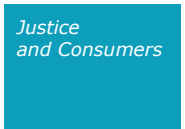
Study on consumers' decision making in insurance services: a behavioural economics perspective

Final report

Specific contract – No 2014 85 08

Implementing Framework Contract – EAHC/2011/CP/01/LE

Prepared by London Economics, Ipsos and VVA Europe
May 2017



Study on consumers' decision making in insurance services: a behavioural economics perspective

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We would like to acknowledge the useful guidance and input provided during this research by Horst Müller-Peters (TH Köln/University of Applied Sciences), Sergio Paci (Bocconi University), Ilaria Della Pozza (IPAG Business School), Lionel Texier (Risk & Analysis) and Christine Ennew (University of Nottingham). We would also like to thank all of the interviewed stakeholders for their informative responses.

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Luxembourg: Publications Office of the European Union, 2017

Linguistic version	Catalogue number	ISBN	DOI
EN	EB-01-17-059-EN-N	978-92-9200-749-2	10.2818/652499

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Annexes to the final report

Country fiches

Annexes to the country fiches

Acronyms

ABI -Association of British Insurers

ACPR - Autorité de contrôle prudentiel et de résolution

ADR - Alternative dispute resolution

APPA - Asociatia Pentru Promovarea Asigurarilor

AURSF - Asociatia Utilizatorilor Romani de Servicii Financiare

BAFIN - Bundesanstalt für Finanzdienstleistungsaufsicht

B2B - business to business

B2C - business to consumers

BIBA - British Insurance Broker's Association

CASCO - Comprehensive Motor Coverage

CDW Collision Damage Waiver

CLCV - Consommation Logement et Cadre de Vie

CMA - Competition and Markets Authority

CRD - Consumer Rights Directive

CSl - Chambre des Salariés Luxembourg

DER - Damage excess refund

DGSFP - Dirección General Seguros y Fondos de Pensiones

DMFSD - Distance Marketing of Financial Services Directive

ECC - European Consumer Centre FCA - Financial Conduct Authority

EIOPA - European Insurance and Occupational Pensions Authority

EUR - Euros

FCMC - Financial and Capital Market Commission

FFA - Fédération Française de l'Assurance

FG2A - Fédération des garanties et assurances affinitaires

FOE - Freedom of establishment

FPS - Freedom to provide services

FSA -Financial Supervisory Authority

GBP - Great Britain Pound

GDP - Gross Domestic Product

GDV - Gesamtverband der Deutschen Versicherungswirtschaft e.V.

GT - Tire and Glass Coverage

GWP - Gross Written Premium

IBV NBS - Inštitút bankového vzdelávania NBS, n.o.

ICOBS - Insurance Conduct of Business Sourcebook

IDD - Insurance Distribution Directive

IPID - Insurance Product Information Document

IVASS - Istituto per la Vigilanza sulle Assicurazioni

LDW - Loss Damage Waiver

M3PL - Motor third party liability

NBS - Národní banka Slovenska

PAI - Personal Accident Insurance

PAID - Pool against Natural Disasters

PAP - Personal accident protection

PCW - Price comparison websites SPAI - Super Personal Accident Insurance

PID - Product Information Document

TGIC - Trusted German Insurance Cloud

TW - Theft Waiver

UCL - Union des Consommateurs Luxembourgeois

UCPD - Unfair Commercial Practices Directive

UNESPA - Unión Española de Entidades Aseguradoras y Reaseguradoras

ABSTRACT

The study had a threefold objective: Collecting data and evidence, testing a range of remedies to improve consumer decision-making and interest in cross-border offers, and estimating savings consumers could make. The preparatory phase involved the collection of qualitative and quantitative evidence on both demand for and supply of insurance and explored barriers and drivers of cross-border purchases, to support the design of the experimental phase; it consisted of desk-based research, stakeholder interviews, and focus groups. Task 2 involved a consumer survey conducted in conjunction with behavioural experiments, to provide quantitative evidence on consumers' experiences in the market, the impact of contract features and the presentation of information on consumers' decision-making, the interplay between contract features and behavioural traits, and consumers' interest in and barriers to purchasing insurance cross-border. In particular, the experiments tested the effectiveness of remedies to improve consumer decision-making. The survey examined respondents' behavioural characteristics, experience, and comprehension. Task 3 used the data and evidence collected to estimate potential savings for consumers that better choices may allow for the products studied. The study conclusions and recommendations address a number of general and cross-border insurance issues, such as the provision of information to consumers, the purchasing process, and levels of awareness and understanding.

INTRODUCTION AND RESEARCH OBJECTIVES

1. Introduction and research objectives of the study

The non-life insurance market is a key sector for European businesses and consumers alike. This is due to both the size of the industry (in 2015 total non-life premiums grew to €343 bn, and non-life insurers paid €222 bn in claims[1]) and the nature of insurance products, which provide consumers with important protection against the adversities of life.

The latest available consumption expenditure data[2] report that vehicle and home insurance represent 2% of the household budget. Only one in twenty (5%) of the respondents have experienced problems with motor insurance or home insurance, but problems with insurance tend to result in higher detriment compared to other service markets.

Insurance is a market characterised by often complex products, where a number of information problems and behavioural biases may be at play, limiting the usefulness of insurance contracts and the benefits of competition for consumers. Insurance products are 'credence goods' (the quality of which cannot be fully established at the time of purchase) and because of the way that insurance is supplied, consumers often struggle to purchase the correct coverage.

