced price increases - averaging 27% for car, 22% for home and 13% for travel insurance. Beyond these averages, some consumers faced even more significant price increases at renewal.

The research also showed that consumers are taking action to reduce the impact of price increases with negotiation the most likely to succeed but the least likely action to be taken. The fact that 85% of consumers who negotiated with their existing provider received a reduced price raises questions for the Panel regarding the value for money of the initial renewal quote and the outcome for those consumers not willing or able to negotiate.

Context

Based on feedback from consumers and significant media coverage, the Panel wanted to better understand consumers' experience when renewing existing insurance contracts, specifically: how the renewal price compared to the previous year, what consumers were doing in the light of this and what outcomes consumers were experiencing.

Research Methodology

The Panel engaged Thinks Research to conduct a bespoke online quantitative survey (informed by a series of cognitive interviews) with a nationally representative sample of 2,000 consumers. This survey focused on consumers' experience in relation to car, home and travel insurance renewals.

Key Findings

The majority of consumers surveyed experienced a price increase for their insurance renewal across products, with 80% being offered an increased premium for car, 72% for home, and 51% for travel insurance at renewal.

The mean average percentage change in price is highest for car insurance (27% increase), followed by home (22%), then travel (13%).

Beyond these averages, some consumers face significant price increases at renewal.

The averages hide the extremes, and many consumers are facing significantly large price increases at renewal. When reviewing the consumers in the top quartile (the top 25%) by premium increase, those renewing their home insurance experienced an increase of at least 31% with the average increase for this cohort being 72%. The experience is even worse for car insurance customers where those in the top quartile were subjected to a premium increase of at least 40%, with the average for this group being an eye-watering increase of 74%.

How consumers are responding; negotiation pays off, but is the least likely action to be taken

Our research showed that consumers are not passively accepting these price increases with 82% of car, 73% of home and 71% of travel insurance customers who experienced a price increase at renewal taking some sort of action to try and mitigate the impact of these increases.

This action makes a difference, with consumers able to secure a lower premium. Of those consumers that acted, 54% of travel insurance customers secured a reduction as did 64% of home and 68% of car insurance customers.

However, the action most likely to pay off is the one least likely to be taken, and possibly the hardest to do: negotiation. 85% of consumers who negotiated their car insurance renewal price with their existing provider were able to secure a reduction, and 81% of those negotiating home insurance also secured a reduction. This raises significant concerns for the Panel: we question how the initial renewal premium represented ‘fair value’ under the Consumer Duty obligations on firms and whether consumers less willing or able to negotiate price (e.g., some vulnerable consumers) may be overpaying.

Other actions taken by consumers included shopping around, with around a third of consumers doing so (car 39%, home 33% and travel 30%) and around one quarter of consumers changing provider.

As expected, on average consumers feel less satisfied with their insurance renewal price the higher the level of premium increase. However, an interesting insight from the research is that those consumers who were able to successfully negotiate the price of their renewal were the least satisfied of all-perhaps because of the realisation that they had not been offered value for money on the initial renewal quote.

Panel Recommendations

Based on the insights from the research and subsequent discussion with other consumer organisations, the Panel makes the following calls on the FCA:

1. The FCA needs to act to ensure that consumers renewing their insurance achieve a good outcome, receive value for money and are treated fairly, in line with the obligations on firms contained within the Consumer Duty, without having to shop around, negotiate or change their cover.

2. As the research demonstrates, consumers can reduce the renewal price through negotiation with their existing provider. Therefore, the FCA must question how the

original renewal price meets the obligations on firms contained in the Consumer Duty:

- How does the original renewal quote meet the fair value criteria?
- Are those consumers who don't negotiate overpaying? Is this a good outcome?

3. The FCA should consider whether vulnerable and other consumers, who are or may be less likely to negotiate, are being harmed by over-paying for their insurance on renewal and/or are receiving reduced value.

4. To support consumers in making informed decisions around provider, product and value the FCA should ensure that regulation enables consumers, and consumer groups, to request full disclosure of the data fields used to determine insurance premiums.
(note: this echoes the Panel's call on the FCA following The Panel's research into AI and algorithms in 2023)

5. The FCA should develop disclosure rules to ensure firms are more proactive and transparent about why a consumer's premium has changed at renewal;

    - Information must be understandable and go beyond 'inflation' or 'higher repair costs' – it should explain changes in risk assessment in relation to the consumer and other factors underlying the increase e.g., changes in the rating of postcode areas or car group, or claims history/points accumulated.
    - Firms should include information on the average renewal pricing change across the firm over the preceding 6 months with the renewal invitation – this helps inform consumers and allow them to make better, more informed decisions.
    - Firms should give consumers information on how they can reduce renewal premiums, for example by altering the level of excess or reducing cover (along with full disclosure of the risks associated with such changes).

6. The FCA should consider the consequences of high renewal pricing, such as increases in uninsured consumers, under-insurance and the impact of increased switching.

7. The Panel believes the FCA needs to pay close attention to pricing in relation to insurance products, especially with regard to:

- mandatory insurance such as motor, home (for mortgagors) and professional indemnity insurance; and
- how commission is disclosed and the degree to which commission influences prices in insurance premiums.

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