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Differential pricing practices in the non-life insurance sector – EIOPA supervisor expectations

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On 16 March 2023, the European Insurance and Occupational Pensions Authority (“EIOPA”) published a supervisory statement on differential pricing practices in non-life insurance lines of business (“**Supervisory Statement**”), aiming to eliminate price-setting strategies which lead to the unfair treatment of customers.

1. Background

Differential pricing practices are pricing practices where customers with a similar underwriting risk and cost of service are charged different premiums for the same non-life insurance product.

Whilst these types of pricing practices are not new, EIOPA considers that they may raise important concerns about possible detrimental and unfair outcomes for vulnerable customers.

In this respect, EIOPA specifically emphasises so-called “price walking practices”, where the premium paid by the customer is repeatedly increased at the renewal stage of the policy, based on factors that are not related to underwriting risk or cost of services, such as the amount of a premium increase that an individual customer will tolerate before shopping around.

According to EIOPA, customers who:

- are less price sensitive;
- have limited access to digital tools that could allow them to compare insurance products;
- are unaware of the existence of differential pricing practices; or
- are more likely to renew their existing insurance contracts without searching for an alternative;

may lose out if subject to differential pricing practices. This is because insurance manufacturers may specifically identify these customers and target them with non-underwriting risk related premium increases

at the renewal stage.

2. Aim

The Supervisory Statement aims to:

- Clarify supervisory expectations with regards to the requirements imposed under amended Directive (EU) 2016/97 on insurance distribution (“**IDD**”) and amended Commission Delegated Regulation (EU) 2017/2358 supplementing the IDD with regard to product oversight and governance requirements for insurance undertakings and insurance distributors (“**POG Delegated Regulation**”).
- Promote a convergent approach in the supervision of fair treatment of customers and disclosure requirements.

This is with a view to preventing unfair differential pricing practices that lead to customer detriment, particularly for vulnerable customers such as the elderly or those with limited access to digital channels, whilst not interfering directly with business decisions and/or pricing.

3. Key considerations

The key supervisory expectations set out in the Supervisory Statement are as follows.

- **Considerations regarding unfair treatment**
 - Insurance manufacturers using differential pricing practices should demonstrate that they have proportionate and effective POG measures throughout the entire lifecycle of the product to ensure that those practices do not unfairly affect customers within the identified target market.
 - EIOPA provides several examples of “price walking” practices that it, in its view, not only lead to unfair treatment, but are also not aligned with the needs, objectives and characteristics of any target market, and which are therefore not compliant with the requirements of the IDD or the POG Delegated Regulation.
- **Considerations regarding product oversight and governance**
 - The final approval of the product design relying on differential pricing practices should be at a sufficiently high hierarchical level in order to take accountability for an appropriate pricing.
 - Adequate measures should be in place to ensure the identification, prevention, and mitigation of the main drivers of conduct risk which could emerge from differential pricing practices.
 - An assessment should be made of whether differential pricing practices for a certain product are compatible with the target market.
 - The product testing process should ensure that pricing measures and procedures are sufficiently customer centric and that the impact of pricing measures and practices on the target market’s needs, objectives and characteristics is duly monitored.
 - Insurance manufacturers’ processes and procedures should ensure that products relying on differential pricing practices continue to be monitored, including with the use of relevant metrics to assess their outcomes and by involving all relevant functions, to identify any adverse impact they may have on customers.
 - Documentation and records should be sufficiently detailed to ensure accountability with regards to differential pricing practices.
 - Insurance distributors should be provided with an explanation of how the pricing of a product may develop at renewal and on the existence of differential pricing practices.

The Supervisory Statement further specifies that national authorities should review the POG measures and procedures, the sales process and the marketing and communication materials of their supervised entities, and take appropriate actions if they consider that:

- the POG procedures are not adequate;
- the products developed through the POG procedures have been marketed despite not being aligned with the target market's needs, objectives and characteristics; or
- the sales process and/or the marketing material do not ensure that fair and clear information is provided.

[Read the EIOPA Supervisory Statement here_](#)

[If you require any assistance or advice regarding differential pricing practices in the insurance sector, please contact our insurance experts_](#)

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