

To: Conduct of Business Committee
From: Titouan Langlois
cc: General Insurance Committee, Personal Insurance Committee, Economics & Finance Committee, Public Affairs
Date: 02-02-2023
Reference: COB-23-008
Subject: EIOPA CTR 2023 - Overview

Input requested

Members are invited to flag any concerns they may have over the findings by EIOPA in the Consumer Trends Report (Langlois@insurancееurope.eu) **by close of business Friday 10 February**.

Summary

Members will find in annex an overview of the [EIOPA Consumer Trends Report](#) (CTR), published on 18 January ([FLASH-23-009](#)).

Key points to flag include:

- There may be an evolving issue of consumers and SMEs unable to purchase or renew insurance cover owing to the current financial challenges (increasing cost of living, notably due to rising energy prices).
- Continued concerns over clarity of terms and coverage.
- Continued protection gaps particularly for natcat coverage.
- There will be further attention on sustainability claims and greenwashing, with 14 NCAs confirming action and EIOPA confirming it will provide advice to the EC, in conjunction with EBA and ESMA.
- Concerns around value for money and poor product design for some unit-linked products.
- Concerns over the impact of increased digitalisation, such as discrimination.
- Concerns over protection gaps for women.

Overall, the CTR appears balanced, and the secretariat does not intend to react towards EIOPA on its findings, except if members flag concerns pointing to the contrary.

Next steps

- The work towards the next CTR is expected to commence in the summer, with EIOPA providing a questionnaire survey for completion by relevant stakeholders, including national supervisory authorities, consumer representatives, broker representatives and insurers.
- It is expected EIOPA will subsequently publish its next CTR in spring 2024 (later than the usual January publication).
- It is not yet known what will be the focus areas in the next CTR.

Annex – EIOPA Consumer Trends Report 2022

- Green: positive developments for the insurance sector
- Orange: topics that deserve a close follow-up because of their potential developments
- Red: negative developments for the insurance sector

Executive summary

EIOPA highlights that:

- **Access to insurance and pensions products remained low.** Over a third of EU consumers do not own any saving products, including IBIPs and pensions.
- Current macroeconomics trends are having an impact on consumers. 19% of EU consumers do not buy or renew insurance because of budget constraints or too expensive products.
- There is a need to **fight greenwashing**. 58% of reporting NCAs are planning to carry out **supervisory activities to tackle greenwashing**.
- Although EIOPA and NCAs recognised improvements in product design, distribution, monitoring and review process, some concerns remain. Unit-linked products are found to offer poor value for money. EIOPA also identified risks relating to **poor or inadequate advice**, and **conflicts of interest** continue to be an area of focus for NCAs, with 12 of them having reported that **mis-selling of unit-linked product** is an important risk in their market.
- **Financial health** of consumers and SMEs is considerably impacted by two parameters: (i) un-insurable risks or risks that are only insured at high prices due to systemic events increased (eg only half of consumers and SMEs are covered in case of a NATCAT event); (ii) unclear terms and conditions leads to further consumer detriment when systemic events materialise.
- The **pension saving gap** is a major trend across most member states.
- **Digitalisation** and technology transformed the pension value chain, reducing costs and improving financial health. Digitalisation may allow young people to get more interested in financial products, especially their pensions. Some digitalisation issues, however, remain.

Interview with Flore-Anne MESSY, OECD

- **Urgent to teach financial education in schools** in light of increasing living costs, challenging financial resilience, digitalisation, and the emergence of sustainable but complex investments.
- Digitalisation allows to provide more tailored products, and to deliver cost effective financial education, but it raises challenges. It needs to be **ensured that consumers have the skills to deal with digital products**. Seniors have financial knowledge but no digital skills, while younger generations have digital skills but no financial education. Both risks being **victims of influencers, scams or frauds**.
- Gender gap → need to **ensure women receive financial education as young as possible**.

