

To: Conduct of Business Committee  
From: Conduct of Business Department  
Personal Insurance Committee; General Insurance Committee; Liability Insurability WG; Motor WG, Pensions  
cc: PG; Long Term Savings PG; Data Protection PG; Insurance Crime Platform; Cyber Insurance PG; Distribution  
PG; PRIIPs Project Group; InsurTech Project Group  
Date: 31-01-2019  
Reference: COB-19-007  
Subject: EIOPA Seventh Consumer Trends Report-Main findings

## Summary and background

On 20 December 2018, EIOPA published its [seventh Consumer Trends Report \(CTR\)](#). As members may recall, EIOPA's early reports presented a negative and imbalanced view of the insurance industry. Our lobbying efforts have been progressively reflected in the last publications, giving a more balanced and neutral view of the industry.

Since EIOPA started publishing these reports, Insurance Europe has been invited to provide input together with other stakeholders. This year, EIOPA sought input regarding innovative initiatives, as it did in 2016, and market trends:

- Big Data analytics in health insurance;
- On-demand insurance;
- Connected vehicles;
- Use of social media by insurance undertakings;
- Cyber risks as a potential for insurance products;
- Trends in cross selling;
- The use of cloud computing in insurance; and
- Life insurances accompanying mortgage loans.

Insurance Europe's response to EIOPA's questionnaire on insurance can be found in [COB-18-046](#).

## Preliminary analysis

Overall, the seventh CTR presents an increasingly balanced view on the insurance sector when compared to earliest editions. The secretariat notes that our input had a positive impact and thus will continue to work to obtain a fairer view on the industry in future reports.

However, the secretariat noted that the executive summary of the CTR presented a number of inconsistencies when compared to the analysis provided within the report. The executive summary erroneously suggested that non-life complaints had increased when the overall ratio of complaints to policies has fallen. Moreover, the executive summary highlighted a significant increase on travel insurance complaints when these insurance policies are not representative of the whole of the non-life business line. The executive summary also ignored the overall decrease in life complaints which is reflected in the report.

Furthermore, the secretariat spotted a number of misleading statements concerning the legal framework regulating the cross-selling of insurance products.

Given the negative and unfair sentiment of the executive summary, the secretariat wrote a letter to EIOPA to express Insurance Europe's discomfort with the inconsistencies between the report, which in fact shows an overall fair view on the industry, and the unjustified negative statements reflected in the executive summary.

For further details on the main findings on the Seventh CTR, see below Annex 1.

## EIOPA's seventh consumer trends report (CTR): secretariat's main findings

### ■ Insurance

#### ■ Financial innovation:

- Big Data analytics in health insurance: Overall, this section is neutral, recognising that the use of big data analytics in the health insurance industry is not systematic and across the board while recognising it has the potential to shake things up.
- Motor insurance telematics: EIOPA's comments on the use of telematics in insurance, also known as usage-based insurance (UBI), are mostly positive. While it does refer to challenges mentioned in the section on Big Data analytics and health insurance (eg data privacy, over-segmentation and over-personalisation), EIOPA acknowledges the advantages for consumers such as better priced and tailored policies, and incentives for better driving. EIOPA also highlights the positive impact on claims handling.
- On-demand insurance products: The report highlights how the shared-economy is pushing the growth and development of on-demand insurance policies. In particular, in motor insurance, in relation to services such as a BlaBlacar or CAR2GO. EIOPA acknowledges that developments in this area respond to consumer's increasing needs for temporary solutions. However, EIOPA alerts about potential consumer detriment for those consumers in need of constant coverage. It is the regulator's view that consumers in need of full coverage could face higher prices and burdensome insurance renewals. Moreover, EIOPA expresses the fear that on-demand insurance may be misunderstood by consumers as a replacement for full insurance coverage.
- Cyber risks: EIOPA's assessment of the current situation for cyber insurance in the EU seems to be quite accurate, although the report gives too much prominence to retail cyber insurance, a product that is currently not widely offered. The report also highlights the reasons for the low conversion rate despite the high demand (eg complex products or consumers not understanding the policy) and signals that something must be done to address this issue.
- Other financial innovations:
  - *Cloud computing*: Overall, EIOPA is positive regarding the increasing use of cloud computing in insurance which enables the use of Big Data analytics. However, EIOPA recognises that insurance undertakings cannot fully benefit from the use of cloud computing due to the burdensome regulatory framework to outsource this service.
  - *Distributed ledger technology (DLT)*: EIOPA recognises the potential benefits of the use of this technology in insurance, such as facilitating regulatory compliance, lowering operation costs or reducing and facilitating claims' management processes. However, EIOPA alerts about the potential risks of DLT smart contracts regarding their validity and value, and the potential increase of cyber risks.

