



# Motor Pricing – FCA Review Decision Response Plan & Commercial Mitigation

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## FCA Conclusion

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

## FCU 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**

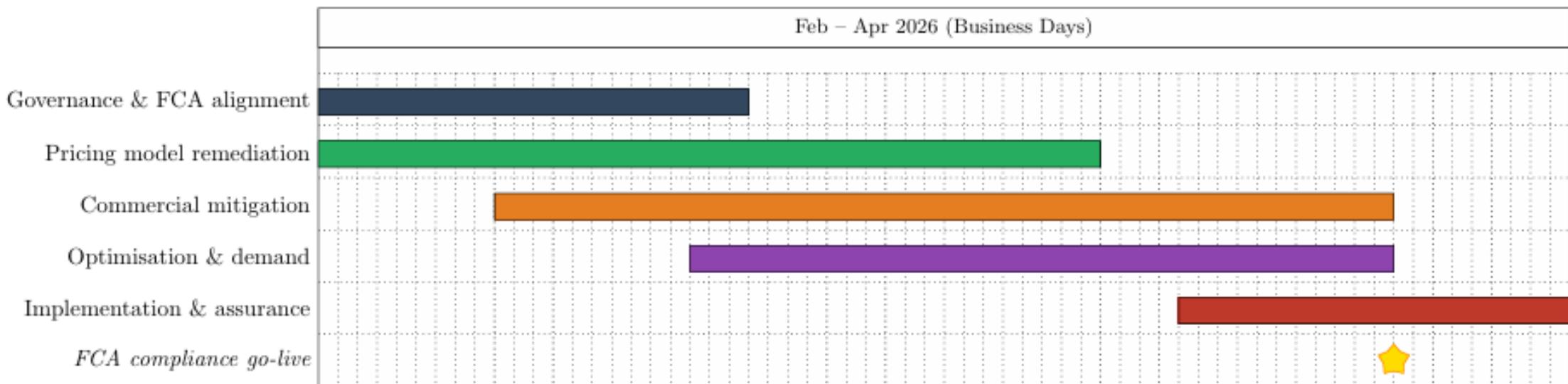
## Actions:

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...

