



22 September 2022

CXXXXX

Re: Central Bank expectations relating to the risk posed to consumers of not having sufficient home insurance cover.

Dear CEO,

In April 2022, the Central Bank of Ireland (the “Central Bank”) commenced a Thematic Review of the risk posed to consumers of not having sufficient home insurance cover (“the Review”).¹ The Review was prompted by reported increased costs in the construction industry, which impact property reinstatement values and, consequently, the level of insurance cover that a consumer should have on their property. In such scenarios, some consumers may be at risk of not being fully protected if they have to make a home insurance claim. The purpose of the Review was for the Central Bank to assess:

- the manner in which key information, regarding the appropriate level of cover, is brought to the attention of consumers, in respect of purchasing, and when renewing, home insurance;
- the quality of the product oversight and governance of insurance firms’ home insurance products; and
- insurance firms’ approach to claims processing in relation to under- and over-insurance in the context of home insurance, to assess for any potential consumer detriment.

This letter sets out the Central Bank’s main findings of the Review, as well as our supervisory expectations of insurance firms with respect to this particular issue and more broadly in terms of insurance firms’ approaches to consumer protection risk management. These supervisory expectations, outlined in detail in the Appendix to this letter, reflect our assessment of the possible risks to consumers.

¹ The Review consisted of seven of the main non-life insurance firms that provide home insurance products to Irish consumers, representing over 85% of the home insurance market share in Ireland.



The Review identified evidence of under-insurance in the home insurance market, with the level of under-insurance steadily increasing over the last 5 years, from an average of 6.5% of claims paid in 2017 up to 16.5% in 2021.² The percentage of claims paid out in 2021 that were reduced due to under-insurance ranged from 10% to 23% of home insurance claims paid by the firms in scope. Therefore, given the size of this market in Ireland, the Review indicates that a significant number of consumers are at risk of not being fully protected in the event of making a claim.

Whilst the Review highlighted a number of positive practices by some firms, such as internal reviews on under-insurance, customer awareness campaigns, staff training and the development of online tools to assist staff and consumers, the general approach taken by firms was not considered sufficiently consumer-focused in two key areas:

1. Clarity, consistency and timeliness of communications with consumers regarding the risk of not having sufficient home insurance cover.
 - The Review identified varying standards across firms in terms of sufficiently highlighting key information to the consumer, such as the importance of having the correct level of insurance cover and the concept of under-insurance in general. While consumers are reminded by firms of the need to review their sum insured, the practical consequences of under-insuring are often not made sufficiently clear and/or are not prominent in firms' documentation to consumers.
2. Effectiveness of firms' consumer risk management tools and frameworks in identifying and assessing risks to consumers.
 - It was apparent from the Review that, while some firms have proactively identified the risk to consumers, and have taken some steps to help mitigate this risk, other in-scope firms have not been pro-active in identifying the risk and must do more to help mitigate the risk to the consumer.

² Figures are based on the home insurance claims paid by the in-scope firms for the period 2017-2021.



- Each insurance firm should have a fully embedded, and fit-for-purpose, Consumer Protection Risk Management Framework. This framework needs to look beyond firms' direct interaction with customers to identify, mitigate and manage risks arising to consumers from external factors including changing economic and geo-political circumstances. Taking a customer-centric approach to all issues ensures firms protect consumers' interests and prioritise customer needs and outcomes.

The findings of the Review provide an opportunity for all firms to inform consumers of this important issue and build understanding through accessible and transparent communications. We expect firms to assess their own approach to date to communicating with consumers on this topic, against the expectations that are set out in the Appendix, and implement a comprehensive communications plan to appropriately address any shortcomings. We expect this plan to demonstrate an understanding of the proactive approach that is needed and include, at a minimum, a letter to be issued by firms to policyholders highlighting the risks of under-insurance (further detail on this is included in Section 1.1 of the Appendix). The plan should also include the actions that may be needed by firms to improve consumer disclosures, such as the updating of websites, Terms & Conditions, along with any other actions that firms consider appropriate.

Consumer protection begins with good business practices within financial services firms; firms must have robust compliance and risk management processes in place to anticipate, avoid and manage all risks to consumers. It is clear from this Review of one specific, but easily identifiable, consumer risk, that there are varying levels of maturity with regards to firms' Consumer Protection Risk Management Frameworks. This raises broader concerns for the Central Bank in relation to the lack of a consumer-focussed culture in firms, where this risk was not identified and/or where a sufficiently proactive approach was not adopted to help mitigate the risk. We expect firms to objectively assess the effectiveness of their Consumer Protection Risk Management Frameworks against the expectations that are set out in the Appendix, and take any actions that are necessary to ensure these expectations are met and that the best interests of the consumer are placed at the heart of firms' decision-making.

