



Changes to the Implied Price of NCD Protection

Further Information

Background

The CMA (Competitions & Markets Authority) PMI (Private Motor Insurance) Order 2015, which comes into force from 1st August 2016, requires a prescribed set of information to be provided to a customer if they are offered NCD Protection on a private car risk, and the NCD Protection is optional. The requirements apply to oral or written offers, for new business and renewal. The prescribed information must be provided whether or not additional premium would be payable.

Part of the information that must be provided to a customer is the “implied” price of purchasing NCD Protection – i.e. the difference in retail price between purchasing or not purchasing NCD Protection.

This article provides guidance to brokers when making changes to a system calculated premium which affects the implied price of NCD Protection.

Why is this an important issue?

The intention of the requirements relating to Protected No Claims Discount is to provide customers with information to be able to aid them in making an informed choice on protected NCD on a personal motor product. A key part of this is providing customers with a clear, accurate view of the part of the overall price that is being charged for protected NCD. This is known as the implied price.

An accurate implied price will be provided for all quotes or renewals processed using a software house system, however if you then make a manual change to the price quoted by the system it **may** affect the implied price. If it does, your software system may be able to re-calculate the implied price, or it may be your responsibility to do so.

Why Can't My Software System Always Recalculate the Implied Price if this is necessary?

The solution your software house is adopting may mean that you don't need to recalculate the implied price to remain compliant with the CMA Order. Should this not be the case, your software system will be able to recalculate the implied price for you, in most cases, if this is necessary. However, in a small number of scenarios you may need to manually calculate and adjust the implied price, most notably:

- a) If you make a manual post quote adjustment and your software system does not support this function (your software house will indicate if this is the case, if they have not already done so)
- b) Where you discount or load premiums apply different percentages based on premium banding - i.e. adjusting premium or commission differently depending on the final premium, your software system may not be able to accurately reflect the implied price change, even if they can support re-calculation in other circumstances.

In instance a) your software house will advise you whether you need to re-calculate the implied price.

In instance b) the industry standard view is that these types of arrangements should be avoided in the future as this approach could indirectly impact the PNCD implied price, and generate an implied price that would prompt questions from your customers and be difficult to justify.

We would strongly advise that if you operate this type of approach you consider the implications in relation to the CMA order and ensure that you do not breach its requirements.