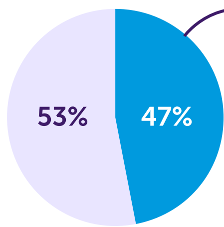
A fair premium for loyal policyholders

In short Insurers are increasingly able to personalise premiums for certain customers or groups of customers. In some cases, this can lead to loyal customers paying a higher premium than newer customers, even though there is no difference in their risk profile. This is also called margin personalisation and may conflict with the fair treatment of customers and product development standards. We examined how many insurers have this kind of margin personalisation in car, home contents and liability insurance. Almost half of the non-life insurers examined have higher profit margins on loyal customers in at least one product group. The AFM will discuss this with the insurers concerned. We will continue to monitor developments.

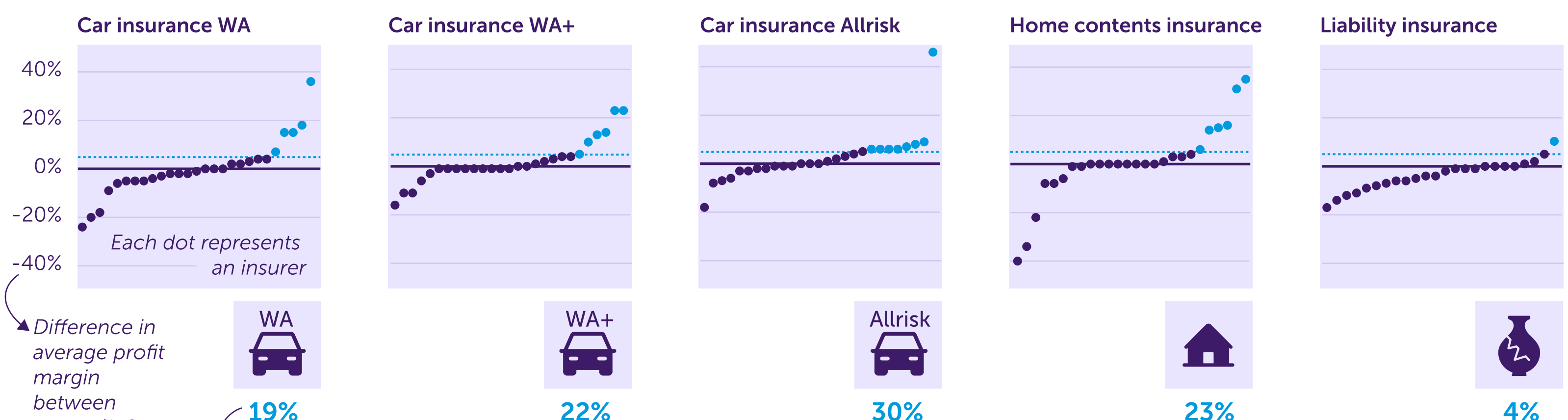


In the case of **almost half of the insurers** (47%), loyal customers pay higher premiums than newer customers, even though there is no difference in their risk profile, for at least **one of the five insurance products** examined (car, home contents and liability insurance):

On the other hand, some insurers have lower profit margins on loyal customers. This differs depend depending on the insurance product. For these reasons, we focus on differences in the profit margin on each product. The results are shown in the charts below.

How to read the charts

Insurer **having (●)** and **not having (●)** a higher profit margin on loyal customers. Loyal customers actually pay a higher profit margin on average in the case of all dots above the zero line, but for this study we apply a margin of error of 5% (······). For this reason, only the dots above this margin of error are coloured red.



Difference in average profit margin between newer (1-2 years) and loyal customers (9+ years).

Percentage of insurers where loyal customers pay higher premiums, even though there is no difference in risk profile.

Here we see loyal customers paying a higher premium than new customers, particularly for **car insurance (19, 22 and 30% respectively) and home contents insurance (23%)**, even though there is no difference in risk profile. This hardly ever occurs in the case of liability insurance (4%).

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Summary

Insurers are increasingly able to personalise premiums for certain customers or groups of customers. This may be based on their risk profile, but an insurer may also have a higher profit margin on certain customers or groups of customers. Personalising profit margins is known as margin personalisation. In this study, this means that insurers have higher profit margins on business with loyal customers than with newer customers. This is increasingly possible using data, combined with improved data access and analysis.

Personalising profit margins on non-life insurances can lead to undesirable outcomes and may conflict with the fair and careful treatment of customers. In particular, potentially vulnerable consumers who rarely or never switch their insurer may be disadvantaged. Following our report *Technology towards 2033: The future of insurance and supervision* and previous studies by other European regulators, the AFM has therefore conducted a comprehensive market study of margin personalisation in the Dutch non-life insurance market. We have examined 18 insurers – with a total of 31 brands – to determine whether and to what extent they have higher profit margins on loyal customers in private non-life insurance. The products examined are three types of private car insurance, home contents insurance and liability insurance. This study is based on the premium data of 47.7 million policies.

To determine whether profit margin personalisation occurs in non-life insurance, we analyse insurers' profit margins in relation to customer tenure. Customer tenure is the number of years that a policy is in force with an insurer. To this end, we divide the premium that groups of customers pay (the actual premium) by the costs that an insurer expects to incur for these policies (the technical premium), for each customer tenure group. In this study, we consider that margin personalisation occurs for loyal customers when the profit margin for customers with a tenure of 9+ years is at least 5% higher than for newer customers (1-2 years).

In 2023, margin personalisation occurs at nearly half of the insurers in at least one product category. When this is the case, it often involves an increase in the profit margin of more than 10% between the 1-2 and 9+ years customer groups. Between 19% and 30% of insurers have higher profit margins on loyal customers across the three types of car insurance. This applies to 23% of insurers for home contents insurance. Liability insurance has virtually no higher profit margins on loyal customers. Margin personalisation is barely visible in the market average of all insurance products studied. This is because there are also insurers that have a lower profit margin on the group with a customer tenure of 9+ years than on the group with a customer tenure of 1-2 years.

The AFM is concerned that almost half of the insurers had a higher profit margin on loyal customers for at least one of their products, whereas there appears to be no reason for this on the basis of risk profiles. The AFM expects to see no increases in the profit margin after the customer group with a tenure of 1-2 years. And if such increases do occur, the product governance process must explicitly consider the reason why, and the company must be able to demonstrate that the client's interests have been considered in a balanced manner. The AFM will continue to monitor this.

The AFM has contacted the insurers that had higher profit margins on loyal customers and will enter into discussions with insurers about compliance with the product governance standards. If it turns out that more loyal customers pay higher premiums without any actuarial or other valid reason, there may be a violation of the product governance standards. Finally, the AFM will continue to monitor developments regarding margin personalisation in the insurance sector, based on the product governance standards, the Insurance Distribution Directive (IDD) and compliance with the duty of care. In this way, we will ensure that loyal policyholders pay a fair premium.

1. Introduction

1.1 Background to the study

Insurers are increasingly able to tailor premiums, as the AFM wrote in 2023 in its study *Technology towards 2033: The future of insurance and supervision.*[1] Each customer then receives a personalised premium from the insurer. This is possible due to the increasing use of data, combined with better data access and analysis. For example, a personalised estimation of the expected cost of claims can help the insurer to get closer to the actual cost of claims. Usage-based car insurance is an example of this.

In addition, an insurer can personalise the profit margin. For example, an insurer can have a higher margin (profit surcharge) on certain customers or groups of customers. These price differences are not explained by differences in risk profile. This is called margin personalisation or margin differentiation. In this study, we use the term margin personalisation, meaning that insurers have higher profit margins on loyal customers than on newer customers.

When profit margins are personalised, they are often based on customer tenure[2]. Various studies by European regulators have shown that margin personalisation based on customer tenure takes place in other European member states. In the United Kingdom[3], Ireland[4] and Sweden,[5] non-life insurers made existing customers pay higher premiums than new customers or customers who renewed their policy for the first time, without any underlying actuarial reason. This means that the estimated costs required for new and loyal customers were the same, but that the premiums charged to loyal customers were still higher. For example, the UK's Financial Conduct Authority (FCA) showed that to maximise their profit margins insurers built sophisticated models to predict whether customers would switch.

Personalising profit margins based on customer tenure may conflict with the fair treatment of customers. Following the European studies, the European Insurance and Occupational Pensions Authority (EIOPA) published a *supervisory statement*[6]. In this statement, EIOPA indicates that it is mainly vulnerable consumers – such as people with limited digital skills – who are disadvantaged by such personalised pricing techniques. These groups may be less able to regularly compare their insurance products. The use of these techniques can therefore lead to unfair outcomes and thus conflict with the product governance standards and the principles of the IDD. In several European countries, regulators have therefore taken measures to prohibit margin personalisation based on customer tenure.

The most recent AFM Consumer Monitor[7] confirms that Dutch consumers who rarely switch insurers are potentially vulnerable customers. The research shows that consumers with a lower education and lower income groups switch less than consumers with a higher level of education and higher income groups. Moreover, we see that older consumers switch less than younger consumers. Any margin personalisation is therefore more likely to affect these groups of consumers, who are potentially vulnerable.

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1 'Technology towards 2033: The future of insurance and supervision', AFM, April 2023.

2 When we talk about 'customer tenure' in this study, we mean how long a policy has been in force with (or managed by) an insurer.

3 'General insurance pricing practices', FCA, September 2020.

4 'Review of Differential Pricing in the Private Car and Home Insurance Markets', Central Bank of Ireland, July 2021.

5 'Do loyal policyholders pay more?', Finansinspektionen, July 2022.

6 'Supervisory statement on differential pricing practices in non-life insurance lines of business', EIOPA, February 2023.

7 AFM Consumer Monitor, spring 2024. An explanation of this research is included in Appendix II.

The AFM therefore shares the concern that margin personalisation leads to adverse effects: potentially vulnerable customers pay higher premiums, despite having the same actuarial profiles. That is why the AFM – as a follow-up to its report *Technology towards 2033* and the other European studies – conducted a market-wide study of margin personalisation in the Dutch private non-life insurance sector.

1.2 Purpose

The purpose of this study is to determine whether insurers in the Dutch market for private non-life insurance (car, home contents and liability insurance) have higher profit margins on loyal customers than on newer customers. This study gives the AFM a comprehensive market overview of the extent to which margin personalisation occurs in the non-life insurance market.

1.3 Legal framework

This study is based on the standards for product governance and insurers' general duty of care that partly stem from the IDD. According to Section 32 of the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (BGfo), a financial undertaking must have adequate procedures and measures in place to ensure that the interests of the consumer are taken into account in a balanced manner in the development of the financial product and that the financial product is demonstrably the result of this weighing of interests. This includes establishing that the products are cost-efficient for the customer. Article 25 of the IDD (Product oversight and governance requirements) contains a similar standard[8]. Pursuant to Section 4:24a of the Financial Supervision Act, which implements Article 17(1) of the IDD, financial service providers must also carefully consider the legitimate interests of the consumer. In this context, the AFM refers to EIOPA's related supervisory statement.

