

EIOPA's consultation on differential pricing practices in non-life insurance –

How will it impact pricing in the future?

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KPMG in Pricing – a strong international network of Experts...

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1 | The KPMG EMEA Pricing Group
Together we developed our Visions of Future in Pricing...

Pricing & Analytics
More frequent tariff submissions including technical pricing and market pricing
Combining different and more granular models within technical pricing – in particular Data Science based models in order to calibrate (or algorithm)
Pricing Actuaries supporting Analytics Data Science initiatives outside Pricing to create synergies to Pricing/Analytics. Know How

IT & Software
Extending analytical work on customer behaviour in e.g. modeling of conversion and conversions
Developing and enhancing of deeper actuarial monitoring – especially to cover monitor and steer new business
Creating more automated end-to-end price-processes to ensure adaptable pricing
Real-time capability of market prices (up to daily monitoring and adjusting if necessary)
Send to Open Source Software regarding Data Science models

... and shared our Insights with our Clients

Local Discussions
And Le

Synergies

Neue Regulierung zur Preissetzung wird Geschäftspraxis einiger Versicherer verändern
Die Herausforderung*
Die EIOPA plant eine Einschränkung der Preisgestaltung für Kompositversicherer. Durch die angedachten Regeln wird die Preisgestaltung für Versicherer zukünftig stark eingeschränkt.
• Hierzu wird derzeit ein **Coop** konsultiert, dessen Inhalt mit hoher Wahrscheinlichkeit mittlere bis hochgradige Auswirkungen auf die Preispolitik haben wird
• Betroffen ist das gesamte Privat-Segment in der Kompositversicherung (inkl. SHU¹ und K²)
• Es wird u.a. diskutiert über ein mögliches
• Verbot von Nutzung von Stornoverhalten bzw. Preiselastizität
• Verbot von Life-Time-Value-Strategien
• Wahrscheinlich ist, dass mindestens ein IKS³ aufzubauen ist um sicherzustellen, dass schutzbedürftige Gruppen nicht zu sehr durch Marktpricing benachteiligt werden.
• Das IKS beinhaltet zumindest
• den Ausbau des Governance-Systems, um eine „unfaire Behandlung“ durch „differenzierte Preisgestaltung“ auszuschließen
• die Weiterentwicklung von Produktentwicklungs- und Produktfolge-Prozessen sowie der Pricing-Methoden

Was ist jetzt zu tun?
KPMG hat ein Vorgehen entwickelt um eine **effiziente VU-individuelle Betroffenheitsanalyse** durchzuführen. Dabei werden die wichtigsten Auswirkungen der zukünftigen Regulierung auf das VU entlang verschiedener Szenarien festgelegt. U. a. beinhaltet unser Vorgehen:
• Initiales Verständnis zur diskutierten Regulierung schaffen (KPMG führt Schulungen durch und nimmt initiale Einschätzung des Versicherers auf)
• Einschätzung zur Betroffenheit im Vergleich zum Wettbewerb, inkl. Geschäftsmodell, Pricing-Prozessen, Governance-Prozessen (insb. VmF⁴ im Pricing), Überprüfung der Projekt-Preissetzungen für Pricing-Projekte
• Ableitung und Abstimmung von Folgemaßnahmen als Ergebnis der Analyse (z.B. Anpassungen in der Preisstrategie, Anpassung des IKS)
• Nachlaufend: Regelmäßige Information zum aktuellen Stand der Konsultation und der Auswirkung der Regulierung auf Ihr VU

