

FEEDBACK STATEMENT

Consultation Paper on the Supervisory
Statement on differential pricing practices in
non-life insurance lines of business

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eioipa

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1. INTRODUCTION

EIOPA would like to thank all the participants in the public consultation for their comments on the draft Supervisory Statement on differential pricing practices in non-life insurance.

The input received provided important guidance for EIOPA to finalise the Supervisory Statement, including to adjust some key aspects covered by the Statement and to provide further guidance as needed.

All of the comments submitted were given careful consideration by EIOPA. The individual comments received and EIOPA's response to them are published as a separate document (see Resolution of Comments), unless the relevant respondent to the public consultation requested the comment not to be made public.

2. DETAILED OVERVIEW OF THE RESPONSES

2.1. EXISTENCE OF DIFFERENTIAL PRICING PRACTICES

► **Most of the respondents have observed the existence of differential pricing practices in their jurisdictions**

Most of the stakeholders that participated in EIOPA's consultation have reported the existence of differential pricing practices and agreed with the risks arising from differential pricing practices identified in the public consultation. The feedback received further supports the evidence gathered by EIOPA in recent years about the existence of such practices in the European insurance market.

A minority of stakeholders, including some industry trade associations, did not deny or confirm the existence of such practices, some of them arguing that their mandate do not allow them to gather information from their members on such topics. Some of them however acknowledged that should such practices exist, they would agree with the need to address the risks identified in the public consultation.

Some stakeholders representing customers as well as other market participants have highlighted specific practices and risks and provided concrete detailed examples which assisted EIOPA in further refining the Supervisory Statement. It is also noteworthy that some stakeholders mentioned that

such practices also exist in other sectors such as the energy markets, the hospitality sector or the airline industry. While acknowledging that the way in which the initial price discounts and renewals are advertised upfront may be different in other sectors, EIOPA cannot comment on other sectors; this Supervisory Statement fulfils its customer protection mandate to ensure it intervenes when specific risks are identified.

► **Most stakeholders expect that the use of differential pricing practices will increase**

Most of the respondents to the public consultation agreed that the use of differential pricing practices will increase in the future. However, some questioned whether the increase will be due to the increasing adoption of new technologies such as Artificial Intelligence or due to other reasons such as the increasing competition in the markets.

The fact that the use of differential pricing practices is expected to increase in the years to come, including with the use of increasingly sophisticated and complex tools, further reinforces the need for EIOPA to take action in this area. In this regard the Supervisory Statement follows a technology-neutral approach applicable to all differential pricing practices regardless of the tool or technology used.

► **Some respondents referred to differences across lines of business and national markets**

Stakeholders provided examples of how differential pricing practices may be applied in different lines of business. However, most of the issues highlighted were similar. Hence, EIOPA has decided to continue opting for a general application of the Supervisory Statement to non-life insurance products.

EIOPA also acknowledges that there may be differences on how differential pricing practices are applied across national markets due to a variety of reasons such as the level of competition in the markets or the existence of national rules affecting renewals. For this reason, the Supervisory Statement allows national competent authorities to define, following a risk-based approach and taking into account relevant regulatory requirements in national legislation, the scope of their supervisory work in those areas where they consider that greater threats to customer protection exist.

2.2. LEGAL BASIS FOR THE SUPERVISORY STATEMENT

► **While most stakeholders welcomed the Supervisory Statement, some questioned its legal basis.**

EIOPA carefully assessed the Supervisory Statement and legal provisions under which the Statement was developed. The supervisory statement is based on the concerns that certain differential pricing practices lead to unfair treatment of customers. This is particularly the case of the so-called “price

walking practices”, where the premium paid by the customer is increased repeatedly at the renewal stage for reasons that are not related to underwriting risk or cost of services, such as how much of a premium increase an individual customer will tolerate before shopping for coverage with other product manufacturers.