Macro-economic events, impacting consumers' financial health

- Inflation has lowered consumers' income and ability to purchase financial products or take financial decisions. **This will result in consumers stopping their contributions due to too-high premiums.**

Among the most cited reasons why consumers and SMEs did not buy or renew insurance products (respectively % for consumers and % for SMEs) (fig 8):

- **Budgetary constraints** (19% and 16%)
- The **too high premium** (19% and 18%)
- **Too high cost compared to expected return and level of risk** (17% and 25%)
- Don't know (14% and 13%)
- Lack of financial advice (12% for consumers)

Lack of transparency / clarity in terms and conditions / awareness

- **71% of consumers and 71% of SMEs find that insurance policies have vague terms and conditions and unclear coverage.** 71% of consumers find the documentation difficult to understand due to jargon.
- In relation to NATCAT, **70% of NCAs found evidence of protection gaps, relating mostly to NATCAT insurance.** Consumers and SMEs are not sure about the coverage they have.
- EIOPA recognises that information overload could also mislead consumers. NCAs received a lot of complaints, related to **unclear or complex documentation**, especially on the coverage and exclusions.
- **30% of the most impactful issues on the consumers' financial health are due to behavioural aspects** such as low awareness of risk or view of insurance as luxury and **26% are the result of a lack of financial literacy.** (fig 7)

Greenwashing

- Sustainability-related investments have been continuously growing. **67% of NCAs reported insurers are increasingly offering products with sustainable features** while only 17% reported the opposite. This results in more and more consumers having heard about sustainable products.
- While **4 NCAs (16%) reported greenwashing issues with IBIPs, no NCA or alternative dispute resolution body received greenwashing-related complaints.**
- EIOPA notes that greenwashing occurrences can have important impacts on multiple stakeholders and that consumers are not able to check whether the sustainability of an insurance product.
 - **EIOPA concludes that there is a need for a strong and consistent supervision of EU sustainability-requirements aimed at tackling greenwashing (IDD suitability assessment and POG, SFDR, Taxonomy Regulation).**

Future supervisory activities in relation to greenwashing are planned:

- **14 NCAs are planning to carry out supervisory activities to tackle greenwashing** such as market monitoring, guidance to the industry, on-site activities, surveys, undertaking-specific investigations, and information collection on products.
- **EIOPA, in close cooperation with EBA and ESMA, is working on delivering advice to the EC** on:
 - the cases and risks of greenwashing in the insurance and pension sectors
 - whether supervisory legal mandates, powers, capabilities, and obligations allow the adequate tackling of greenwashing

IBIPs low value for money

NCAs reported positive developments in product design, distribution, monitoring and review process. However, **concerns around value for money and poor product design for some unit-linked products remain:**

- **50% of NCAs have reported mis-selling of unit-linked products as an important risk.**
- **25% of EU consumers think their insurance product does not offer value for money and 14% does not know if it does.**

EIOPA concludes on "the need for more work". One of the reasons to explain the low performance of IBIPs products is the **payment by commission** system. According to one of EIOPA's barometers, **65% of EU consumers believed it is difficult to get un-biased advice.**

In countries where commissions-based sales have been banned for certain products, such as DK or NL, the share of consumers believing it is difficult to get unbiased advice remains high even if it is lower compared to the most of other countries. 47% of DK consumers and 53% of NL consumers think it is difficult to get unbiased advice. Although DK has the lower percentage, EE has a lower one than NL. Other countries are close to NL without having established a ban on commission such as PL, LV, LI, or LU.

Digitalisation

Digitalisation has brought new opportunities:

- Reaching younger generation especially in relation to their pensions
- Making access to insurance & pension products easier for consumers (Ex: telematics-based motor and health insurance)
- Improving the claim experience by better processing complaints and prioritising customer concerns.

Nonetheless, consumers still prefer receiving in-person advice when making important decisions about life insurance products and long-term savings.

Some serious concerns remain in relation to digitalisation according to EIOPA:

- Risk of **unfair discrimination and higher premiums.**
- Half of the NCAs are concerned about **price walking and differential pricing practices.**
- Data privacy and cyber concerns:
 - **Cyber threats and misuse of consumers data can increase.**
 - **Lack of cyber risk coverage**, while risks of cyber-attacks on consumers, SMEs, and insurers increase. **69% of SMEs do not have any cyber risk coverage and 15% do not know if they are covered.**
 - **Need to teach adequate digital skills for seniors.**

Increase in Insurance Protection Gap and Gender Gap

- The coverage of risks is not always effective (NATCAT, cyber risks, Covid-19), eg **in 2019, only 35% of the total losses caused by climate events across Europe were effectively covered.**
- **Gender gap issue:** Female consumers have lower access to insurance and pensions products.
- **Women are more prone to financial shocks:**
 - In case of the loss of employment, 43% of female consumers would rely on the government to face monthly expenses because they do not have coverage for this (vs 38% men)
 - In case of medical emergency, only 23% of women would be able to rely on private insurance coverage with or without a high deductible vs 29% men