



Motor Pricing – FCA Review Decision

Response Plan & Commercial Mitigation

Presented: 21 01 2026

Presenter: Morris Jones, Principal Pricing Data Scientist

FCA Conclusion

- Charging different premiums based on **payment method (annual vs monthly)** is unfair customer treatment
- Applies across:
 - Risk pricing
 - Price optimisation
 - Behavioural models

FCA Expectation

- Removal of payment preference from pricing decisions
- Provide evidence of:
 - Fair value
 - Consumer Harm mitigation
 - Consumer Duty alignment

FCA deadline: **3 months**

ExCo – Headlines

Good news !! → We can meet the 3-month deadline

- But it requires **model simplification, governance, and controlled margin recovery**
- Clear trade-offs between **speed, precision, and profitability**

We have a **clear, deliverable plan** to:

- Achieve compliance on time
- Mitigate commercial and portfolio impacts
- Maintain strong governance and FCA defensibility



Four Parallel Workstreams

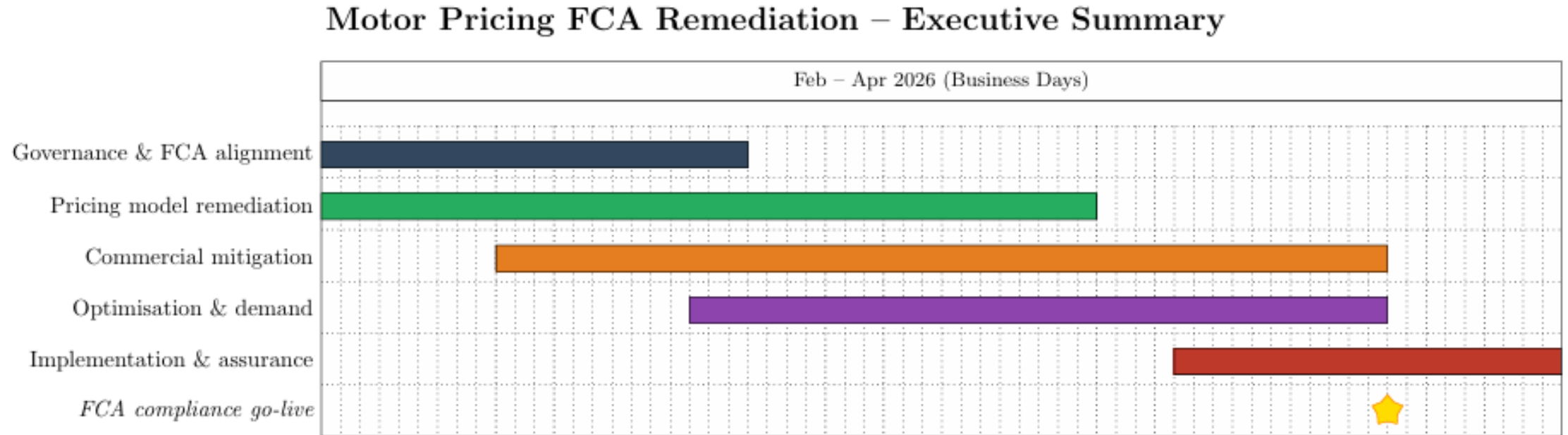
- **Compliance & Model Remediation**
- **Commercial Impact & Mitigation**
- **Optimisation & Demand**
- **Risk, Governance & FCA Readiness**

Actions:

Remove payment frequency from all pricing decisions

- Reallocate cost recovery transparently
- Re-optimize without behavioural bias
- Strengthen conduct controls (and evidence this to the FCA to reassure)

And here's a Gantt chart, to prove it...