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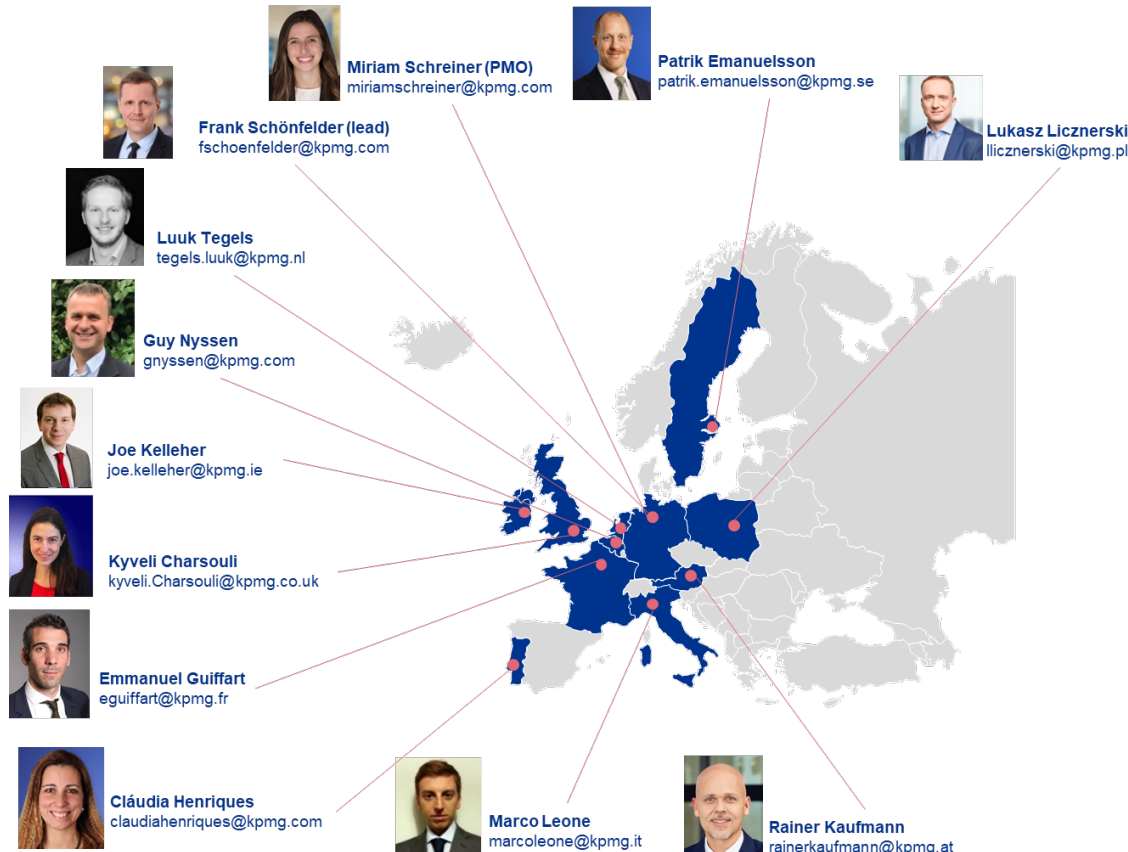
Future of Pricing
We have designed and imp from big to small P&C insu pricing – including view in employees per b4 premium des Versicherers auf)
In our consulting practice w automation (esp. in Desktop implementation of efficient start-ups. We are doing soft done in open source software that fits their individual need
As KPMG, we are cooperat start-ups. We are doing soft done in open source software that fits their individual need
We implemented **Data Sci** Pricing models, reengineer high dimensional data for reliable business case for t
Quantifying **Cyber** risks is due to changes in software EMEA level, we have been support our clients.
As an audit company, we h internal audit of pricing, los of pricing. We are also lea or regionally – especially in

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... which we are also leveraging when consulting on Pricing-Regulation*



-  2014: Insurers must be able to objectively defend the pricing of special non-life insurances such as motor and home insurance - non-risk-driving factors are not allowed.
-  2015: Discrimination between customers must be legal and actuarially defensible - non-risk factors are not permitted.
-  2016: Insurers must ensure that customers with the same risk profile receive the same premium .
-  2022: Several changes in Pricing regulatoin – e.g. That the renewal premium must not be higher than the new subscription premium .
-  2022: Säupervisor banned price walking from 2ne renewal on going forward.
-  2022: Supervisor believes that there are reasons to take measures to prevent loyal policyholders from being treated unfairly when setting premiums.
-  2022: EIOPA considers that certain types of differential pricing practices do not comply with the applicable regulatory framework and lead to unfair treatment of consumers.