1.4 Reading guide

Chapter 2 describes our research methodology. Chapter 3 presents the results of the study (2023). Chapter 4 contains our conclusion and follow-up. In Appendix I, we describe what information insurers provided, what analyses we conducted, the results for the three reference years (2021-2023) and the limitations of this study. Appendix II contains our explanation of the insights gained from the AFM Consumer Monitor, which focuses on consumers' switching behaviour with regard to insurance policies.

8 This is further elaborated in Delegated Regulation (EU) 2017/2358 of 21 September 2017 on product oversight and governance.

2. Research methodology

2.1 Design and scope of the study

This study focuses on the question of whether insurers have higher profit margins on loyal customers who stay with the same insurer for a long period than on customers who renew their policy for the first time. We investigate this by comparing insurers' profit margins on their insurance policies to the customer tenure (the number of years that a policy is in force or is managed by an insurer). After all, a rise in premiums as customer tenure lengthens is not in itself an indication of margin personalisation; the risk profile of the customer or the cost of the policy may also change. If the profit margin increases in the years after the first renewal of the policy, that is deemed to be margin personalisation.

We examine margin personalisation in private car insurance, home contents insurance and liability insurance. Within the private market for non-life insurance, car insurance is the largest in terms of premium volume. In addition, car owners are obliged to take out at least third-party liability insurance (WA). Third-party liability car insurance (WA), Third-party, Fire & Theft car insurance (WA+) and comprehensive car insurance (all-risk) are included as three separate product categories.[9] Home contents and general liability insurance are included because, aside from compulsory health insurance, these insurances are taken out the most by private individuals.[10]

The survey was conducted among 18 insurers operating in the Dutch private non-life insurance market, representing a total of 31 brands. When we talk about 'insurers' in this study, we mean brands. We asked insurers to respond to our request for each individual brand administered for the relevant product groups in the reference years (2021-2023).

A total of 27 WA car insurers, 27 WA+ car insurers, 27 all-risk car insurers, 28 home contents insurers and 26 liability insurers were in scope (2021-2023). Although this is a market-wide study, not all the car, home contents and liability insurances offered were in scope. Not all Dutch insurers were contacted and in several specific cases insurers did not have the technical premiums of individual policies. Furthermore, not all participating insurers were able to provide the technical premiums of the insurance policies sold by authorised agents. The insurance distribution channel was not part of the request.

This study is based on premium data for 47.7 million policies. The data were collected for the years 2021, 2022 and 2023. This is to prevent any outliers in one year from having a disproportionate effect on the outcomes. Of the total number of policies, 15.5 million are from 2021, 15.8 million from 2022 and 16.4 million from 2023. The exact number of policies per product group (per year) is shown in the relevant figures in Appendix I, with additional information on the total premium volume per product group.

We calculate the profit margin of an insurance policy on an annual basis, by dividing the premium that the customer pays (actual premium) by the costs that an insurer expects to incur for this insurance policy (technical premium). In this study, we use this ratio, in combination with customer tenure, to analyse whether margin personalisation occurs.

9 WA (*Wettelijke Aansprakelijkheid*) – Third-party liability insurance, WA+ (*Beperkt Casco*) – Third-party, Fire & Theft (TPFT) insurance, All-risk (*Volledig Casco*) – Comprehensive car insurance

10 The underlying figures are included in Appendix II.

The actual premium (AP) is defined as the premium paid by the customer on an annual basis, including possible discounts and excluding insurance premium tax. We decided not to include insurance tax in the calculation of the actual premium, because this part of the premium is intended for the government and the insurer only passes it on. Inclusion of the tax would give a distorted picture of the relationship between the actual and technical premium.

The technical premium (TP) is the amount that the insurer expects it will need to cover the cost of an individual policy on an annual basis. The technical premium usually includes an amount earmarked for the expected cost of claims, the costs of taking out and managing the policy and payments to intermediaries, and other types of reservations and costs. Each insurer calculates its own estimate of this amount. This is based on its own policy, the insurance portfolio and the business operations.

In this study, the ratio between the actual premium and the technical premium is referred to as the relative profit margin of the insurance. Insurers calculate their target profit margin as a factor and not as an absolute amount. Accordingly, we show the difference between the actual premium and the technical premium as a ratio. This ratio is the result of dividing the actual premium by the technical premium (AP/TP). This is the APTP ratio. If the APTP ratio is greater than 1, the insurance is expected to be profitable, as the actual premium is higher than the technical premium. If the APTP ratio is less than 1, the insurance is expected to be loss-making, because the technical premium is higher than the actual premium.

To determine whether margin personalisation occurs, we examine whether the profit margin (APTP ratio) increases between the groups with customer tenures of 1-2 years and 9+ years. By comparing the APTP ratio, we can determine whether customers who keep their policy with the insurer for a longer period pay more, without there being any actuarial reasons for doing so.

Finally, the participating insurers also provided qualitative information. This gave the AFM insight into how the participating insurers determine their technical and actual premiums, whether and to what extent they apply discounts (such as new customer welcome discounts and bundling discounts) and whether they have specific policies to bind consumers to them.

2.2 Definitions and analyses

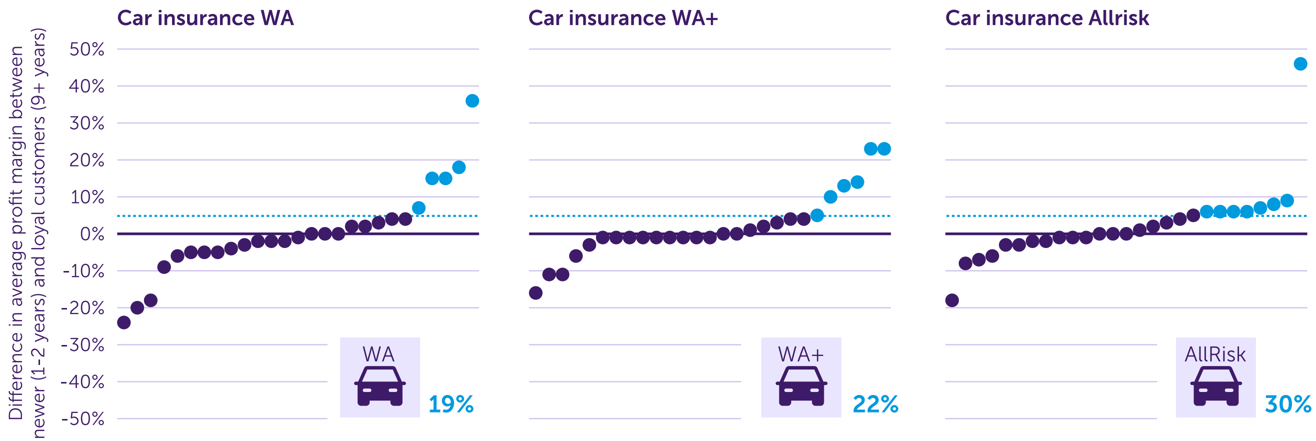
To determine whether margin personalisation occurs, we compare the APTP ratio between groups with customer tenures of 1-2 years (the first renewal time) and 9+ years. A comparison between the 0-1 years and 9+ years groups would show a disproportionately strong effect of a possible welcome discount and other costs incurred in the first year of an insurance policy, such as acquisition costs. In addition, we show the average APTP ratios of all customer tenure groups.

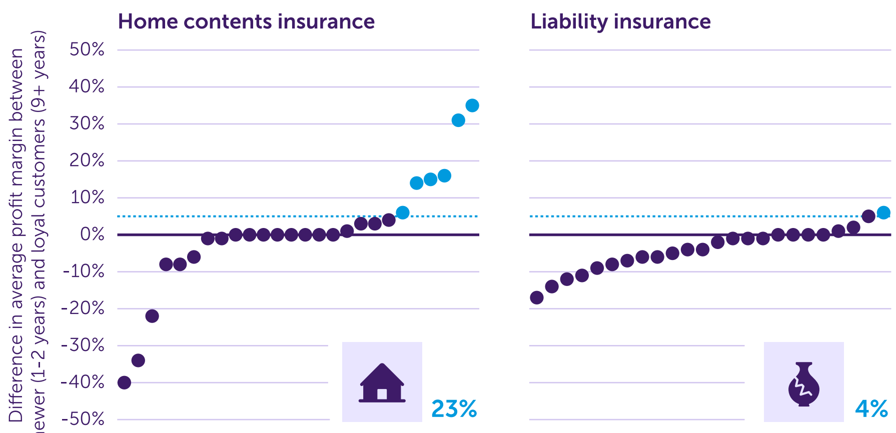
In Chapter 3 we describe the results of the following analyses:

- Many insurers have **margin personalisation in at least one of the insurance products examined**, on the basis of an increase in profit margin of at least 5% between groups with customer tenures of 1-2 years and 9+ years;
- For each type of insurance, the **differences in profit margin** between the groups with customer tenures of 1-2 years and 9+ years;
- For each type of insurance, the **average actual and technical premiums per customer tenure group** over the total market, with corresponding APTP ratios.

To maintain a margin of error, we applied a threshold of at least a 5% increase in the APTP ratio between tenures of 1-2 and 9+ years to examine the occurrence of margin personalisation. In practice, however, every increase in the APTP ratio with a tenure of 1-2 years means margin personalisation.

3. Results





Data: 2023

Insurer **having (●)** and **not having (●)** a higher profit margin on loyal customers.

xx% Percentage of insurers with higher profit margins on loyal customers.

······ Margin of error (5%)

When does margin personalisation occur? This is when the profit margin on loyal customers (9+ years) is higher than on newer customers (1-2 years). For this study, we applied a limit of a 5% difference (·····), to maintain a margin of error – but anything above 0% actually constitutes margin personalisation.

What is the AFM doing? We have spoken to the insurers that had higher profit margins on loyal customers about this and will continue to monitor developments.

In 2023, almost half of insurers had margin personalisation in at least one product group: this means the profit margin on loyal customers (9+ years) will be at least 5% higher than on newer customers (1-2 years). When this is the case, it often involves an increase in the profit margin of more than 10%. Between 19% and 30% of insurers showed margin personalisation across the three types of car insurance. In home contents insurance, margin personalisation was found at 23% of insurers. Liability insurance has virtually no margin personalisation. Margin personalisation is barely visible in the market average of all insurance products studied. This is because there are also insurers that have a lower profit margin on the group with a customer tenure of 9+ years than on the group with a customer tenure of 1-2 years.

In the case of WA car insurance, 19% of insurers have higher profit margins on loyal customers; for WA+ car insurance the figure is 22% and for all-risk car insurance 30% of insurers. In most cases, there is an increase of more than 10% in the profit margin between the group with a customer tenure of 1-2 years and the group with a customer tenure of 9+ years. In the case of all-risk car insurance, the difference in profit margin is nearly always between 5% and 10%.

In the case of home contents insurance, 23% of insurers have higher profit margins on loyal customers. In most of these cases, there is an increase in the profit margin of more than 10% between the groups with customer tenures of 1-2 years and 9+ years.