These concerns have been identified in several EU national markets, with some competent authorities already acting in this area, including by banning some of the observed practices. EIOPA therefore deemed it necessary to act at the EU level, to promote the fair treatment of customers and supervisory convergence in the internal market by clarifying the supervisory expectations with regards to the existing requirements. In fact, the Supervisory Statement provides a minimum level of harmonisation in the supervision of existing requirements in light of the increasing use of differential pricing practices, whilst not interfering with the possibility for competent authorities to adopt additional measures.

To address the issues identified, EIOPA used a Supervisory Statement, a convergence tool based on Article 29 (1)(2) of the EIOPA Regulation¹, which mandates EIOPA to “promote common supervisory approaches and practices”. EIOPA therefore does not impose any obligations on the competent authorities or the market but rather promotes convergence in supervisory expectations and activities.

The supervisory statement, addressed to NCAs, does not introduce new regulatory requirements. It clarifies supervisory expectations based on the existing requirements, specifically Article 17 of the Insurance Distribution Directive (IDD)², which sets out a general obligation to act honestly, fairly and professionally towards customers, and the product oversight and governance (POG) rules under Article 25 of the IDD and of the POG Delegated Regulation³. The supervisory statement details further how to implement these requirements in relation to certain differential pricing practices, with the aim to promote common supervisory approaches and practices that would ensure better and more consistent customer outcomes in a principles-based environment.

Considering that the identified practices if not adequately implemented lead to customer detriment, EIOPA also acts within Article 9 of the EIOPA Regulation, which mandates it to play a “leading role in promoting transparency, simplicity and fairness in the market for customer financial products or services across the internal market”.

¹ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority).

² Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

³ Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors.

► **Some stakeholders questioned whether product oversight and governance requirements are the correct legal basis on which to develop such supervisory statement**

The purpose of POG is to ensure appropriate standard of customer protection. This is achieved only if products with fair outcomes for customers – whereby fairness needs to be interpreted vis-à-vis the identified target market – are marketed. All product characteristics, including underlying pricing practices, need to also be subject to POG to determine whether fair outcomes have been achieved – i.e., if the interest and benefit of the target market have duly been taken into account in the product design process.

The application of POG in this context is therefore not to be understood as interference in price setting or price control, since the pricing practices concerned are assessed within POG only in light of their potential unfair outcomes – this taking into account the focus of POG on processes adopted by the manufacturer and on outcomes for the target market rather than on price and pricing practice itself.

The supervisory statement clarifies how POG requirements should be implemented in the context of differential pricing practices to ensure that pricing practices that lead to unfair outcomes for customers are not used, and what the competent authorities should consider when supervising POG. This includes looking into whether manufacturers:

- have system and controls to ensure their pricing practices lead to good customer outcomes, including additional checks and balances to ensure differential pricing practices are implemented in the interest of customers;
- when defining the target market, take into account aspects such as customers' propensity to switch, price walking, price elasticity;
- when testing the product, assess whether the products and their relevant characteristics – including the way in which they are priced – are aligned and remain aligned throughout their lifetime to the target market's needs, objectives and characteristics;
- when defining the distribution strategy, identify the distribution strategy which best fits the product and the target market;
- when monitoring and reviewing the products, determine if the practices result in poor customer outcomes.

Further, EIOPA is of the view that differential pricing practices fall within the reach of Article 4 of the POG Delegated Regulation. Article 4 (3) requires that the product approval process shall:

- *(a) ensure that the design of insurance products meets the following criteria:*
 - *(i) it takes into account the objectives, interests and characteristics of customers;*
 - *(ii) it does not adversely affect customers;*

- *(iii) it prevents or mitigates customer detriment;*
- *(b) support a proper management of conflicts of interest.*

Article 4 (3) applies to all characteristics of the product including the price. Therefore, differential pricing practices cannot be implemented in a way that is incompatible with Article 4(3). For example, the manufacturer cannot use differential pricing practices in a way that is detrimental to the target market and must properly manage the conflict of interest that is inherently part of differential pricing practices.