Four Parallel Workstreams

- Compliance & Model Remediation
- Commercial Impact & Mitigation
- Optimisation & Demand
- Risk, Governance & FCA Readiness

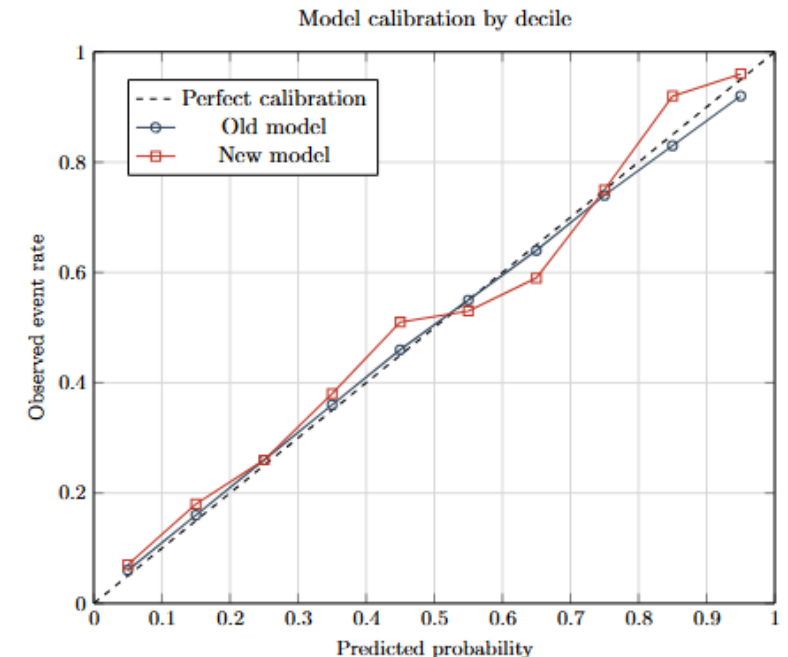
Findings from Model Review

- Payment preference is used:
 - Directly in some risk models
 - Indirectly in behavioural / optimisation layers
- Degree of influence varies by product and segment
 - Correlations with Hire Purchase → Higher Premium Vehicle mix adversely affected
 - Risk implications...
 - Optimisation / Elasticity implications...
 - Correlation with customer vulnerability → Underwriting/Trading implications
 - Consumer Duty implications...

At stake...

- Price redistribution
- Behavioural changes
- Potential margin and loss ratio impacts