## Motor Pricing FCA Remediation – Executive Summary



### Four Parallel Workstreams

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



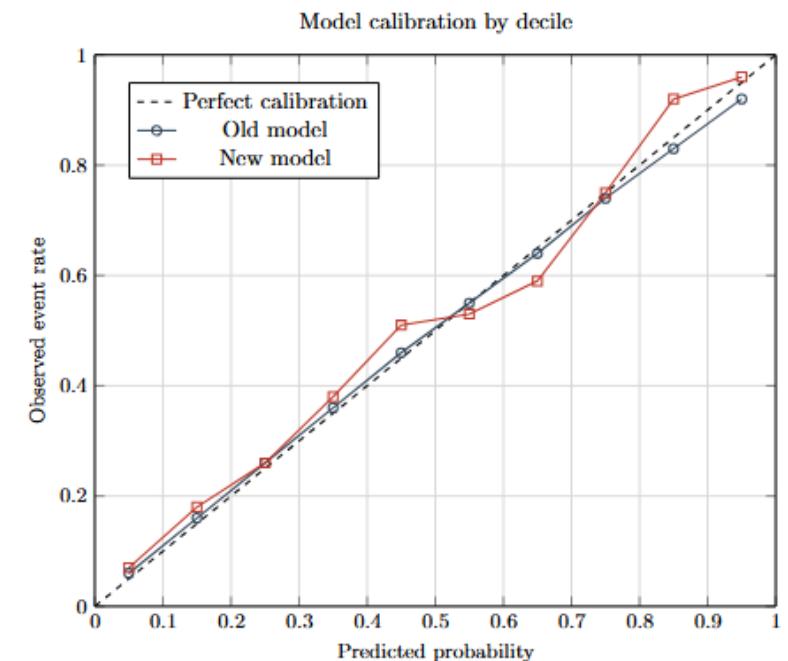
## Findings from Model Review

- 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

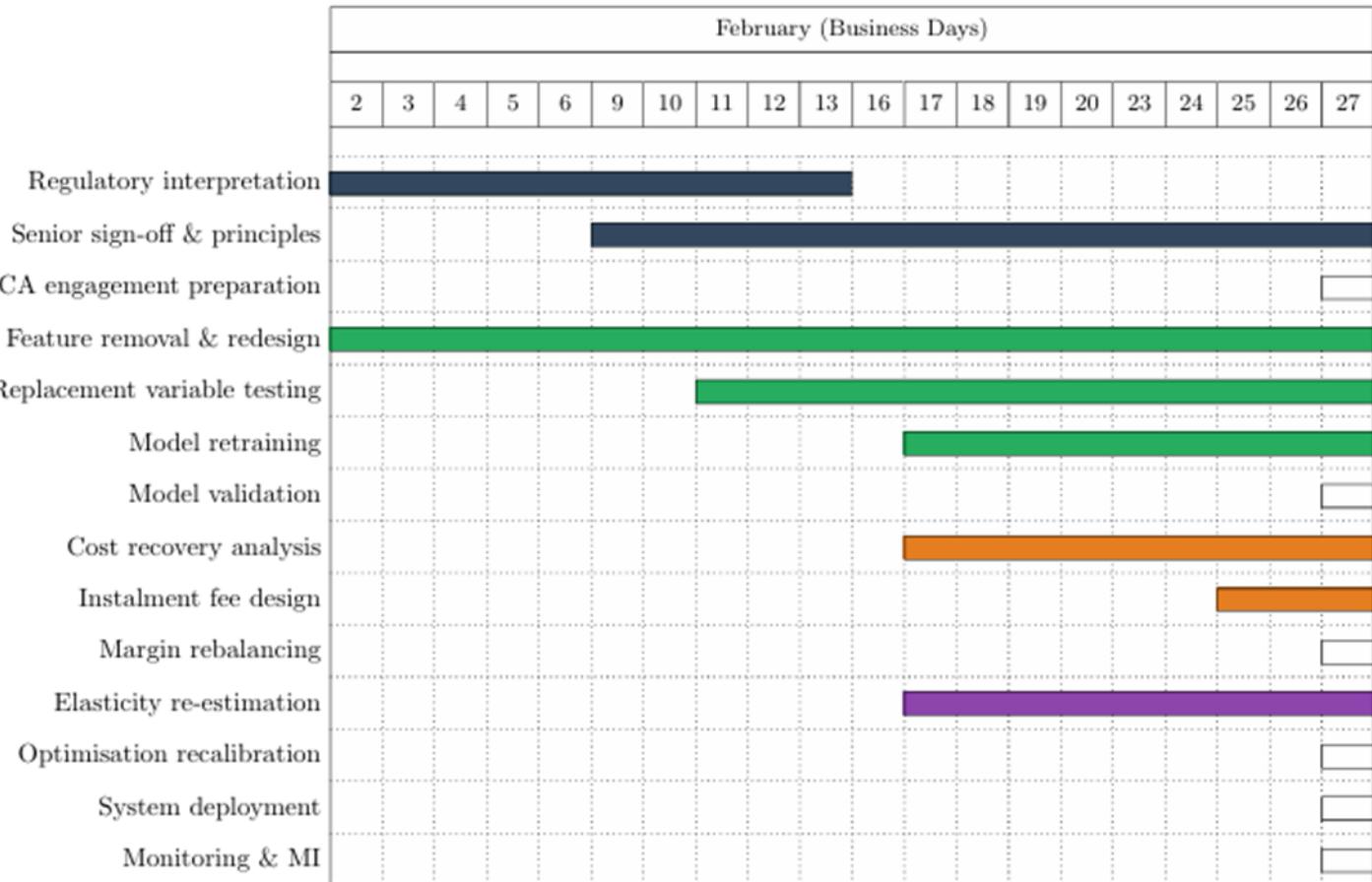