Actions Required

The Central Bank expects all firms that provide home insurance products to consumers to:



- Clearly communicate the risk of under-insurance to customers, including by writing to all home insurance policyholders explaining the consequences of being under-insured, the reasons why this is currently a heightened risk and how policyholders can better estimate the adequate sums insured value. This information should be provided to both direct and intermediated customers and, given both the importance of the information and the urgency of the risk, should be issued as a standalone communication;
- Act honestly, fairly and professionally in the best interests of its customers and the integrity of the market;
- Consider the risks and expectations set out in this letter and accompanying Appendix, and put in place a clear plan to address the points raised. The plan must include clear and reasonable timelines for implementation of mitigating actions, with appropriate governance and sign-off. Firms should submit plans to the Central Bank at cpnonlife@centralbank.ie by close of business, 28 October 2022. Firms can also contact this email address with any queries in relation to this letter; and
- Share the contents of this letter with the Board of Directors, and ensure that the Board of Directors has appropriate oversight of the firm's plan to address the gaps identified, or the actions required.

Yours sincerely

A handwritten signature in black ink that reads "Wesley H. Murphy".

Wesley Murphy

Head of Consumer Protection Supervision: Insurance & Intermediaries



Appendix

Consumer Risks and Actions for Firms

The Central Bank expects that all regulated firms adopt a consumer-focused approach in their dealings with all customers by ensuring they have the appropriate structures and processes in place, in line with Provisions 2.4 and 7.7 of the Consumer Protection Code 2012 (the “Code”), to deliver fair outcomes for customers. Specifically, in relation to the Review, the expectations set out below reflect our assessment of the possible risks to consumers and actions we expect firms to take to mitigate these risks.

1. Clarity, consistency and timeliness of communications with consumers regarding the risk of not having sufficient home insurance cover

Where firms fail to give clear information to consumers at any point in the life of a product or service, this will affect the consumer’s ability to make informed decisions and could result in harm. Where information is presented poorly or is not explained properly, it can be difficult for consumers to assess the benefits, costs and risks of the options available. This can result in consumers failing to provide properly for their future needs; for example, they may not be sufficiently aware of the consequences of not having sufficient insurance cover.

1.1 Consumer Information

Risks Identified

- The Review identified varying standards across firms in terms of clearly highlighting and explaining key information to the consumer, such as the importance of and reasons for maintaining an adequate level of insurance cover.
- In addition, whilst firms refer to the importance of the customer maintaining an adequate level of cover, either in their policy documentation or online, the practical consequences of under-insuring a property are not always made sufficiently clear. There are few practical examples provided by firms of what under-insurance means, in financial terms.
- Where firms refer consumers to external sources of information, such as the Society of Chartered Surveyors Ireland (“SCSI”) House Rebuild Calculator, to help estimate their house rebuild cost there is a risk that firms may not give full consideration to the



effectiveness of that information in ensuring that consumers understand how to calculate this figure.

Actions Required

- While it was noted during the Review that most firms were taking steps to improve their communication with policyholders, all firms must ensure that they are providing key information up-front and in a clear and easily understandable way. The Central Bank considers information about the application of the Average Clause, for example, would constitute key information, and should be disclosed as such in relevant documentation.
- Firms should enhance the understanding of consumers by providing clear and simple information, by way of specific examples (to include claims for both full and partial damage), that seeks to inform consumers of what under-insurance means in reality and the potential consequences of being under-insured. Clear, easily understandable examples should be provided in relevant areas, where not done so already, including firms' websites, customer documentation and any other appropriate customer information.
- Where firms have not proactively written to customers as yet, in light of the current economic environment or where the communication could be enhanced, following review and consideration of this letter, firms are expected to write to all home insurance policyholders, without delay, explaining under-insurance, the consequences of being under-insured, the reasons why this is currently a heightened risk and how policyholders can better estimate the adequate sums insured value. This information regarding the risks of under-insurance should be provided to both direct and intermediated consumers. Firms should work together with their distribution partners to ensure there is effective communication with intermediated customers.
- Where firms refer consumers to external sources of information, such as the SCSi, to help estimate their house rebuild costs, firms should consider what further information could be provided in order to help guide consumers through this process.



1.2 Economic Factors

Risks Identified

- In light of inflation levels in the current environment and action taken by firms, specifically with regard to communicating the impact of this on the consumer, we observed varying levels of proactivity by the firms in scope. For example, it was noted that two firms in scope of the Review undertook internal reviews on under-insurance in 2021 and subsequently engaged with consumers on this topic, while other in-scope firms have been slower to take steps to mitigate this risk for consumers.
- The Review also identified that the levels of indexation currently applied to home insurance policies, vary greatly between firms. In addition, it was observed that there are variances in firms' approach to contents cover, for example, in the calculation methodology, and level of discretion applicable to consumers.