Initial Exploratory Analysis (<1day)
Model deterioration as expected



Workstream 1: Model Remediation

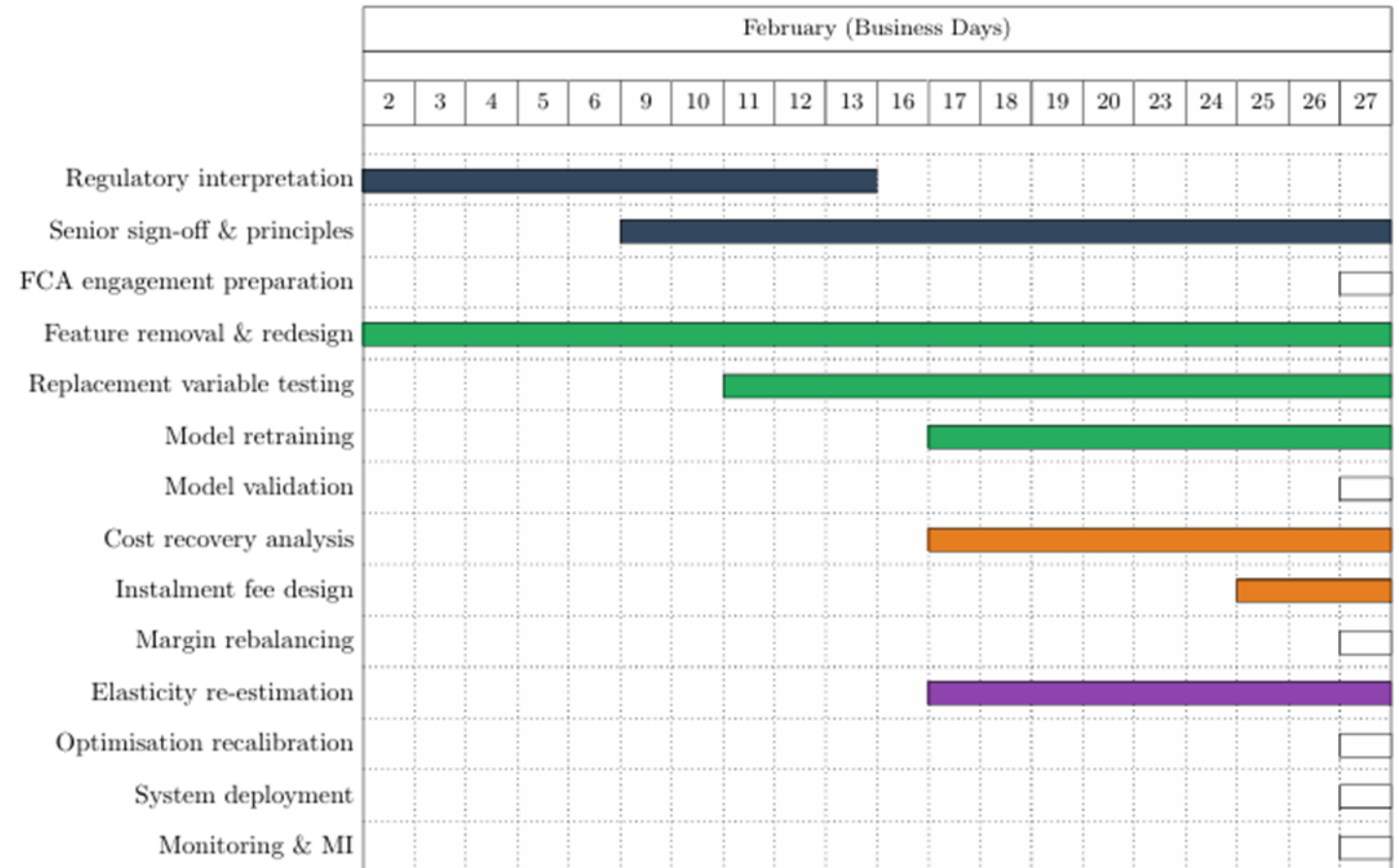
February 2026 – Detailed Plan

Actions

- Remove payment preference as:
 - Explicit rating factor
 - Replacement variable/s
- Rebuild and recalibrate:
 - Risk models
 - Price optimisation models
- Establish neutral pricing across payment method preference