Some stakeholders also highlighted that it may be difficult to prove the effectiveness of POG measures and so that the actuarial function should be more involved. EIOPA is of the view that all relevant functions, including the actuarial function, and other relevant staff members should be involved in the POG process to ensure customer-centricity in the product design phase and prevent customer detriment. However, POG is a principles-based requirement and each manufacturer should be free to determine the functions, roles and structure to be involved in its POG process, as long as they are adequate and sufficient to identify and mitigate possible customer detriment, taking into account the products marketed and the business model of the insurance product manufacturer.

2.3. SCOPE OF THE SUPERVISORY STATEMENT

► **Some stakeholders had diverging views whether new business premium discounts should fall in the scope**

As highlighted by some stakeholders, the use of differential pricing practices are predominantly used at the renewal stage, but can also be used for onboarding new customers and for up-selling and cross-selling practices (e.g. one insurance product is sold to a customer at a discounted price and then the insurance manufacturer may try to sell other insurance products to the same customer at a higher price than if sold on a standalone basis). In this context, some stakeholders considered that the Supervisory Statement should also cover premium discounts since they could also entail risks for consumers, while others were of the opinion that they should be excluded from the scope.

The Supervisory Statements covers all types of differential pricing practices, including premium discounts, and insurance undertakings should have adequate and proportionate product oversight and governance measures also for these practices (e.g. adequately disclosing the existence of a premium discount only on the first year(s) or month(s) of the contract). However, EIOPA is of the opinion that greater risks for customers arise when differential pricing practices are applied repeatedly at the renewal stage; hence, why discounts are not specifically mentioned amongst the examples which raise the highest supervisory concerns

To clarify this the definition of price walking practices, which is the practice that the Supervisory Statement highlights as raising greater supervisory concerns, has been slightly amended to include the term “repeatedly”, placing greater focus on the second and subsequent renewals. EIOPA aims like this to achieve a greater balance between ensuring customer protection and enabling customer to benefit from premium discounts and shopping around for better deals. This may also benefit some high- underwriting risk customers (e.g. young inexperienced drivers in motor insurance) to have access to more affordable insurance products, and provide greater flexibility to insurance manufacturers to attract new customers.

Therefore, it is still possible to use premium discounts to attract and retain customers, although such practices should also count with adequate and proportionate governance measures ensuring that practices applied do not lead to bad consumer outcomes. EIOPA will nevertheless closely monitor the market and in the future may also consider more specifically addressing differential pricing practices at the point of sale, including new business discounts or cross-selling and up-selling practices to existing customers.

► **Some stakeholders suggested to further clarify which differential pricing practices are considered unfair and to clarify the definition of vulnerable groups**

In the statement EIOPA has provided some examples of groups of vulnerable customers. However, the groups of vulnerable customers may differ between different insurance products and many of the different factors and groups that may be considered as being vulnerable may overlap, leading to what might be described as “intersectional vulnerability”. Therefore, it is not possible to provide a close list of vulnerable groups, but rather insurance manufacturers should establish adequate product oversight and governance measures to identify them taking into account the nature, scale and complexity of their business.

Moreover, the Supervisory Statement also highlights which differential pricing practices raise more supervisory concerns and provides examples of differential pricing practices which are considered not to meet the supervisory expectations with regards the existing requirements. Nevertheless, as previously mentioned the Supervisory Statement is principle-based and offers sufficiently flexibility to insurance manufacturers to adapt the product oversight and governance measures to the nature, scale and complexity of their business model, taking into account both the process followed as well as their outcomes.

► **Some respondents considered that in addition of technology-neutral, the Supervisory Statement should be method-neutral**

EIOPA notes that differential pricing practices are not new for the insurance sector and, as highlighted by stakeholders, they can be applied with or without technological advances such as AI

and Big Data. Nevertheless, stakeholders acknowledged that developments like Big Data and AI raise new challenges. The Supervisory Statement follows a technology-neutral approach and it is applicable to all differential pricing practices regardless of the tool used. In addition, it also follows a principles-based and risk-based approach, which means that insurance manufacturers need to adapt their product oversight and governance measures to the nature, scale and complexity of their business model. In this regard, the increase in sophistication of methods needs to be balanced by increasing sophistication of governance processes, including by monitoring the outcomes of such methods.