Liability insurance hardly ever has higher profit margins on loyal customers. There is only one insurer where the profit margin between the groups with customer tenures of 1-2 years and 9+ years increases by more than 5%.

The most likely explanation for the observed margin personalisation is a rise in premiums for loyal customers. Another explanation is that loyal customers have less favourable policy conditions than newer customers, whereas they pay a similar premium. They have less insurance coverage (and therefore a lower technical premium) but pay an actual premium similar to that of a newer customer with more favourable coverage. In both cases, loyal customers are disadvantaged.

In the case of some insurers, the profit margin on loyal customers is lower than that on customers who renew for the first time; there may be various explanations for this. Loyalty discounts are a possible explanation. However, the qualitative response shows that such discounts are rarely part of insurers' policies. Only a few insurers apply loyalty discounts or give ad hoc one-off discounts if loyal customers indicate that they want to switch. Another explanation is that loyal customers are relatively more likely to receive a bundling discount. This would be the case if loyal customers were more likely to have taken out multiple insurance policies with one insurer, making them more likely to receive a bundling discount than newer customers. However, we did not investigate this. Finally, some loyal customers could also have better policy conditions than newer customers, while paying a similar premium. The profit margin on the loyal customers would then be lower, because the underlying technical premium is higher than the actual premium they pay.

There is no clear distinction between insurers that have a higher profit margin on loyal customers and insurers that have a lower profit margin on loyal customers. Margin personalisation can occur for one product group, while another product group has a loyalty discount. However, there are insurers where margin personalisation occurs for several years for one or more product groups.

The results of the study are presented in more detail below. First, we describe the results of the analysis of the percentage of insurers where margin personalisation occurs in at least one product group. This is followed by the results of the analyses per product type. We report the figures for 2023; the figures for 2021 and 2022 are shown in Appendix I, including the number of policies examined per product group.

3.1 Percentage of insurers where margin personalisation occurs

In 2023, margin personalisation occurs in 47% of insurers in at least one product group (Table 1). This involves an increase in the profit margin of at least 5% between the 1-2 years and 9+ years customer groups. In 33% of insurers, the profit margin increases by at least 10% between the 1-2 years and 9+ years customer groups. Not all insurers offer all five product groups.

When margin personalisation occurs, about three-quarters of the cases involve increases in the profit margin of between 5% and 20% between the 1-2 and 9+ years customer groups. In several cases this percentage rises to 30-40% and in a few cases we see an increase of more than 50%.

Table 1. Percentage of insurers where margin personalisation occurs in at least one product group (2023).

Insurers with margin personalisation	Percentage and overall count
Insurers having at least 1 product group with >5% margin personalisation	**47%** (14)
Insurers having at least 1 product group with >10% margin personalisation	**33%** (10)
Total number of insurers	30

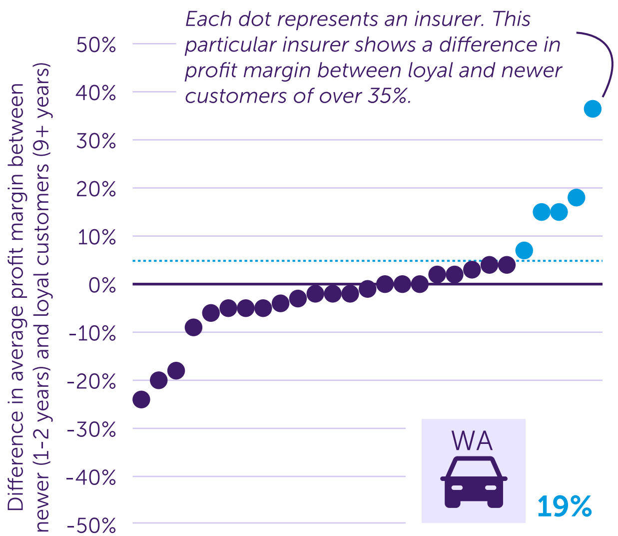
3.2 WA car insurance

In the case of WA car insurance, margin personalisation occurs in 19% of insurers (2023, Figure 1). In most cases, this involves an increase of more than 10% in the profit margin between customer tenures of 1-2 years and 9+ years. In the case of one insurer, the profit margin on the 9+ years customer group is more than 35% higher than on the 1-2 years customer group.

Margin personalisation in WA car insurance is not visible in the market average. The ratio between the actual premium and the technical premium is almost the same from 1-2 years of customer tenure (Figure 2). This is because some insurers have a lower profit margin on loyal customer groups than on newer customer groups. The profit margin is negative for the 0-1 year tenure customer group. The qualitative information provided shows that some insurers give their customers welcome discounts. An additional explanation is that in the 0-1 years customer group not all costs incurred, such as acquisition costs, are passed on to the customer.

Figure 1. Differences in profit margin between the 1-2 years and 9+ years customer groups in WA car insurance (2023). A percentage above 0% means a higher profit margin on the 9+ years customer group.

Margin personalisation per insurer



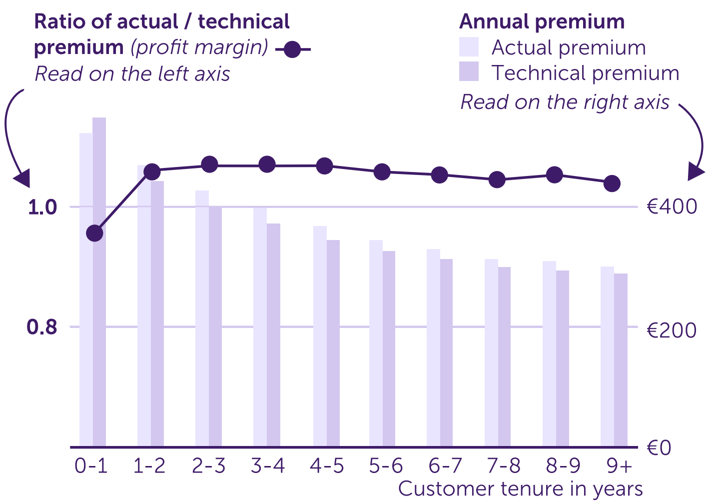
Insurer **having (●)** and **not having (●)** a higher profit margin on loyal customers.

xx% Percentage of insurers with higher profit margins on loyal customers.

······ Margin of error (5%)

Figure 2. Development of the average profit margin per customer tenure group in WA car insurance (2023).

Market average



The margin personalisation observed in WA car insurance is not visible in the market average. The ratio between the actual and the technical premium (●) is virtually the same from 1-2 years of customer tenure.

Data: 2023

ANALYSIS REPORT

3.3 WA+ car insurance

In the case of WA+ car insurance, margin personalisation occurs in 22% of insurers (2023, Figure 3). In most cases, this involves an increase of more than 10% in the profit margin between customer tenures of 1-2 years and 9+ years. In the case of two insurers, the profit margin on the 9+ year customer group is more than 20% higher than on the 1-2 year customer group.

Margin personalisation in WA+ car insurance is not visible in the market average. The ratio between the actual premium and the technical premium is almost the same from 1-2 years of customer tenure (Figure 4). This is because some insurers have a lower profit margin on loyal customer groups than on newer customer groups. In addition, we also see possible welcome discounts here in the 0-1 year customer group with not all acquisition and other costs being passed on.

Figure 3. Differences in profit margin between the 1-2 years and 9+ years customer groups in WA+ insurance (2023). A percentage above 0% means a higher profit margin on the 9+ years customer group.

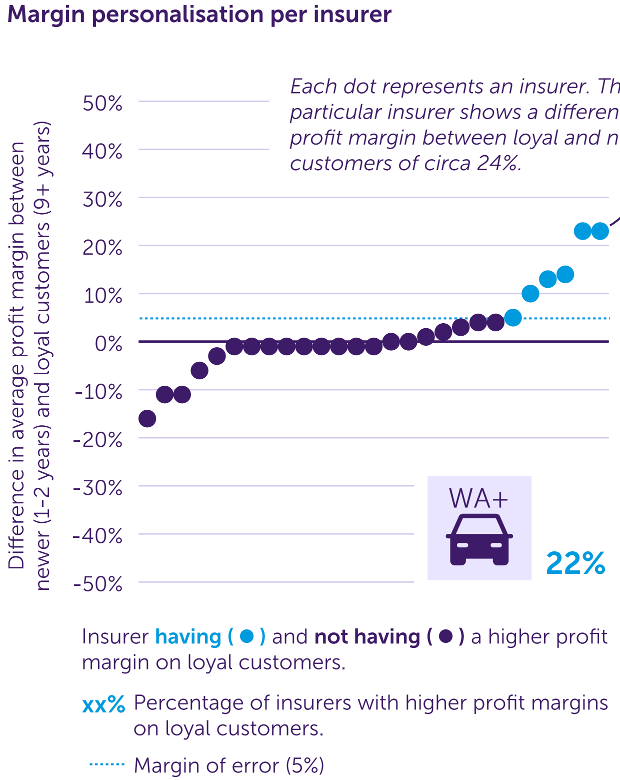
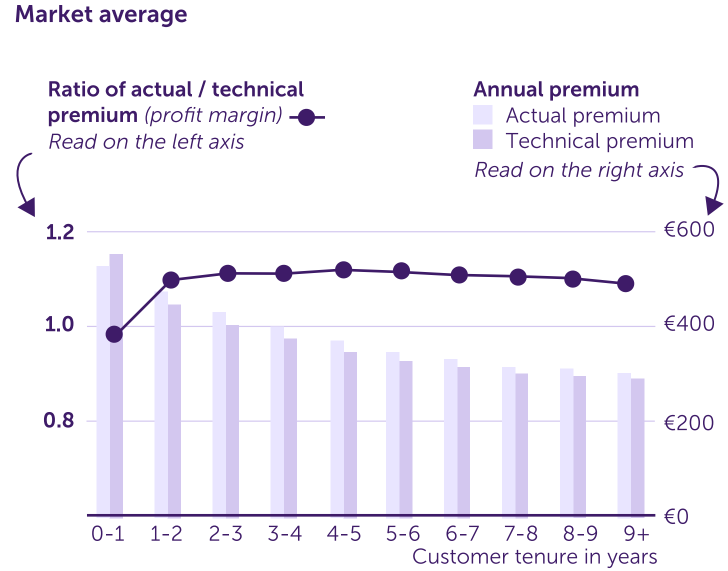


Figure 4. Development of the average profit margin per customer tenure group in WA+ insurance (2023).



The margin personalisation observed in WA car insurance is not visible in the market average. The ratio between the actual and the technical premium ( ) is virtually the same from 1-2 years of customer tenure.