Controls

- Model validation and fairness testing
- Independent model risk review



Workstream 2: Commercial Impact Analysis

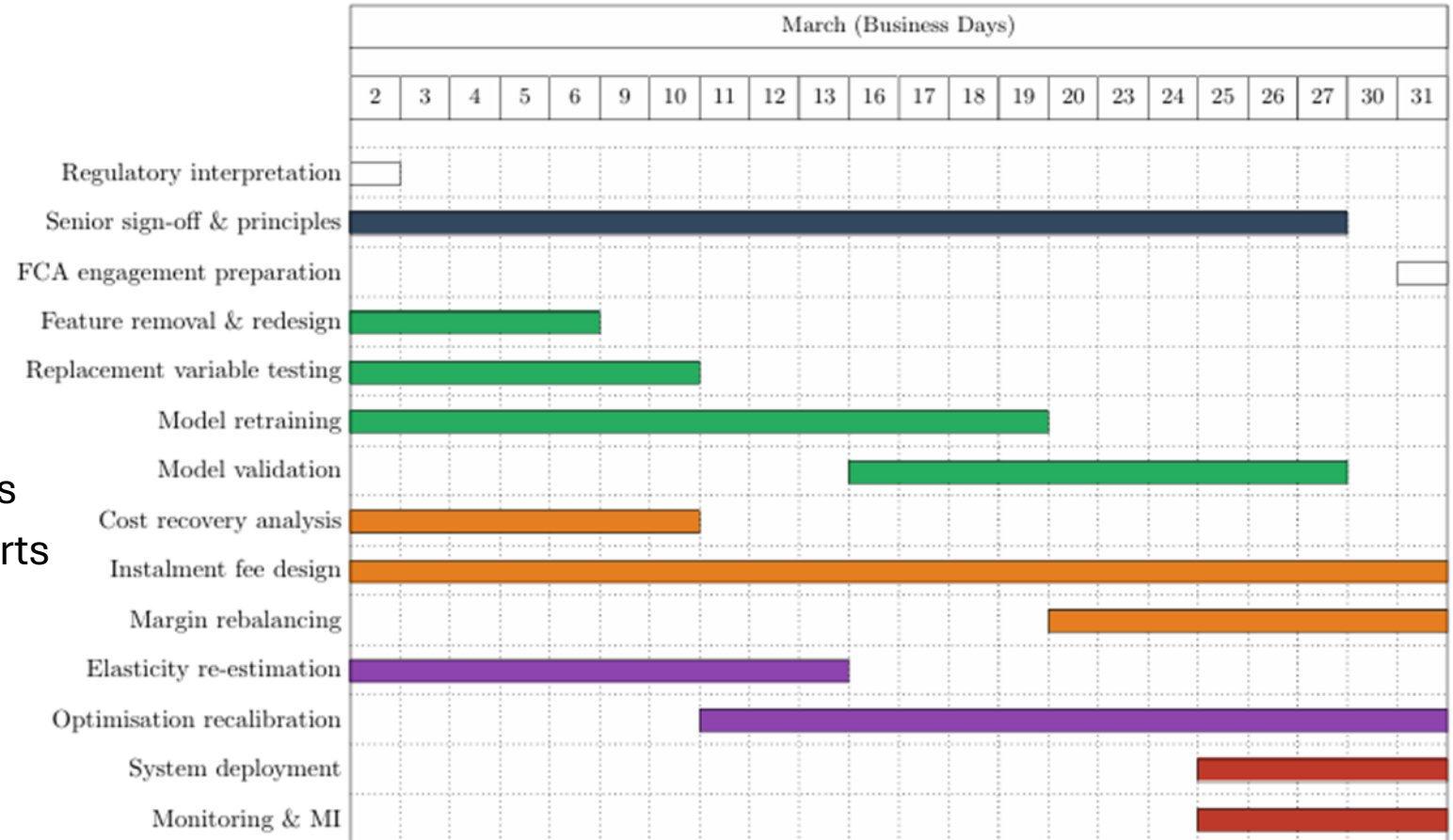
Assessing Impact Across

- Gross Written Premium
- Conversion rates
- Loss ratio
- Instalment finance income

Outputs

- Segment-level impact analysis
- Best / base / worst-case scenarios
- Identification of highest-risk cohorts