## Actions

- 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

February 2026 – Detailed Plan



# 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

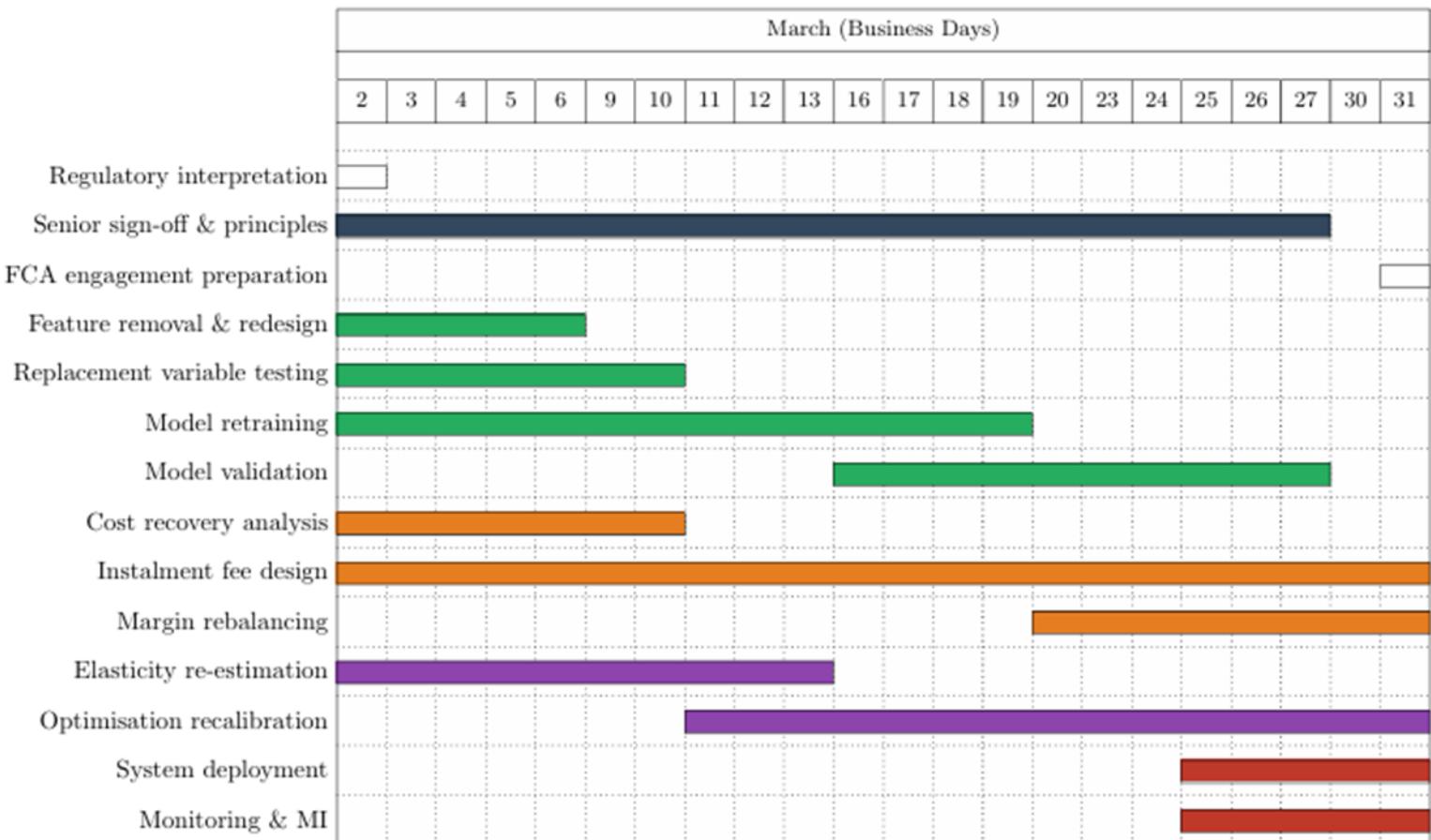
## Mitigation Actions

- 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