Data: 2023

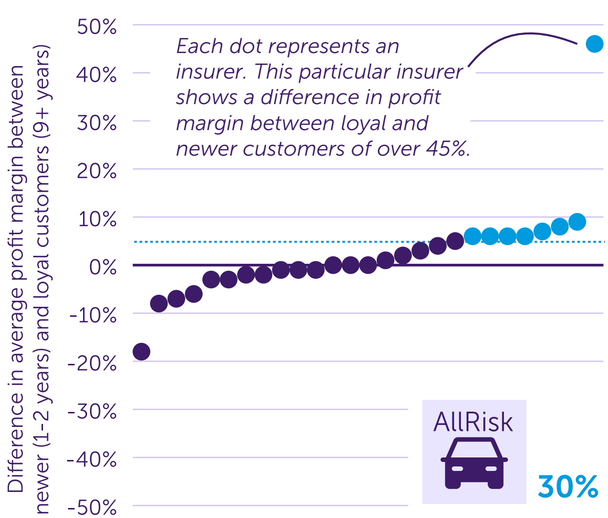
3.4 All-risk car insurance

In the case of all-risk car insurance, margin personalisation occurs in 30% of insurers (2023, Figure 5). Usually there is an increase of between 5% and 10% in the profit margin between customer tenures of 1-2 years and 9+ years. In the case of one insurer, the profit margin on the 9+ years customer group is more than 45% higher than on the 1-2 years customer group.

Margin personalisation in all-risk car insurance is not visible in the market average. The ratio between the actual premium and the technical premium varies slightly between the customer groups but is ultimately almost the same for the 1-2 years and 9+ years customer groups (Figure 6). This is because some insurers have a lower profit margin on loyal customer groups than on newer customer groups. In addition, we also see the effect of possible welcome discounts and the non-passing on of all acquisition and other costs to the 0-1 years customer group in the case of all-risk car insurance.

Figure 5. Differences in profit margin between the 1-2 years and 9+ years customer groups in all-risk car insurance (2023). A percentage above 0% means a higher profit margin on the 9+ years customer group.

Margin personalisation per insurer



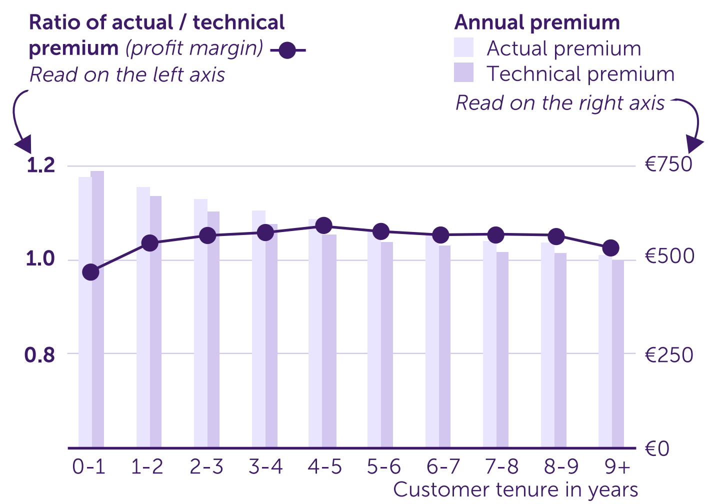
Insurer **having (●)** and **not having (●)** a higher profit margin on loyal customers.

xx% Percentage of insurers with higher profit margins on loyal customers.

······ Margin of error (5%)

Figure 6. Development of the average profit margin per customer tenure group in all-risk car insurance (2023).

Market average



The margin personalisation observed in all-risk car insurance is not visible in the market average. The ratio between the actual and the technical premium (-●-) varies slightly between the customer groups, but ultimately it is virtually the same for the 1-2 and 9+ years customer groups.

Data: 2023

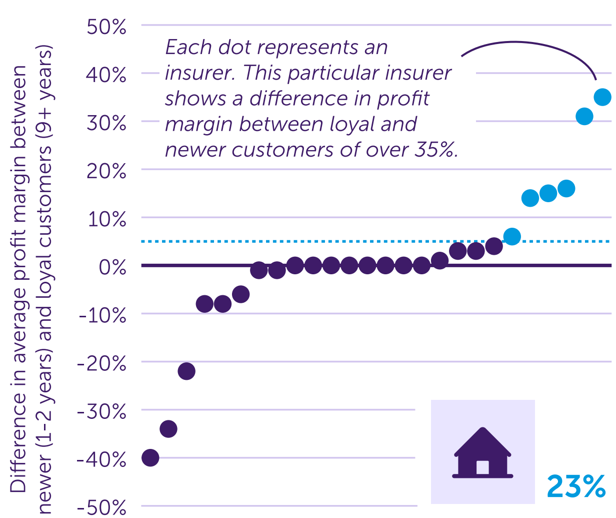
3.5 Home contents insurance

In the case of home contents insurance, margin personalisation occurs in 23% of insurers (2023, Figure 7). In most cases, this involves an increase of more than 10% in the profit margin between customer tenures of 1-2 years and 9+ years. In the case of two insurers, the profit margin on the 9+ year customer group is more than 30% higher than on the 1-2 year customer group.

Margin personalisation in home contents insurance is not visible in the market average. The ratio between the actual premium and the technical premium increases slightly from the first years of customer tenure but then decreases again. As a result, the difference in profit margin between the 1-2 years and 9+ years customer groups is almost the same (Figure 8). The decrease is due to the fact that some insurers have a lower profit margin on loyal customer groups than on newer customer groups.

Figure 7. Differences in profit margin between the 1-2 years and 9+ years customer groups in home contents insurance (2023). A percentage above 0% means a higher profit margin on the 9+ years customer group.

Margin personalisation per insurer



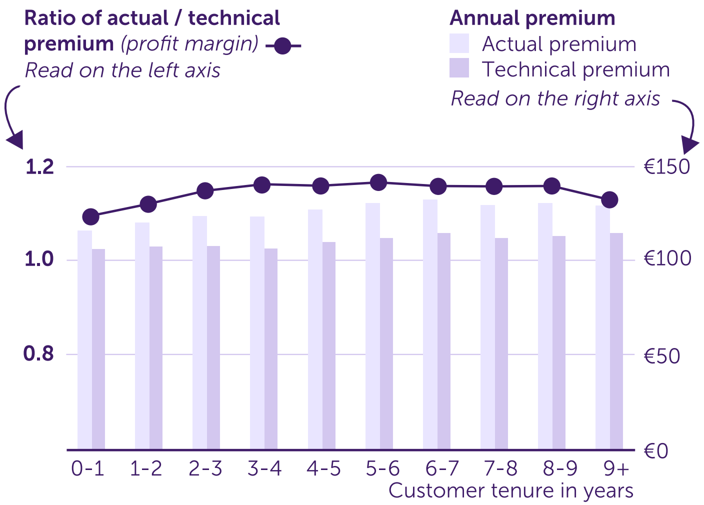
Insurer **having (●)** and **not having (●)** a higher profit margin on loyal customers.

xx% Percentage of insurers with higher profit margins on loyal customers.

Margin of error (5%)

Figure 8. Development of the average profit margin per customer tenure group in home contents insurance (2023).

Market average



The margin personalisation observed in home contents insurance is not visible in the market average. The ratio between the actual and the technical premium ( ) increases slightly from the first years of customer tenure, but then decreases again. As a result, the difference in profit margin between the 1-2 years and 9+ years customer groups is virtually the same.

Data: 2023

3.6 Liability insurance

Liability insurance has virtually no margin personalisation (2023, Figure 9). There is one insurer where the profit margin increases by more than 5% between customer tenures of 1-2 years and 9+ years. It is also notable that a relatively large group of insurers have a lower profit margin on the 9+ year customer group compared to the 1-2 year customer group.

The market average for liability insurance also shows no margin personalisation; on the contrary, there is a slight decrease in the average APTP ratio between customer tenures of 1-2 years and 9+ years (Figure 10). As mentioned above, this is because a significant proportion of insurers have a lower profit margin on loyal customer groups than on newer customer groups.

Figure 9. Differences in profit margin between the 1-2 years and 9+ years customer groups in liability insurance (2023). A percentage above 0% means a higher profit margin on the 9+ years customer group.

Margin personalisation per insurer

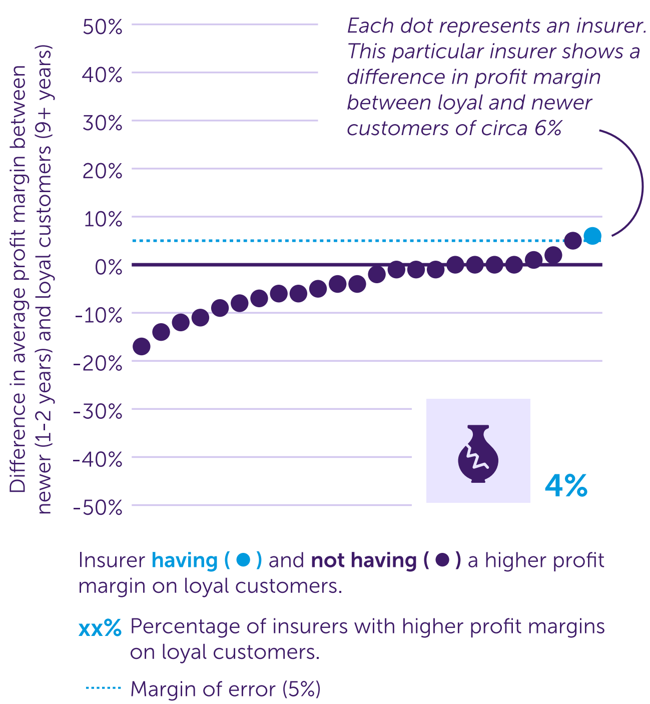
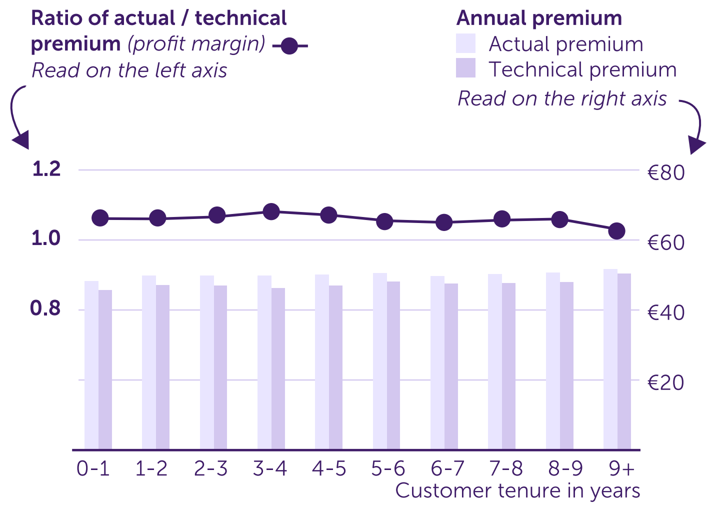


Figure 10. Development of the average profit margin per customer tenure group in liability insurance (2023).

Market average



The margin personalisation observed in liability insurance is also not visible in the market average. The ratio between the actual and the technical premium ( ) actually shows a slight decrease.

