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Big Data Call for Inputs
Strategy and Competition
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

4 January 2016

Dear Sir, Madam,

Call for Inputs: Big Data in retail general insurance

This is the response of the Financial Services Consumer Panel to the FCA's call for input on 'Big Data'. The Panel believes the insurers' increased use of personal data to inform risk and pricing strategies has potential to have a significant impact on access to the market for certain consumers.

The Panel does not have the evidence to respond to most of the questions to the call for input, but we do have general concerns about the long-term implications of insurers' increasing use of Big Data:

- Demutualisation of risk and restricted access for 'high-risk' consumers to GI products;
- Use of non-risk related 'Big Data' enabling insurers to engage in price optimisation;
- The ownership of personal data and the issue of informed consent.

Although we accept that the scope of this call for input is limited to the general insurance sector, the same concerns arise in other markets for financial products as well, notably consumer credit.

Demutualisation of risk

Big Data offers insurers opportunities for increasingly individualised risk assessments, which would have a significant impact on risk pooling and individual premiums. In the longer term, the use of Big Data could alter the current structure of the insurance industry, as the pooling of risk would reduce significantly.

This potential demutualisation of risk will affect different segments of the market in different ways. The use of individualised micro risk assessments means that some people are likely not to be served at all. Others will pay much higher premiums. Conversely of course, some consumers should pay lower premiums because their individual risk, or the average risk in their pool, is lower.

Equally, some individuals in high risk groups – for example young drivers or elderly travellers – may be able to get affordable insurance if their individual risk profile is much lower than the average for the group. Demutualisation is a policy issue. The government recognised this in setting up Flood Re, and we would urge the FCA to look at practice in other jurisdictions where policymakers have concluded that a degree of mutualisation is socially desirable.

Price optimisation

Big Data could enable insurers to use information about (potential) customers that which is not risk-related to "optimise" their premium, by estimating more accurately the price increase the

consumer will put up with before they switch to a different provider. Similarly, data on individual customers' propensity to shop around could be used to inflate prices for loyal customers.¹

Data ownership and consent

The call for input does not touch on the issue of ownership of personal data. It is not clear that consumers are generally aware that personal data such as that gained from social media activity is being used to make decisions about the price and availability of financial products, and even sold to third parties.

The information Commissioner's Office (ICO) has said that further processing of personal data for new purposes may be permissible under the 'legitimate interests condition' if it is "necessary for the legitimate interests of the data controller (or a third party), unless there is unwarranted prejudice to the rights, freedoms and legitimate interest of the data subject".

However, according to the ICO, such re-purposing is "unlikely to be either fair or compatible" with the Data Protection Act 1998 if, for example, "information that people have put on social media is going to be used to assess their health risks or their credit worthiness (...) unless they are informed of this and asked to give their consent".²

Given the significant adverse impact re-purposing of personal data could have on consumers' ability to access general insurance products, the Panel believes that the use of 'Big Data' for the calculation of insurance premiums should be subject to the consumer's explicit consent. The FCA should examine whether this aspect of the law is being applied correctly and consistently by insurers. In particular, the request for consent should be clear and explicit, and not 'buried' within a long list of terms and conditions.

Last, the Panel wants to draw attention to the very short period during which stakeholders have been given to provide the FCA with input on this issue. It is unclear why the call for input is only open for 6 weeks, including the Christmas period. Stakeholders with limited resources, including consumer groups, may struggle to provide the FCA with a comprehensive response under these circumstances. We would urge the FCA to stick to the normal 3-month consultation period for future calls for input, unless there are compelling reasons to do otherwise.

Yours sincerely,



Sue Lewis
Chair
Financial Services Consumer Panel

¹ The issue of price optimisation has already received significant attention in the United States. See for example, Consumer Federation of America & Center for Economic Justice, "Comments on CASTF's Draft Price Optimization White Paper" (June 2015).

² Information Commissioner's Office (July 2014), "Big data and data protection", page 22.