#### ■ General remarks on cross-selling:

While EIOPA acknowledges that the introduction of the IDD may limit the potential risks arising from cross-selling, and also includes a paragraph in the report that highlights the potential benefits of cross-selling, it makes a number of incorrect or misleading statements about the cross-selling legal framework:

- Footnote 16 of the report refers to ancillary intermediaries that sell insurance and lists banking institutions as one type of this intermediary. However, according to point (4) of Article 2(1) of the IDD, an ancillary insurance intermediary means any natural or legal person, other than a credit institution or an investment firm, who takes up or pursues the activity of insurance distribution on an ancillary basis.
- In Box 1 on page 14-15, the report states that “IDD stipulates that – when an insurance product is **sold with one that is not insurance** – the distributor shall inform the customer whether it is possible to buy the different components separately and, if so, shall provide a description of the components and separate evidence of the costs and charges for each component” (emphasis added). This is not an accurate description of the provisions in the IDD. IDD very clearly stipulates in Article 24(1) that when an insurance product is offered together with an **ancillary product or service which is not insurance**, the distributor shall inform the customer whether it is possible to buy the different components separately and, if so, shall provide a description of the components and separate evidence of the costs and charges of each component. Article 24(3) goes on to state that where an **insurance product is ancillary** to a good or a service which is not insurance, the distributor shall offer the customer the possibility of buying the good or service separately. This important distinction means that the two main examples cited in this section, for ES and BE, relating to electronic devices and mobile phones respectively, would no longer pose concerns under the IDD, as consumers must be allowed to purchase the insurance product separately. This means now that for any products that are cross-sold in this manner, it is entirely on the basis of consumer choice.
- The last paragraph of Box 1 states that in Ireland, bundling is prohibited except where it can be demonstrated that there is a cost saving for consumers, and that the consumer must be given the possibility to rescind any of the products within the package without penalty. This is not an accurate description of the provisions of the Central Bank of Ireland’s Consumer Protection Code, 2012. This suggests that consumers can purchase a bundle and avail of the cost saving, and then rescind any individual elements of the bundle, leaving them with a cost saving that would not have been available for the purchase of the product separately. Provision 3.21 of the Code actually states that where a consumer wishes to switch one or more products in a bundle or exit a bundle, they must be allowed to retain any product(s) in the bundle that they wish to keep, without penalty or additional charge, **apart from the loss of any discount**.

#### ■ Consumer complaints:

With regard to this section, the consumer complaints findings on travel insurance are pretty damning but the report acknowledges it only provides a partial overview of the picture by focussing on the ‘assistance’ aspect of travel insurance products:

- Travel insurance policies can be highly tailored products (eg providing cover for journalists reporting in war zones) and can cover any duration (from one hour to one year).
- Often, travel insurance is included as part of home insurance (this is the case in the Nordic markets).
- It is also worth noting that there has been a relatively high proportion of fraud committed in travel insurance business lines in some markets. As a consequence of this fraud, and due to inherent difficulties in claims handling for travel insurance (i.e. insurers trying to verify documentation that is in different languages, across borders/time zones and different legal

systems), travel insurance claims warrant quite extensive investigation, which may go some way to explaining the high claims findings in the report.

#### ■ NCAs' consumer protection activities

- Overall, NCA's activities have focused on addressing consumer risks arising from the mis-selling of life insurance products, in particular the non-transparent or non-comparable information regarding IBIPs.
- NCA activity has also focused on insurance consumer literacy and on risks relating to Brexit concerning possible future disruptions in markets where UK (re)insurers work on a passporting basis.

#### ■ Pensions

##### ■ General remarks:

- As reflected in previous reports, the role of insurers in pensions is undermined, as the chapter solely focuses on IORP-related trends and developments. Insurers are main and major providers of both occupational and personal pension products. Therefore, the report should also address the impact of Solvency II on pension provision.
- The report conclusions for 2018 are rather limited. Therefore, the report also addresses expected 2019 consumer trends (for instance, in relation to the implementation of the IORP II Directive and the Sustainable Finance agenda) which is not the intended objective of this exercise.
- Private pensions coverage has increased in Europe. EIOPA explains this positive development in the field of occupational pensions by "improvements in many labour markets" (page 37, section 2.1.1.). However, labour markets are also increasingly characterized by the growth of "non-standard" workers (40% of EU working population) who, in most countries, do not have access to occupational pension schemes.