Data: 2023

4. Conclusion and follow-up

In 2023, almost half of insurers show margin personalisation in at least one product group: this means the profit margin on loyal customers (9+ years) will be at least 5% higher than on newer customers (1-2 years). In such cases, the increase in the profit margin often exceeds 10%. The underlying analyses show that this occurs in the three types of car insurance and in home contents insurance. The most likely explanation is that premiums for loyal customers increase without actuarial differences being the cause. Another explanation is that loyal customers have less good policy conditions. In the case of liability insurance, we found hardly any margin personalisation. Finally, there are also insurers where the profit margin on loyal customers is lower than on customers who renew for the first time. This is probably because this group of loyal customers pays a lower premium – possibly due to loyalty or bundling discounts – or because this group has better policy conditions.

The AFM is concerned that almost half of insurers have a higher profit margin on loyal customers for at least one of their product groups. This is even more concerning, because the AFM Consumer Monitor shows that loyal customers are more likely to have a lower income. The European regulator EIOPA previously indicated that people with limited digital skills were also less likely to switch. Margin personalisation therefore affects certain potentially vulnerable customers.

Personalising profit margins based on customer tenure may conflict with the fair and careful treatment of customers, as EIOPA previously stated on the basis of the principles of the IDD. There may also be a conflict with the product governance standards that apply to all insurance products pursuant to Article 32 of the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (BGfo) and Delegated Regulation (EU) 2017/2358 on product oversight and governance. Based on these standards, insurers must have adequate procedures and measures in place to ensure that consumers' interests are taken into account in a balanced manner when financial products are developed. A financial product must result demonstrably from this weighing of interests.

The AFM expects to see no increases in the profit margin after a customer tenure of 1-2 years. If such increases do occur, the reason must be explicitly considered in the product governance process and there must be evidence that the customer's interests have been taken into account in a balanced manner. In this study, we have chosen to compare the most loyal group of customers (9+ years) with the customers who renew for the first time (1-2 years). Margin personalisation may nevertheless also conflict with the aforementioned standards in the other customer tenure groups (2-9 years). Any forms of margin personalisation other than those based on customer tenure must also not conflict with the fair and careful treatment of customers.

The AFM has contacted the insurers that had higher profit margins on loyal customers and will engage in discussions with them in the coming period about compliance with the product governance standards. If it turns out that more loyal customers pay higher premiums without an actuarial or other valid reason, there may be a violation of the product governance standards. The AFM will monitor this.

The AFM is also calling on insurers that were out of scope of this study to identify whether there are premium differences (including non-actuarial differences) between more loyal customers and those renewing for the first time. In addition, the AFM will continue to monitor developments in margin personalisation and compliance with the duty of care and product governance standards in the insurance sector. In this way, we will ensure that loyal policyholders pay a fair premium.

Appendix I Explanatory notes on the request and analyses

A1.1 Execution by insurers

The AFM asked insurers to calculate the average and median actual premium and technical premium at aggregated levels – per type of insurance product and per policy duration group. The actual and technical premiums and their averages are based on the research methodologies of the Irish and Swedish regulators. The data were requested for three reference dates: 31 December 2021, 31 December 2022 and 31 December 2023. The number of policies was also requested, to gain insight into the market share and calculate the total average actual and technical premium (abbreviated to AP and TP respectively). The AFM chose not to request individual policies and/or personal data from participating insurers. The format to be completed for each reference year was as follows (the actual format has ten policy duration groups):

To be able to complete the format below, we first asked insurers to determine how many insurance policies they had in their portfolio on the reference date. In the following steps, three characteristics are assigned to these policies at an individual level: the actual premium, the technical premium and for how long the policy has been in the portfolio on the respective reference dates.

Table 2. Format to be completed by insurers per reference year (partial representation).

Reference date	Policy	Policy in force	Number of policies	Average actual premium	Median actual Premium	Average technical premium	Median technical Premium
31-12-21	Car WA	0-1 year					
31-12-21	Car WA	1-2 years					
31-12-21	Car WA	... years					
31-12-21	Car WA	9+ years					

As soon as the insurer knows how many insurance policies are in its portfolio on the reference date, it determines the actual premium for those insurances at that time. The actual premium is the premium that customers pay annually for their insurance at that time. This includes welcome or bundling discounts but excludes insurance premium tax.

After determining the actual premium, the insurer determines for each individual policy what the technical premium is that underlies the actual premium on the respective reference dates. Sometimes the insurer already has a new technical premium for the insurance but has not yet passed it on to customers, for example because this only happens in the event of a renewal after the reference date. That is why we asked for the technical premium underlying the actual premium on the reference date. This gives the insurer an indication of the expected amount necessary for each individual policy to meet the costs and obligations of the policy.

In order to be able to divide the policies into the categories of policy duration groups, the insurer determines how long the individual policy has been in the portfolio on the reference date. We distinguish between ten customer tenure groups: 0-1, 1-2, 2-3, 3-4, 4-5, 5-6, 6-7, 7-8, 8-9 and 9+ years. For example, policies taken out on 1-6-2020 belong to the 1-2 years management time category on the reference date 31-12-2021.

Having established how long all policies have been managed on the reference date, the insurer can determine how many insurance policies there are in each group. The insurer can then enter this in the fourth column of the above format.

The insurer then determines the average and median actual premium of the insurance policies for each policy duration group. For the average actual premium, the insurer adds up all the actual premiums from that group. They are then divided by the total number of policies in that group. The median actual premium is determined by ranking the actual premium of all policies from low to high and taking the middle actual premium from the series. This is entered in the fifth and sixth columns of the above format.

The calculation of the average and median technical premium is carried out in the same way as for the actual premium. These values can then be entered in the seventh and eighth columns of the format.

To complete the format, the above steps are repeated for the other reference dates and product groups. This means that the above format will ultimately be completed for WA car insurance, WA+ car insurance, all-risk car insurance, home contents and liability insurances for the reference dates 31-12-2021, 31-12-2022 and 31-12-2023. Insurers with multiple brands enter this information separately for each brand.

In addition to providing aggregated quantitative data points, the participating insurers also provided additional qualitative information. This answer shows how the participating insurers determine their technical and actual premiums. The purpose of this information is twofold: on the one hand to verify whether the methodology has been applied properly and on the other hand to provide context for the quantitative information.

Although the AFM did not have access to the source data of individual policyholders in this study, it did verify the data quality. We did this by comparing the supplied quantitative data with other quantitative data sources, in combination with the qualitative answers. In a number of cases, we asked insurers either to provide further explanation or to resubmit the information.

A1.2 Analyses

To determine a market-wide average for each product group, the following steps were followed.

- The number of policies per brand, per reference date and per policy duration group was multiplied by the actual and technical premiums respectively. This gives the total actual premium and the total technical premium for each brand.
- These amounts were then added together, per reference date and per policy duration group. This gives the market-wide totals of the actual premium and technical premium.
- Subsequently, by reference date and by policy duration group, the actual premiums were divided by the technical premiums. This creates the market average APTP ratio for each management time group.
- These are shown in a graph, with the management time on the X-axis and the APTP ratio on the Y-axis. An upward trend means that insurers have a higher profit margin on average as the tenure of customers increases.

The disadvantage of the above analysis is that margin personalisation is not visible when there are also insurers who give discounts. An average can also be sensitive to outliers. Therefore, the following analyses were carried out to determine how many insurers had margin personalisation:

- The number of policies per brand, per reference date and per management time group was multiplied by the actual and technical premiums respectively. This gives the total actual premium received and the estimated technical premium for each brand.
- For each product, for each reference date and for each brand, the actual premium is divided by the technical premium. This gives the APTP ratio for each management time group.
- Then, the APTP ratio of the group that has been a customer for 9+ years is divided by the group that has been a customer for 1-2 years. A positive ratio means that the group that has been a customer for 9+ years has a higher profit margin than the group that has been a customer for 1-2 years.
- Based on this, a figure has been compiled for each product group showing the differences in APTP ratio between the 1-2 years and 9+ years customer groups of the individual insurers.

A1.3 Results for reference years 2021-2023

A1.3.1 Number of insurers having margin personalisation

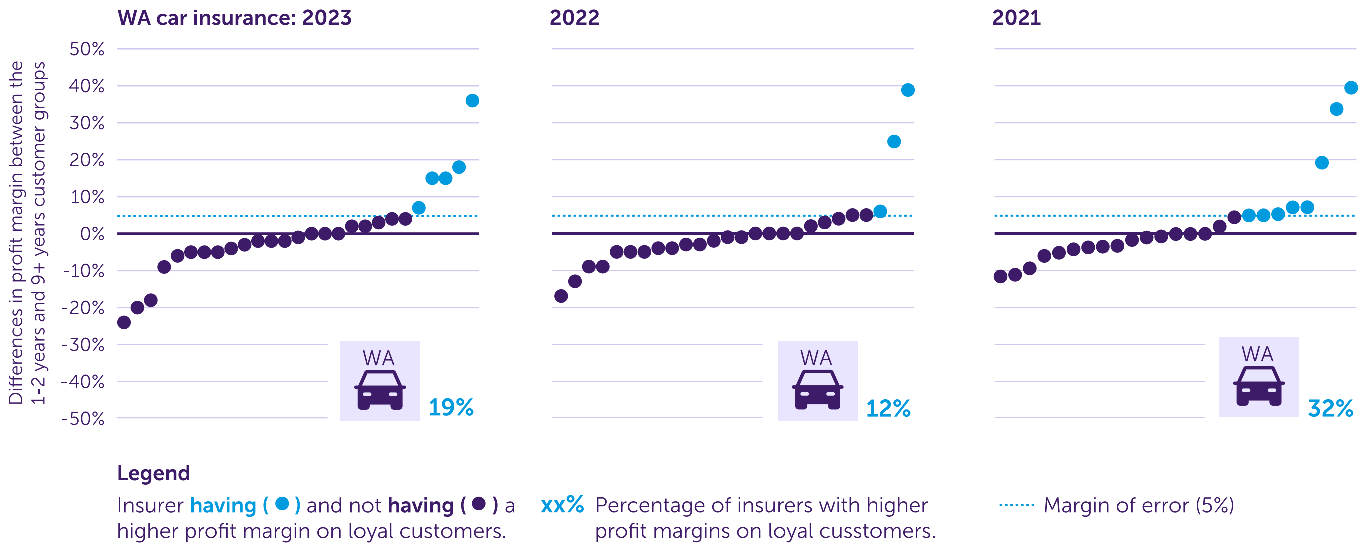
Over the three reference years, there is some variation in the percentage of insurers where margin personalisation occurs in at least one product group. This percentage fluctuates between 38% and 61% over the three reference years, on the basis of an increase in profit margin of at least 5% between customer tenures of 1-2 years and 9+ years. An increase in profit margin of at least 10% between customer tenures of 1-2 years and 9+ years is found to occur consistently in at least one product group in about a third of insurers.