Actions Required

- We expect firms to do more to emphasise that the adequacy of the sum insured value is not only affected by changes to the property made by the consumer, but also wider economic factors, which consumers may not have considered, such as inflation and rising building costs. In terms of indexation, we expect firms to take responsibility for actively monitoring inflation/deflation levels and to consider the effectiveness of any indexation levels used by the firm in mitigating the effects of inflation/deflation for consumers on a regular basis.
- Where applicable, firms should also highlight clearly to policyholders that the firm's use of indexation alone may not fully insulate policyholders from the risk of under-insurance due to rising costs, and that policyholders should therefore review the adequacy of their buildings and contents cover each year.
- Firms should review their approach to contents cover, in particular where it is calculated as a fixed percentage of rebuild costs, to ensure that consumers are not assuming a level of cover that may not be required. Firms should also consider whether their approach provides consumers with sufficient discretion on the level contents cover that they wish to purchase.



- In line with Provision 2.1 of the Code, a regulated entity must ensure that in all its dealings with customers, and within the context of its authorisation, it acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market. This is particularly relevant in terms of premium-related implications, such as price increases, for policyholders when revisions are made to the sum insured for buildings and/or contents cover. In addition, in the event of a claim and in cases where a policyholder would have been deemed adequately insured at the start of their current policy, the Central Bank expects firms to adopt a consumer-focused approach at the point of claim, to ensure that settlement offers made to claimants are fair and reasonable.

1.3 Customer Renewals

Risk Identified

- The Central Bank's Differential Pricing Review, published in July 2021, identified that many consumers of home insurance are not inclined to shop around or switch provider. In the context of this Review, where customers renew their home insurance policy each year (by automatic renewal or otherwise), over time the customer may be less inclined, or may not consider the need, to review their policy details, including the value of sums insured.

Actions Required

- Firms must ensure that their products are meeting the needs and expectations of customers and remain suitable for those customers over time. In cases where a policyholder renews with the firm, whether it be by way of auto-renewal or otherwise, the firm should consider more regular and targeted communications, to help mitigate the risk of under-insurance.
- In addition, firms should have a process in place to record when a customer updates their level of insurance cover, aside from any indexation changes applied by the firm.



2. Effectiveness of firms' consumer risk management tools/frameworks in identifying and assessing risks to consumers.

It is important that all regulated financial services providers understand the risks faced by their consumers, not only from the products and services they buy, but also from the external environment. In order to deliver the right consumer outcomes, in a consistent and sustainable way, firms need to have appropriate risk management frameworks in place to identify, mitigate and manage relevant consumer risks. Firms should be able to demonstrate a proactive and appropriate understanding of key risks to consumers alongside an appropriate level of ownership and oversight.

2.1 Consumer Risk Identification

Risk Identified

- The risk of under-insurance is a consumer risk that the Central Bank identified through its annual Sectoral Risk Assessment process. Following the completion of the Review, it was apparent that while some firms proactively made consumers aware of this risk, and have taken steps to help mitigate this risk, other firms have not been as proactive in this regard.

Actions Required

- Firms should be managing risks to consumers in the context of their strategies, business models and their internal structures and processes.
- While the majority of firms confirmed that the impact of inflation had been discussed at Board level, there was little reference to the impact of under-insurance and the levels of reduced claim payments for consumers. Where firms identify external risk factors, these should not only be considered from the perspective of the firm but also from the perspective of the firm's customers, where relevant.



2.2 Product Oversight and Governance (“POG”) and the use of Management Information (“MI”)

Risk Identified

- Firms should have appropriate POG processes, including relevant customer and/or product MI to ensure they can assess whether products are meeting the needs and expectations of customers and to help in the identification of consumer risks. As part of the Review, we identified that most firms are not conducting analysis of reduced claim payments due to the use of the average clause. In addition, our Review identified that most firms place a heavy reliance on their complaints data as a way of analysing trends in relation to under-insurance. While complaints are a valuable source of information, firms should use all relevant MI data that may be available to them. The steady increase in the number of reduced claim payments as a result of under-insurance over the past 5 years by the firms in scope is one example of where the risk to the consumer could have been mitigated/addressed by the firms earlier if the relevant MI had been gathered and utilised by the firms.

Actions Required

- We expect firms to strengthen their POG of home insurance products to assess whether products are meeting the needs and expectations of customers. We expect firms to record details of, and the reasons for, any reduced claim payments made to the policyholder by the firm as part of their oversight of the home insurance product. Firms should regularly review the reasons for any reduced claim payments to the policyholder to identify any trends and patterns of potential consumer detriment and take action accordingly.
- We expect firms to use the data that is available to them to align better with their Consumer Protection Risk Management Frameworks, to help identify risks posed to consumers and to trigger action by the firm to help mitigate these risks once certain thresholds, or consumer risk limits, have been reached.