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CMA – Implied Price Calculation for Overridden Premiums

The CMA (Competitions & Markets Authority) PMI (Private Motor Insurance) Order, which comes into force from 1st August 2016, requires that a prescribed set of information 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 (and mid-term adjustments, but only where Protected NCD can be added mid-term). 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” cost 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 affect the implied price of NCD Protection.

Why is this an important issue?

Quotes obtained using a software house system will generate an accurate implied price, however if a broker makes any change to the price quoted by the system it **may** affect the implied price and the broker **may** need to amend the implied price manually.

The term “may” has been highlighted because the need to change the implied price depends on a number of factors. These include factors such as the type of changes being made, and whether the change is a percentage or flat amount.

When will the Implied Price be affected by a change to the system generated premium?

Software house systems will calculate a retail price and an implied price for a risk. The implied price may be affected if a change is then made.

The following types of change WILL NOT affect the implied price:

- Add-ons which are a separate insurance product e.g. breakdown cover
- Broker fees, which are not deemed to be part of the premium
- A change to the broker’s APR for instalments

The following types of change WILL affect the implied price:

- Changes to the premium for the primary motor insurance product, including any add-ons that are part of the product which are being funded by the insurer
- Changes to the core premium to price match to a competitor’s offering
- Discounting of the usual commission rate to reduce the retail price
- Any commission which is added to the system calculated price for net rated risks

When Will I Be Responsible for Manually Recalculating The Implied Price?

This is an area where information from your software provider is crucial. This is because some software providers will be able to re-calculate the implied price for you if the change you are making affects it, whilst others will be able to do so in some circumstances but not in others so you will need to calculate the implied manually. Your software house will advise you whether they will be re-calculating the implied price for you or not, and in what circumstances.

If I make a change that needs to be manually reflected in the Implied Price, are there any rules I should follow?

a) Where a change is being made which affects the implied price, and you need to calculate this manually, the impact on the implied price changes depends on a number of factors. Does the system allow you to change the implied price?

If the answer to question a) is no, you will not be able to adjust the implied price. This is because the software house implementation only allows a flat amount adjustment to be applied and has assumed that you or the Insurer would always stand by the non-protected price which means that the implied price is not affected (see the table below). Your software house will advise you if you cannot change the implied price.

Where the answer to question a) is yes, the formula to be applied depends on the answers to questions b) and c) shown in the table below:

b) Is the change a flat rate adjustment or a percentage adjustment to the system quoted price?

c) Has the insurer agreed to, or are you are prepared to, stand by the non-protected price if the customer decides to proceed but not to include the NCD Protection?

d)

No	**Scenario**	**Stand by Non Protected Price?**	**Formula to be Applied**
1	Flat Rate	Yes	No change to the implied price
2	Flat Rate Adjustment	No	**Step 1** Calculate the Non-Protected NCD Price for the quote before making any changes, using the formula [NCD Protected Price] minus [Implied Price] = [Non- Protected NCD Price] **Step 2** Apply the flat rate adjustment to the NCD Protected Price to arrive at [Revised NCDP Price] **Step 3** Calculate the Revised Implied Price using the formula [Revised NCD Protected Price] minus [Non-Protected NCD Price] = [Revised Implied Price]
3	Percentage Rate Adjustment	Yes	The implied price changes by exactly the same percentage
4	Percentage Rate Adjustment	No	**Step 1** Calculate the [Non-Protected NCD Price] using the formula [NCD Protected Price] minus [Implied Price] = [Non- Protected NCD Price] **Step 2** Apply the percentage adjustment to [NCD Protected Price] to arrive at [Revised NCD Protected Price] **Step 3** [Revised NCD Protected Price] minus [Non-Protected NCD Price] = [Revised Implied Price]

Note: The calculation for scenarios 2 and 4 is more complicated and introduces the possibility of the implied price being calculated as a zero or minus amount. Whilst this may be confusing for customers, CMA has confirmed to Polaris that if this is the result of calculating the implied price for the product being quoted then this is the price that should be shown.

Our recommended approach is that brokers agree they will stand by the non-protected price if the customer decides to go ahead but not purchase NCD Protection. This approach is being favoured by insurers, as it is unlikely to generate customer queries/complaints. Similarly for system calculated revisions to price many of the software houses will convert fixed amount adjustments to a percentage, so that the implied price changes by the same percentage. This approach is acceptable to CMA, and would make sense to the customer.

It cannot be stressed enough that the customer MUST be able to purchase at the price quoted for NCD Protection minus the implied price so if you decide to adopt approach 2 or 4 you must show an implied price that reflects this scenario.