March 2026 – Detailed Plan



Workstream 2: Commercial Mitigation Levers

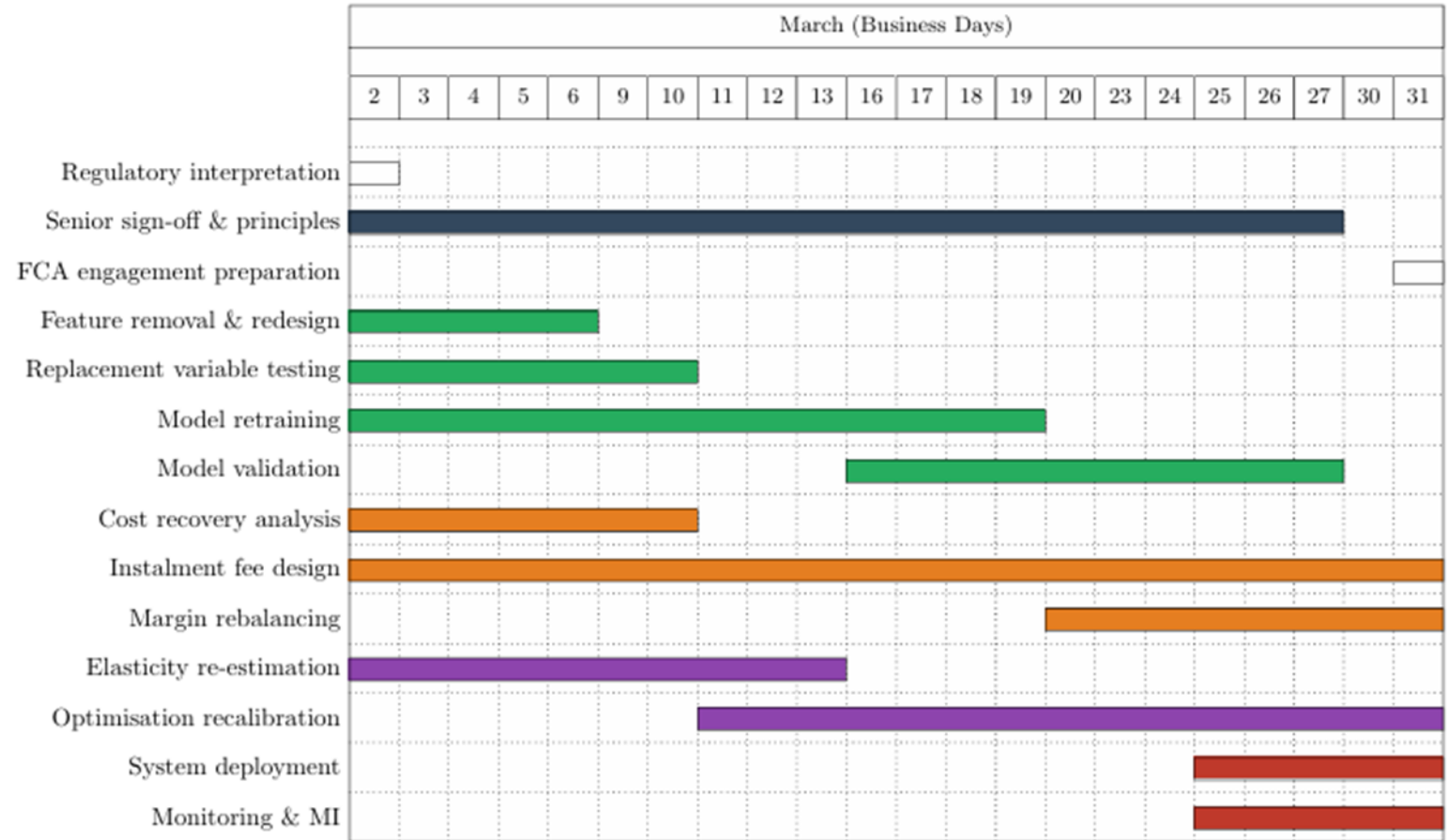
Mitigation Actions

- Re-optimisation using FCA-compliant variables
- Review of:
 - Underwriting appetite
 - Portfolio mix
- Controlled price smoothing to avoid customer shocks