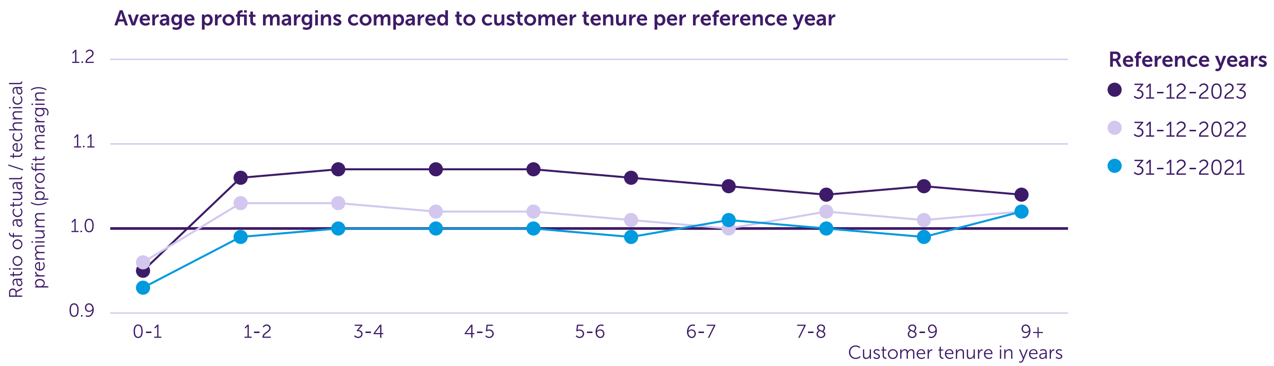
Table 3. Percentage of insurers where at least one product group has margin personalisation.

Insurers with margin personalisation	2021	2022	2023
Insurers having at least 1 product group with >5% margin personalisation	**61%** (17)	**38%** (11)	**47%** (14)
Insurers having at least 1 product group with >10% margin personalisation	**29%** (8)	**31%** (9)	**33%** (10)
Total number of insurers	28	29	30

A1.3.2 WA car insurance

The data for the three reference years show some variation in the percentage of insurers having margin personalisation in WA car insurance. We do not see any significant differences in the development of the APTP ratio over the three years.

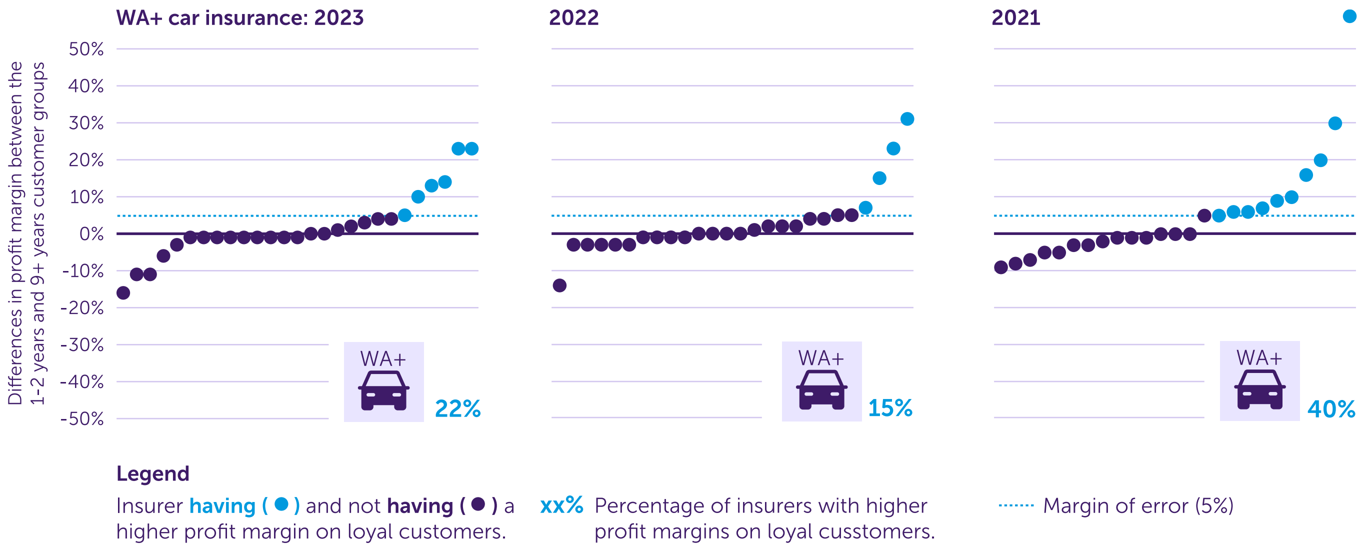


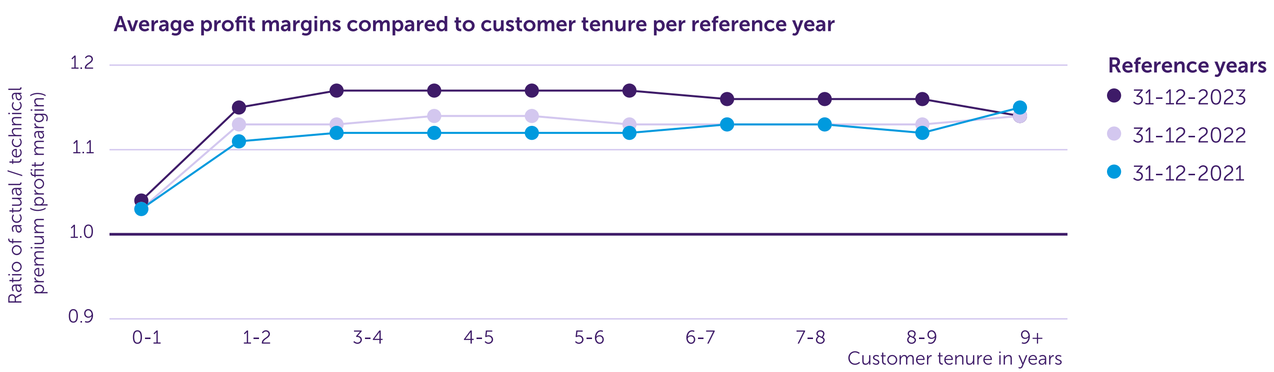


Number of insurance policies 2021: 792,945; number of insurance policies 2022: 759,762; number of insurance policies 2023: 755,745

A1.3.3 WA+ car insurance

The data for the three reference years show some variation in the percentage of insurers having margin personalisation in WA+ car insurance. We do not see any significant differences in the development of the APTP ratio over the three years.

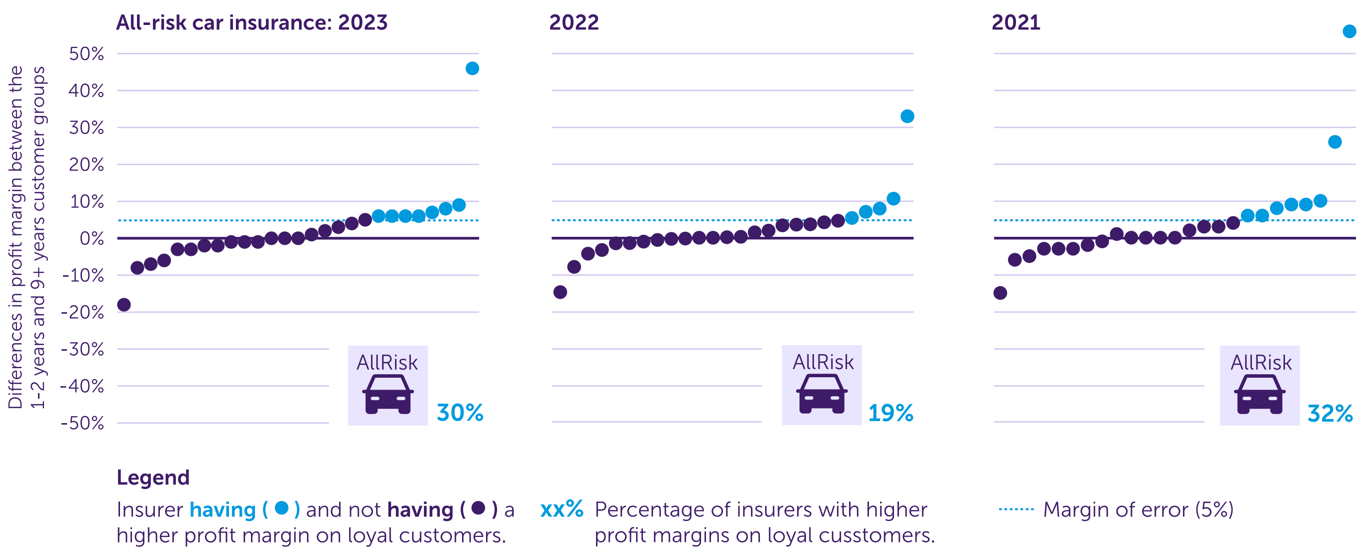


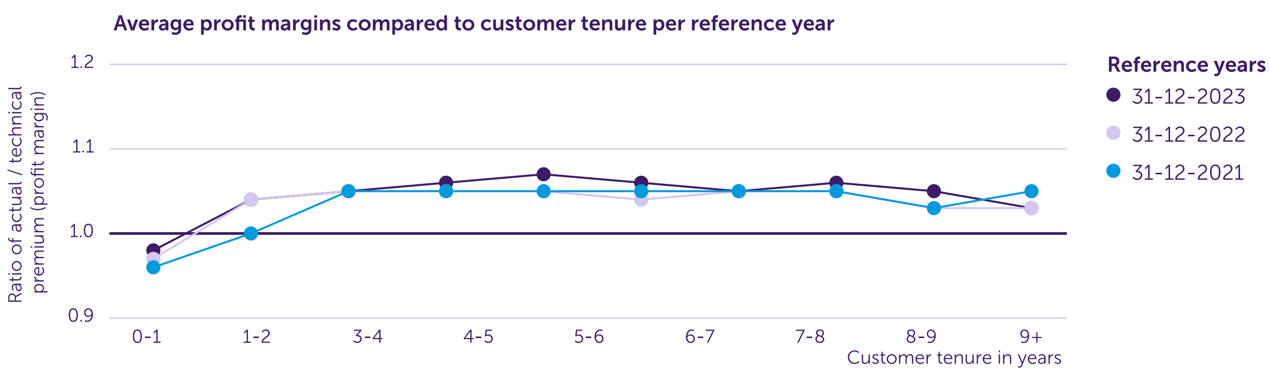


Number of insurance policies 2021: 1,742,696; number of insurance policies 2022: 1,793,605; number of insurance policies 2023: 1,851,179

A1.3.4 All-risk car insurance

The data for the three reference years show some variation in the percentage of insurers having margin personalisation in all-risk car insurance. We do not see any significant differences in the development of the APTP ratio over the three years.