*) Sources: KPMGs market insights and EIOPAs consultation paper on Supervisory statement on differential pricing practices in non-life insurance lines of business (2022).

Upcoming Regulation will Limit the Degree of Freedom in Pricing P&C Insurance in Private Lines*

EIOPA is planning to strengthen customer-protection by reducing the degree of freedom in setting prices for P&C Insurance.

- The [consultation paper](#) published by EIOPA is likely to have medium to high impact on price-setting
- Targeted are the private segments within P&C insurance – like private Motor, private Liability, private Property, etc.
- There is also a discussion about
 - **Banning the use of Churn-Models in Renewal (incl. price elasticity models)**
 - **Banning Life-Time-Value-Strategies**
- It is likely that at least Insurers will have to create an Internal Control Framework which assures that vulnerable groups of customers are not overly affected by Price Walking, including at least
 - Setting up a Governance-System which prevents „unfair treatment“ from „differential pricing“
 - Adjusting Product Development Processes and Pricing Methods in a way that the Insurer is able to document compliance to the upcoming new regulation
- This regulation is likely to be set in force by EIOPA as interpretation of IDD which would make local supervisors obliged to follow the interpretation of EIOPA.



*) The views presented in this slides are the current expectations of KPMG Germany based on EIOPA's consultation paper. In the future, this view might change, e.g. from new publications from EIOPA based on the feedback received in the consultation. The views expressed here are not a consulting advise but a general statement of opinion from KPMG Germany.

Indicators for high impact to your business*

High degree of private lines

Salesforce focused on
Aggregators or Brokers to a
high degree

Using differentiated churn
models in Renewal

High degree of price-sensitivity
in business


Lifetime-value strategies in
place in Pricing new business

Using “willingness to pay” in
Renewal

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Insurers should take first actions now

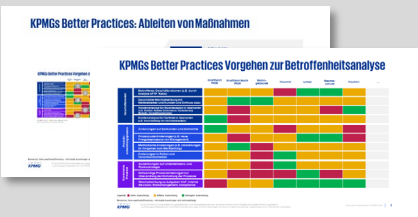
KPMG has developed an approach to efficiently deliver [insurer-individual impact analysis](#). Within this analyses, we are providing a list of concrete steps to do in order to prepare for the upcoming regulation – including price-changes and changes in desired portfolio-mix in order to prepare. This analysis includes:



1) Share understanding about upcoming regulation with you

Run workshops to share details of upcoming regulation, incl.

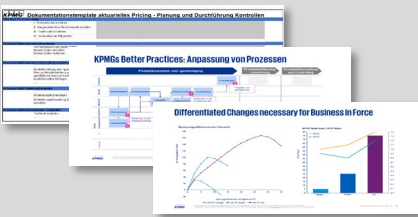
- Two scenarios for concrete outcome of the future regulation (minimum vs. maximum)
- Detailed heatmap of areas where P&C insurers are typically affected (incl. LoB-specific view)
- Examples of reactions observed in the market (esp. regarding prices changed already)



2) Assess exposure of your insurer to this regulatory change

Providing first assessment of your insurers exposure to this regulatory change by performing LoB-specific interviews and comparing to KPMG benchmark-template, including the categories

- **Business Modell** – incl. finding most relevant LoBs (normally Motor), pricing-strategies, impact to sales costs, ...
- **Product Development** – incl. methodical updates required, updates on product-price approval process, ...
- **Governance** – incl. additional governance requirements, additional tasks for Actuarial Function, ...



3) Deep Dives (if very important issues are identified)

Where we identified specific issues that are very important to your insurer, we are offering to **provide deep dives** relevant for your individual insurer, e.g.

- Optimizing prices currently used (new business and business-in-force-analysis for renewal)
- Updating the product approval process

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