Similarly, the Supervisory Statement follows a method-neutral approach and applies to all types of differential pricing practices. However, as mentioned above the Supervisory Statement follows a risk-based approach and takes into account both the processes followed to adopt such pricing practices, as well as their outcomes. Therefore, it also highlights which practices raise higher supervisory concerns, namely the so-called price-walking practices, and within the latter it also includes some examples of practices which are particularly concerning from a supervisory perspective and would not meet existing requirements.

► **Some respondents to the consultation suggested that the scope should be expanded to cover non-retail clients**

EIOPA is of the view that the Supervisory Statement, and hence the activities from national competent authorities, should focus on retail customers (including SMEs), given that due to their personal characteristics, information asymmetries and imbalances in resources and negotiating powers, they have greater difficulties to effectively negotiate and/or understand their insurance coverage and the pricing of products, and therefore are more prone to suffer the negative effects of some differential pricing practices. However, EIOPA considers that it would be a good practice that insurance manufacturers also apply similar product oversight and governance ('POG') requirements with non-retail customers.

► **Some stakeholders suggested that health insurance in some markets is classified as non-life insurance business and this should be carved out from the scope of the Statement.**

Some stakeholders noted that the treatment of the health insurance differs across EU countries. In this regard the Supervisory Statement has clarified that by non-life insurance it should be understood the non-life insurance classes included in Annex I Solvency II.

► **Some stakeholders suggested that EIOPA should also expand the scope of the Statement to premium differences between distribution channels**

Some stakeholders referred to insurance manufacturers setting different premium between direct and intermediated channels which are not justified on underwriting risk or cost of service, but

rather on other factors such as elasticity within the channel or different retention rates (e.g. an insurance intermediary would pro-actively search for a better deal for its customers at renewal). On the other hand, some insurance manufacturers argued that distribution channels have significantly different cost structures (e.g. distribution channels with high market power would charge higher commissions, or different costs between digital vs. physical channels).

Given that EIOPA does not have sufficient evidence about these practices and their implications for customers, the Supervisory Statement will not specifically refer to them at this stage, but it is an issue that EIOPA could potentially monitor in the future.

2.4. OTHER ASPECTS RELATING TO THE CONTENT OF THE STATEMENT

- ▶ **A few stakeholders argued that the ability for customers to shop around should not require further specifications of existing requirements. In fact, in these stakeholders' views, as customers can shop around they can easily find cheaper products and get lower prices. Moreover, these stakeholders argued that disclosure and transparency measures in place should suffice to address the issue.**

While EIOPA agrees that competition brings significant benefits to customers and that existing requirements should neither limit nor hinder competition, EIOPA is of the view that customers' ability to shop around is not sufficient to prevent customer detriment. In particular, some of these differential pricing practices rely on the fact that some target market's characteristics limit them from shopping around / lead them from being less prone to shop around and, hence, on the fact they can be charged higher price increases.

However, POG requires all products' characteristics to be aligned with the target market's needs, objectives and characteristics and a product's characteristic which lead to higher pricing because of the target market's inertia and/or to a higher increase because of loyalty should not be considered aligned with the needs of such target market.

Moreover, because of information asymmetries, customers may often not be aware of the fact that they are being charged a higher price and/or may not understand the pricing practices used at renewal – i.e., they may be of the view that a pricing increase is due to underwriting risk-based or other relevant cost factors. Transparency measures currently in place do not specify that pricing practices need to be disclosed to customers. Hence, why EIOPA deems it important that differential pricing practices put in place are carefully considered and assessed as part of the POG process to ensure that only those which are aligned with the needs, objectives and characteristics of the target market are brought into the market.

Taking into account stakeholders' views that transparency and disclosure requirements can assist in enhancing competition and in ensuring customer protection, EIOPA has also further revised the Statement and included that manufacturers, as part of the POG testing process, should also test whether the ways in which differential pricing practices are disclosed to customers allow them to understand and make relevant informed choices – resulting in the fact that if manufacturers are able to demonstrate that all customers in the target market fully understand the practice and the price increase then the practice put in place may not lead to a detrimental outcome.