Objective

- Recover value **without reintroducing unfair pricing**

March 2026 – Detailed Plan



Workstream 3: Risk & Governance

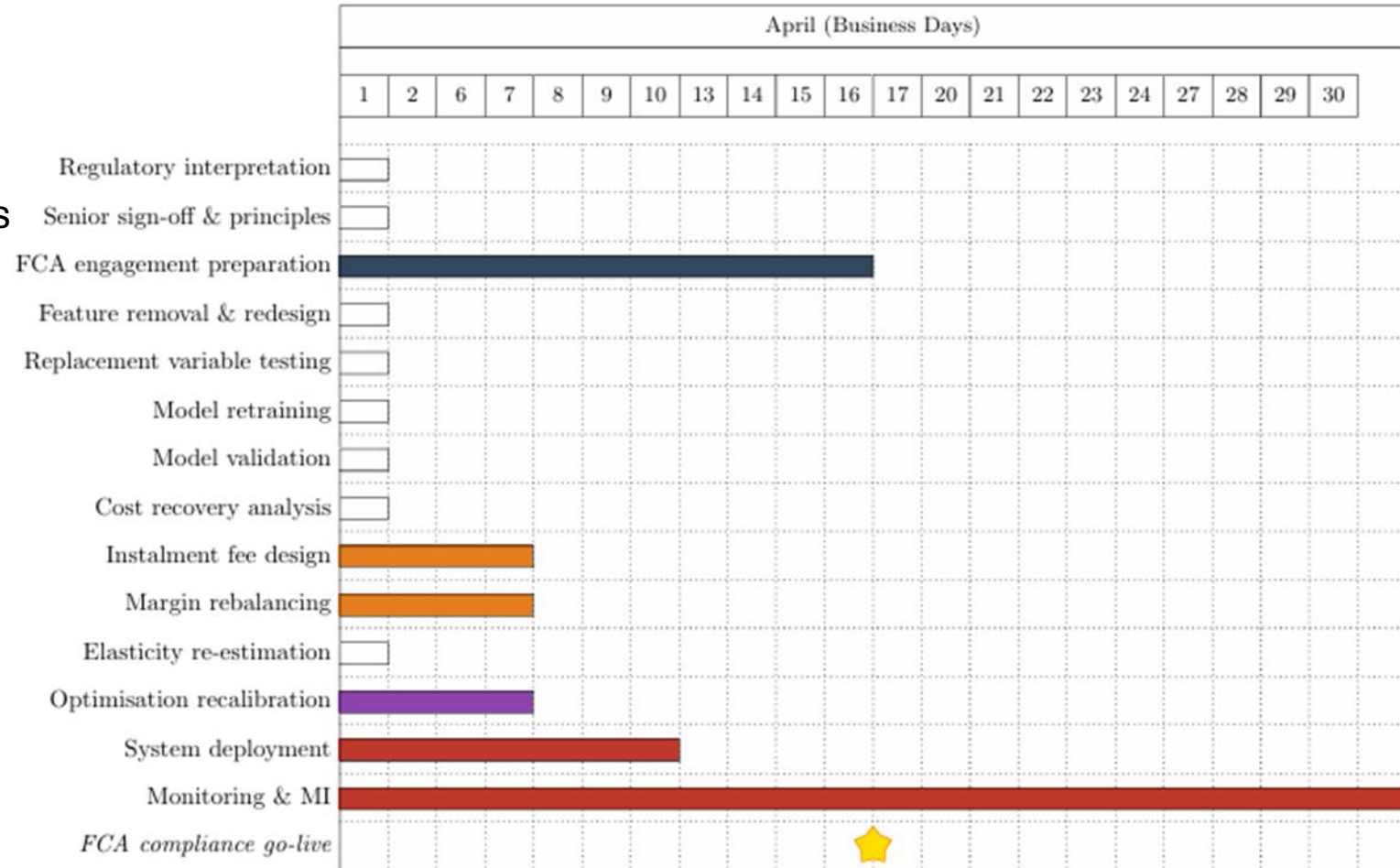
April 2026 – Detailed Plan

Governance Framework

- Senior management oversight
- Formal model change approvals
- Clear audit trail

FCA Defensibility

- Documented rationale for all decisions
- Evidence of:
 - Fair value assessment
 - Consumer Duty compliance
 - Ongoing monitoring



Delivery Timeline - Milestones

End of February

- Milestone 1: Impact analysis complete
- Model redevelopment begins

End of March

- Testing and validation
- Milestone 2: Validation complete – Begin: Commercial tuning / opt.

End of April

- Milestone 3: Deployment
- Begin: Post-implementation monitoring
- Remaining chore: FCA-ready documentation

Key Risks & Mitigations

Risk	Mitigation
Revenue / margin loss	Re-optimisation & portfolio actions
Adverse selection	Risk recalibration & monitoring
Delivery slippage	Parallel workstreams
FCA challenge	Strong documentation & governance

Senior Management Endorsement Needed

- Approval of delivery approach
- Agreement on short-term risk appetite
- Confirmation of resourcing and governance

Executive Summary

- FCA compliance achievable within 3 months
- Commercial impacts understood and actively mitigated
- Strong governance and FCA-defensible approach
- Pricing teams ready to proceed