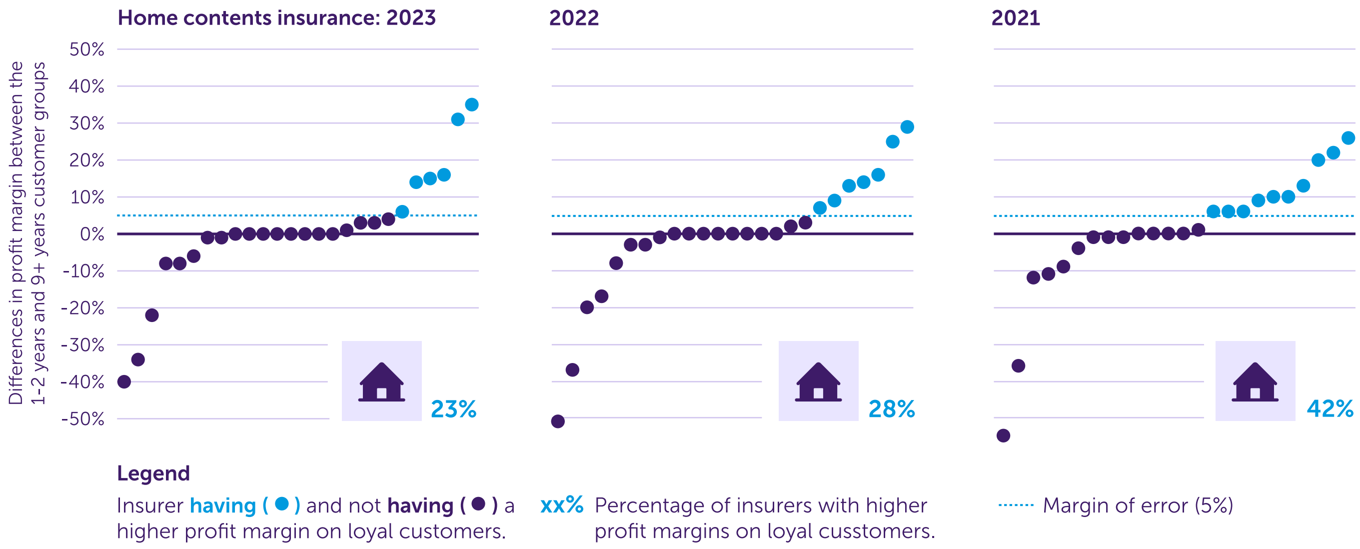


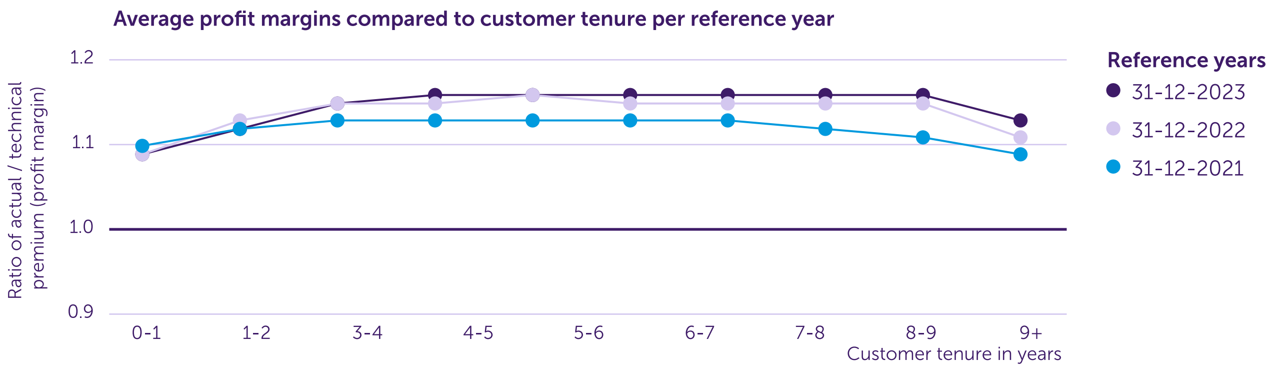


Number of insurance policies 2021: 2,825,601; number of insurance policies 2022: 2,875,128; number of insurance policies 2023: 2,951,511

A1.3.5 Home contents insurance

The data for the three reference years show some variation in the percentage of insurers having margin personalisation in home contents insurance. We do not see any significant differences in the development of the APTP ratio over the three years.

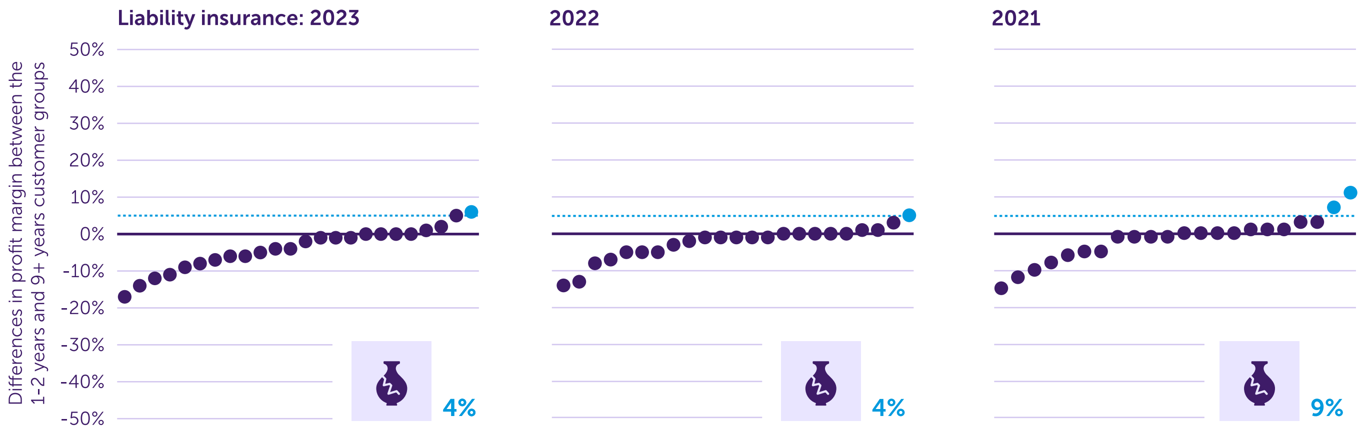




Number of insurance policies 2021: 4,965,330; number of insurance policies 2022: 5,066,960; number of insurance policies 2023: 5,282,405

A1.3.6 Liability insurance

The data for the three reference years consistently show hardly any margin personalisation in liability insurance. This is also reflected in the consistent development of the APTP ratio over the three reference years.



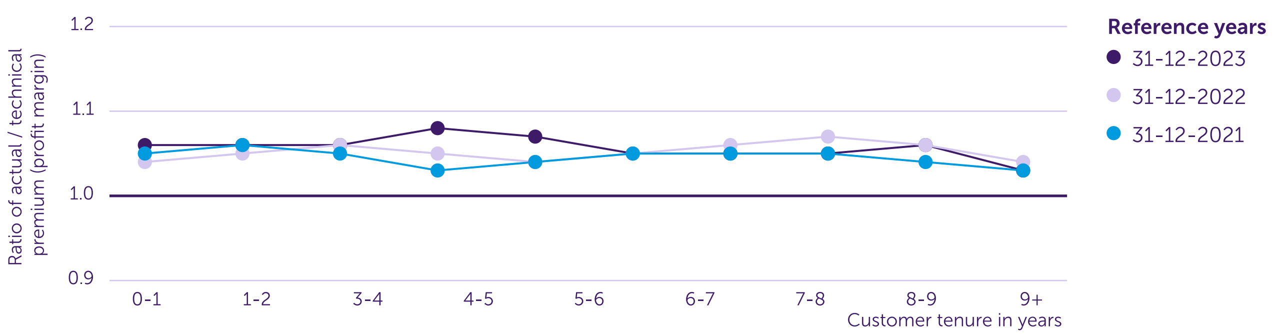
Legend

Insurer **having (●)** and not **having (●)** a higher profit margin on loyal customers.

xx% Percentage of insurers with higher profit margins on loyal cusstomers.

······ Margin of error (5%)

Average profit margins compared to customer tenure per reference year

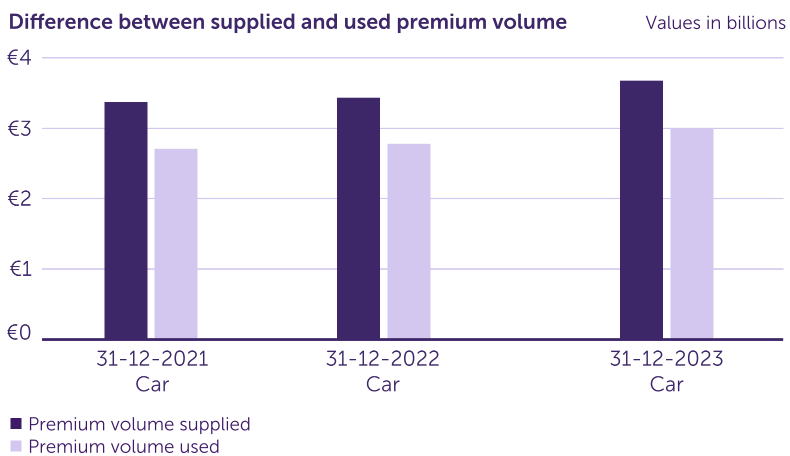


Number of insurance policies 2021: 5,221,639; number of insurance policiesn 2022: 5,312,062; number of insurance policies 2023: 5,530,654

A1.4 Limitations

Not all insurance policies in the reviewed product groups could be examined. In several specific cases, insurers did not have the technical premiums of individual policies. Furthermore, not all participating insurers were able to provide the technical premiums of the insurance policies sold by authorised agents. Also, the scope of the study only included products of authorised agents when the insurers in question were 100% risk carriers; pooled insurance products were excluded. The premiums reported in this study are largely based on the direct and intermediary channels. However, the AFM did ask the participating insurers that were unable to provide the relevant data to indicate how many policies and what premium volumes were involved. The difference between the total premium volumes supplied and the premium volumes used for this study are shown in the charts below.

Figure 11. Premium volume of car insurance (WA, WA+ and all-risk, all reference years).



The AFM did not examine individual policies. Insurers provided the actual and technical premiums per policy duration group. If the total technical and actual premiums per group are the same, it is also possible that some of the customers in that group pay a higher actual premium and others pay a lower actual premium compared to the technical premium.

Figure 12. Premium volume of home contents insurance (all reference years).