▶ **A few stakeholders argued that limiting the use of differential pricing practices could undermine mutualisation of risks in insurance or insurer's ability to address increasing costs due to inflation**

Some stakeholders had concerns that the Supervisory Statement could undermine the mutualisation of underwriting risks between high- underwriting risk and low- underwriting risk customers, such as in the case of young inexperienced drivers not being charged the full “cost of underwriting risk” in motor insurance during the first years of their policy and hence allowing them to access more affordable coverage. In this regard EIOPA would like to highlight that underwriting risk-based practices, including mutualisation of underwriting risks, are out of the scope of the Supervisory Statement. In fact, the differential pricing practices addressed by the Supervisory Statement rely more on cross-subsidisation between loyal and new customers, rather than on mutualisation of underwriting risks between high and low underwriting risk customers.

EIOPA is of the view that the mutualisation of underwriting risks will and shall continue to play a core role in the insurance sector, since it brings many benefits not only from a risk management perspective but also from other aspects such as financial inclusion. The Supervisory Statement further clarifies that underwriting risk-based pricing practices, including risk mutualisation practices, are excluded from the scope of the Supervisory Statement. Furthermore, the Supervisory Statement does not forbid the use of discounts to attract and retain consumers; while price discounts should also count with appropriate governance measures, the Supervisory Statement places the focus on the second and subsequent renewals.

Similarly, cost-related premium increases, for example to address increasing claims and operational costs as a result of inflation, are also not covered by the Supervisory Statement, which focuses on non- underwriting risk and non-cost related pricing practices. Insurance manufacturers should nevertheless avoid, for example, passing those higher costs arising of inflation only to customers with low propensity to shop around or low-price elasticity, since this would unfairly penalise such customers and insurance manufacturers would struggle to justify that they have adopted an adequate balancing of interests.

▶ **A few stakeholders pointed out that the banning of these practices in other markets has led to price increases.**

While a full data set has not been presented, EIOPA acknowledges that discouraging the use of certain differential pricing practices may have, to a limited extent, some implications for customers that shop around for better deals at the renewal stage. However, it is expected that over the long run prices on average should decrease and it can also lead to greater competition in other product characteristics other than price. Furthermore, the Supervisory Statement does not forbid the use of discounts to attract and retain consumers; while price discounts should also count with appropriate governance measures, the Supervisory Statement places the focus on the second and subsequent renewals, giving like this flexibility to insurance manufacturers to attract and retain customers, and enabling the latter to benefit from shopping around for better deals at the renewal stage.

Moreover, EIOPA is of the view that consistent customer outcomes should be achieved for all customers across the Union; hence, if previous price decreases and/or lower prices were non-underwriting risk or cost related but rather due to the fact that some customers were being unduly overcharged due to personal characteristics such as their low propensity to shop around or their “willingness to pay”, this would have not been in line with EIOPA’s objectives and it also brings reputational risks for the sector.

In addition, EIOPA is not banning any practice, but rather it is asking insurance product manufacturers to ensure their products do not lead to unfair outcomes for customers within their identified target markets. It further highlights that detriment occurs when loyal customers are continuously being charged – without any underwriting risk or cost related justification – significantly higher prices than new customers or when customers continue to be subjected to significantly high -without any underwriting risk or cost related justification – increases at renewals.

2.5. POG REQUIREMENTS

- ▶ **While stakeholders agree with the governance measures proposed for the target market, in particular, they highlight POG is the right tool and the governance process proposed is correct some highlight that it may be difficult to differentiate target market’s with customers with price elasticity vs other more loyal customers and some also highlight no more guidance is needed.**

While EIOPA shares the view that it may be difficult to differentiate amongst the customers’ characteristics identified above, for some of the practices reported manufacturers are able to profile customers in such a granular manner. If these manufacturers were to continue implementing these practices, they would need to take into account these factors to limit risks for customers and ensure the practices adopted are not detrimental to customers with some of these characteristics.

EIOPA also shares the view that some manufacturers may apply these practices to all customers, regardless of their characteristics. In these cases, manufacturers should ensure they are not detrimental to all customers falling within the target market.

Finally, while more example and guidance have been included, the principles based nature of POG requirements is also important. This allows insurance product manufacturers to adopt the governance measures and processes which they deem most appropriate as long as they are adequate to identify possible detriment to the target market.

- ▶ **In relation to product testing, while most stakeholders agree with the guidance proposed by EIOPA, some argue that this should go beyond underwriting risk-based pricing while a few others highlight no more guidance is needed.**

EIOPA would like to clarify that POG testing requirements apply to all products, regardless of the usage or not of non- underwriting risk-based pricing practices. However, the further supervisory expectations highlighted in the Statement are only aimed to apply to non- underwriting risk-based pricing aspects. These because specific risk for customers have been identified.

Moreover, in relation to the provision of further guidance, while some additional examples have been included, EIOPA would like to further reiterate what is highlighted above in relation to importance of ensuring the principles-based nature of POG requirements.

- ▶ **In relation to product monitoring and review requirements, a few stakeholders highlighted that it is necessary that products relying on differential pricing practices continue to be monitored, including with the use of relevant metrics, to identify any adverse impact they may have on customers, also stating that insurance manufacturers should also report once a year to the supervisory authority. A few stakeholders also pointed out that adequate governance measures should include clear ongoing review of measures such as, differentials between new business and first renewal price, and renewal price relative to first renewal price. Review requirements should also require undertakings to identify other pricing differentials beyond tenure and to demonstrate how their approach is delivering fair value to different cohorts of customers.**

EIOPA carefully examined the examples which several stakeholders provided in relation to the key aspects to be monitored and deems that these examples could be relevant for several insurance manufacturers. Hence, EIOPA has included them, by way of example, amongst the different aspects which insurance product manufacturers should monitor.

- ▶ **Finally, also in relation to product monitoring and review, some stakeholders argued that information on the key indicators to be monitored should be reported to competent authorities.**

EIOPA has carefully considered this suggestion and shares the view that it may be useful for competent authorities to have such information to better inform their risk-based supervision. However, with this Supervisory Statement, EIOPA aims at promoting a minimum convergent approach in the way in which these requirements are supervised in light of differential pricing practices. Hence, EIOPA considered as not proportional to require a ‘European reporting’, including on a voluntary basis, whilst allowing the freedom to competent authorities to require such information as relevant also depending on their legal powers.

2.6. SELECTION OF POLICY OPTION

- ▶ **Stakeholders generally agree with the analysis of costs and benefits of the different policy options described in the impact assessment, although some report different costs and benefits or considered that there is no sufficient evidence available**

Some stakeholders did not agree with the fact that a supervisory statement on differential pricing practices or a ban of such practices would lead to less options for customers for shopping around at the renewal stage, arguing that competition in non-life insurance markets would remain strong. It was also mentioned that, from a customer protection perspective, the costs of not introducing a ban at this stage would entail that customers, including vulnerable groups, will likely continue to suffer the negative implications of differential pricing practices.

On the other hand, some stakeholders emphasised the costs of changing practices as a result of the Supervisory Statement in terms of competition or the principle of mutualisation in insurance. Other stakeholders considered that EIOPA should conduct further investigations / thematic reviews to better understand the implications of differential pricing practices.

Overall EIOPA continues to remain of the view that particularly for price savvy and digital customers who can easily shop around, the implementation of the Supervisory Statement may impact, to a limited extent, their ability to search for better deals at renewals. Such implications would nevertheless be less acute than by introducing a ban. Therefore, based on the evidence gathered, EIOPA is of the view that a risk-based Supervisory Statement is the correct policy option at this stage, since it brings benefits for customers on the long term, including by allowing price savvy and more digital customers to continue benefiting from shopping around for better deals at renewal, and to promote also greater focus on scope of coverage.