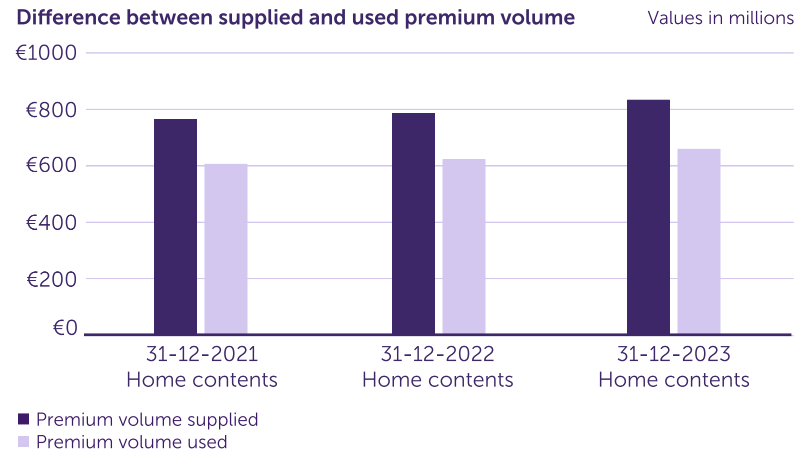
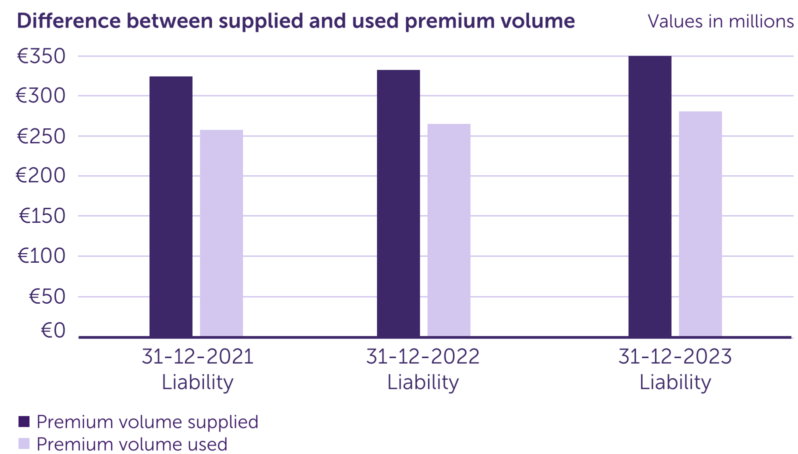


Figure 13. Premium volume of liability insurance (all reference years).



In this study, we focused on private car, home contents and liability insurance. Based on these results, it is not possible to determine whether there is also margin personalisation in other private non-life insurance policies.

Appendix II Switching behaviour according to the AFM Consumer Monitor

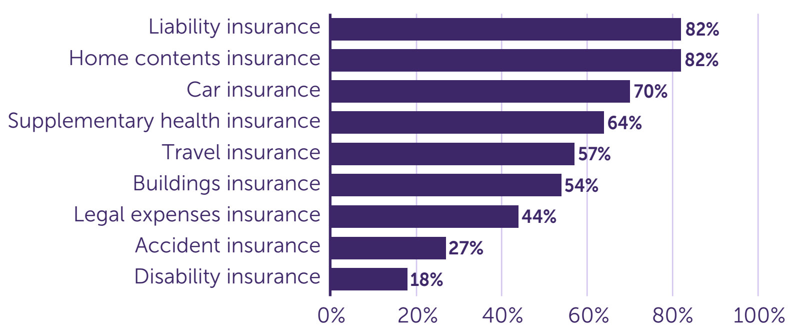
To be able to interpret the potential impact of margin personalisation, it is important to gain insight into the switching behaviour of policyholders. For this purpose we use the AFM Consumer Monitor[11]. In addition to consumers' switching behaviour with regard to the various insurance products, we also look at the characteristics of switchers and loyal insured persons, and the reasons for not switching.

A2.1 Switching behaviour

Most of the surveyed consumers have liability, home contents and/or car insurance. In 2024, 82% of surveyed consumers have liability insurance, 82% have home contents insurance and 70% have car insurance. Since most consumers have these insurances, this was the focus of this study.

Figure 14. Most surveyed consumers have liability, home contents and/or car insurance.

Which of the following insurance policies does your household have / do you have?



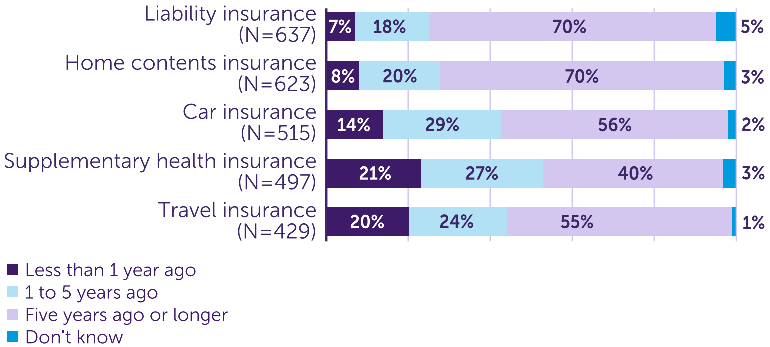
■ N = 889

Consumers rarely switch insurance and are only somewhat aware of their insurance. Of the consumers with liability and/or home contents insurance, 70% report having taken out these policies five or more years ago. Consumers indicate that they have taken out car insurance less recently. Just over half of the respondents have had their car insurance for at least five years. In addition, we see that consumers who have had their insurance for at least a year have hardly looked at whether they could take it out elsewhere for a lower premium. This applies particularly to liability and home contents insurance, but also in 80% of cases to car insurance. This is striking, given the generally higher premiums for car insurance.

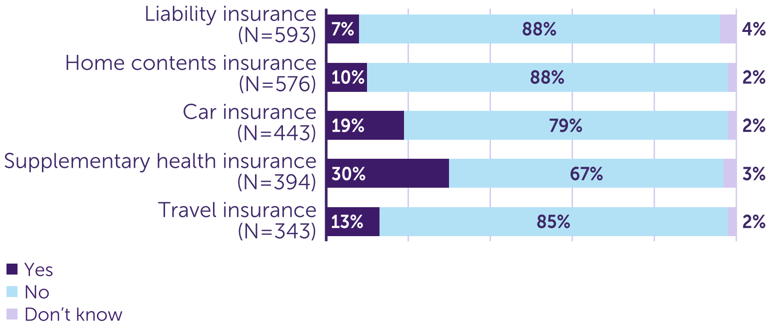
11 In the Consumer Monitor, we use larger, external online panels from which samples representative of the Dutch population can be drawn. The results of this study will be published on the AFM website, see: Consumer survey (afm.nl)

Figure 15. Consumers make little use of insurance and are only aware of their insurance to a limited extent.

How long ago did you take out your insurance?



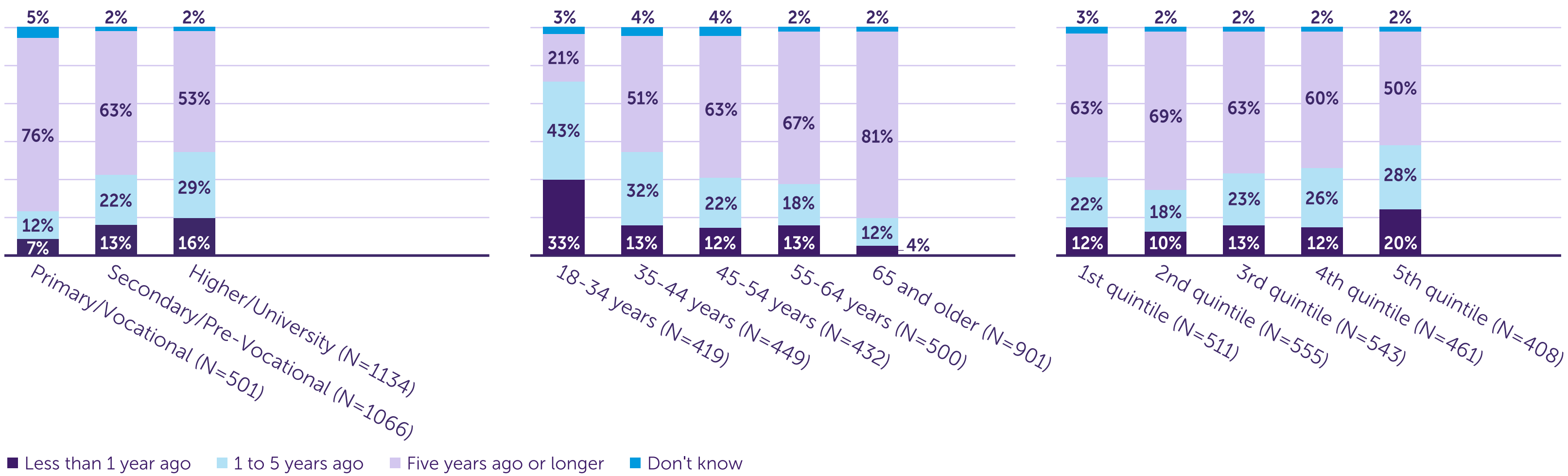
Have you looked in the past year to see if you could take out insurance elsewhere for a lower premium?



Consumers who do not switch are on average older and have lower income. If we look at the characteristics of loyal policyholders, we see that the proportion who indicate that they have had the insurance for at least five years increases as their age increases. In other words, young people switch more often than older people. We also see that policyholders having only primary education or preparatory secondary vocational education and policyholders in the lowest income groups are less likely to switch than the group with higher vocational or university education and the highest income groups, respectively.

Figure 16. Consumers who do not switch have a higher age and a lower income on average.

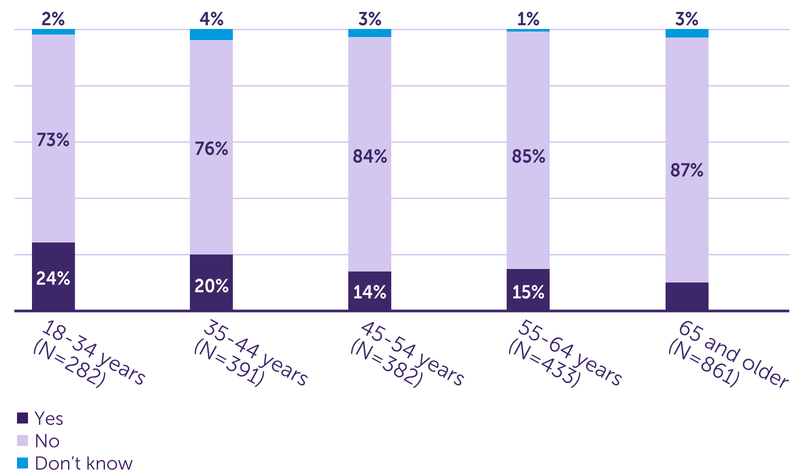
How long ago did you take out your insurance?



Young people are more likely to engage actively with their insurance than older people. When it comes to actively engaging with their insurance – meaning checking whether it could be obtained elsewhere for a lower premium – we see that policyholders aged 18 to 34 do this more often than those aged 65 and above (24% versus 10%). There are no significant differences based on education level or income group.

Figure 17. Young people are more likely to engage actively with their insurance than older people.

Have you looked in the past year to see if you could take out insurance elsewhere for a lower premium?



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A2.2 Reasons for not switching

Consumers are loyal to insurers, not to the insurance itself. When asked about the reason for not switching, satisfaction with the current insurer is generally the most important reason. This is cited more often than satisfaction with features of the insurance (such as the premium or coverage). A lack of time or interest in examining insurance is a factor for less than a quarter of policyholders. Difficulty in comparing insurance policies and the fear of making the wrong choice are mentioned by relatively few policyholders (<10%).

Figure 18. Consumers are loyal to insurers, not to the insurance itself.

You state that you have had your insurance with this provider for more than a year. What is/are your reason(s) for this?