- ▶ **Some stakeholders considered that EIOPA should carry out further investigations arguing, on the one side, that EIOPA should refrain from issuing any guidance until gathering further evidence, on the other side, that EIOPA should use these investigations to issue stronger measures.**

EIOPA has carefully considered the view that some stakeholders shared that further investigations should be carried out before issuing a Supervisory Statement. In particular, EIOPA understands that such analysis and quantification would further support the adoption of policy actions in this area. As highlighted by some stakeholders, to the extent that this additional analysis would indicate ongoing unfair treatment of customers, more prescriptive regulatory approaches such as banning certain practices could be introduced.

While EIOPA understand these views, it is of the opinion that supervisory resources should be used in a risk-based manner and, hence, EIOPA considers that at this stage the policy option chosen is the most balanced and beneficial for customers and the market. In fact, it provides guidance on the minimum common approach to be followed by competent authorities in a risk-based approach when carrying out supervisory action and / or taking supervisory measures. This implies that – as some authorities already have done – further investigations can be carried out and additional measures can be taken as needed. EIOPA will also continue monitoring market and regulatory developments in this area.

Moreover, EIOPA is of the view that there is already sufficient evidence reported by competent authorities and other stakeholders about the existence of differential pricing practices in the EU insurance sector and the risks of customer detriment arising from them. Because of this evidence, the adoption of a Supervisory Statement is deemed appropriate.

EIOPA'S FEEDBACK STATEMENT

Over the past years, as a result of a number of factors such as the increasing competition in the markets, the increasing sophistication of technical analyses and automation of processes or the deployment of new technologies and data sources, EIOPA has observed the increasing recurrence to differential pricing practices in the European insurance markets. These are practices whereby customers, sharing a similar underwriting risk profile and to whom similar coverage and services are offered, are charged different premiums for other reasons not related to underwriting risk or costs. Examples of these practices include the fact that customers may be offered significant discounts in year 1 to then successively increase the premium in years 2, 3, etc. based on factors like their low propensity to shop around.

Over the past years EIOPA has been monitoring this topic and has also observed that some competent authorities in the EU and abroad have taken decisive actions to address the risks of some of these practices, including by banning them in some jurisdictions. Within this background, EIOPA decided to issue a Supervisory Statement in order to clarify what are the supervisory expectations with regards to differential pricing practices in the context of the IDD regulatory framework, in order to promote supervisory convergence and a more customer-

centric approach ensuring that these practices do not result in unfair treatment of customers, including loyal customers.

This Supervisory Statement does neither aim at interfering with the pricing and the design of non-life insurance products nor it aims at undermining the principle of mutualisation. Rather, it seeks to clarify the supervisory expectations with regards to existing legal requirements, in particular by highlighting which practices are considered not to be in line with the requirement of acting honestly, fairly and professionally towards customers. The Supervisory Statement also provides guidance on how POG requirements should be implemented, monitored and supervised in relation to these practices.

The aim is to ensure that insurance manufacturers using differential pricing practices implement sufficient governance and risk management measures allowing for the adoption of those practices which are beneficial to the target market. It also highlights specific characteristics which should be taken into account when defining the target market and also specific testing to determine whether the practices adopted are beneficial to the target market and if not to avoid the commercialisation of products whose underlying pricing practice is not in line with the target market's needs, objectives and characteristics. Finally, this to also ensure there is sufficient monitoring and review with the view that if it emerges that the differential pricing practices are detrimental to customers, this is reviewed and not further adopted in relation to the relevant target market.

EIOPA, whilst highlighting that certain price walking practices are particularly detrimental and cannot respond to the needs, objectives and characteristics of any target market, re-emphasises that insurance product manufacturers are free to determine the price and pricing practice of the products they commercialise, so as long as via sufficient governance processes they can ensure these practices provide benefit to the target market as a whole, and that overall the pricing practices adopted reflect the obligation to act honestly, fairly and professionally towards customers and are aligned to the target market's needs, objectives and characteristics – i.e., are beneficial.