Numerous behavioural biases apply, for example systematic misjudgement of probabilities, which can cause consumers to prefer products that cover small losses with high probabilities, rather than low-probability but high-impact losses, and 'availability bias' which may draw attention to coverage that is commonly advertised in a specific market, while leading to neglect of other risks that are not as salient, but present nonetheless. The accumulation of different behavioural biases may result in costly over-insurance in some areas while leaving consumers exposed to substantial financial risks due to under-insurance in others. Nevertheless, not each and every apparently sub-optimal choice can be dismissed as a decision-making error, because it may be the result of sophisticated and informed choice (e.g. mobile phone insurance may be unnecessary and overpriced for some, but can be a useful cover for others).

This study for the European Commission examines consumers' decision making in the non-life insurance sector from a behavioural economics perspective. The objectives of the study are as follows:

Collecting data and evidence both on:

- *The specific market features of the supply side of the non-life insurance products and services under review, updating existing data and filling data gaps; and*
- *Consumers' decision-making on the non-life insurance products under review, by nature of the product and distribution channel, from a behavioural perspective.*

Testing a range of remedies and the interest in cross-border offers:

- *Testing the effectiveness of remedies in helping consumers make better decisions;*
- *Testing cross-border oriented consumers' interest in and willingness to buy insurance cross-border.*

Estimating savings consumers could make:

- *Estimating potential savings for consumers that better choices may bring for the specific insurance branches/products, situations and remedies tested.*

1 Insurance Europe, 'European Insurance — Key Facts', August 2016.
2 Eurostat Household Budget Survey HBS 2010 (hbs_str_t211: CP1252 - Insurance connected with the dwelling and CP1254 - Insurance connected with transport).

In line with these objectives, the study aims to address a number of research questions specified in the study Terms of Reference:

> ***Research Question 1:*** *How should simple and streamlined product information for standard non-life insurance, including for use in online tools, be designed in order to facilitate adequate communication of quality and price, thus enabling better consumer choices and creating a level playing field across distribution channels?*
>
> *How and to which extent can (visual) tools enhance comprehension of complex information on costs and charges?*
>
> *How and to which extent can (visual) tools enhance consumers' awareness of:*
>
> > *The influence of parameters (covered risks, deductibles, claims handling management and quality, cancellation of contract, etc.) on price, with the purpose of enhancing consumers' attention to information other than price on insurance products?*
> >
> > *Important non-price information (for example claims handling, activation of the policy in the event of a claim, obligations of customers in case of risk aggravation)?*
>
> ***Research Question 2:*** *Which are the main factors that limit the interest of consumers in cross-border insurance purchases, in particular in the absence of cultural, language and/or distance barriers, and to which extent could an intervention relating to one or more of those factors increase cross-border demand?*

In order to meet these objectives and answer the research questions the study involved three main tasks:

- **Task 1 - Preparatory Phase**: This task involved the collection of the necessary qualitative and quantitative evidence to support the design of the experimental phase in Task 2. The task covered the relevant existing evidence on insurance supply, such as insurers' sales techniques, advertising strategies, coverage (covered risks, limits, excess etc.), discriminatory practices, as well as relevant market data, such as complaints, premium volume (including cross-border sales volume), claims ratios, combined ratios, insurance density, and switching rates. The supply-side evidence should be cross-referenced with findings related to consumer behaviour. The utility of such matching between supply and demand characteristics is for the former to provide supplementary confirmation of the latter. The task involved a desk-based review and evidence collection, combined with stakeholder interviews on consumers' decision-making in the insurance market. Focus groups were also conducted within this task to provide in-depth information on consumers' experiences. Barriers and drivers of cross-border purchasing of insurance were also explored. This task provides information on both the demand and supply sides of the market and informed the design of the experimental phase.
- **Task 2 - Experimental Phase**: This task involved a consumer survey conducted in conjunction with online and laboratory behavioural experiments. The aim of this task was to provide robust quantitative evidence on consumers' experiences in the insurance market, the impact of different contract features and ways of presenting information on their decision-making, and barriers to cross-border purchasing of insurance. It was intended to shed light on the interplay between the features of insurance contracts and consumers' behavioural traits, across the various phases of consumers' decision-making, and to explore consumers' interest in and willingness to buy products from other EU countries. The experiments also tested the effectiveness of a set of remedies aimed at improving consumer decision-making. The survey included sections on respondents' cognitive ability and

behavioural characteristics, comprehension of insurance contract information, experience with insurance, interest in and willingness to purchase insurance cross-border, and potential obstacles to cross-border purchasing.

- **Task 3 - Measuring the potential savings of consumers**: The third task involved using the data and evidence collected during Task 1 combined with the data from the experimental part, which together should generate sufficiently robust data, to estimate the range of potential savings for consumers that better choices may allow in respect of the studied insurance products.

Finally, based on the findings and evidence from the three tasks, the study should identify the main individual features and external determinants impacting on consumers' ability to access relevant information, understand and interpret it, and use it to make informed decisions, completed by the description and estimation of the potential savings for consumers in respect of the insurance products under review; and, should discuss the most effective remedies as tested in the experiment for helping consumers to make informed decisions. Recommendations regarding future policy advice should respond to the research questions.

Details of the approaches taken to the various research activities (i.e. desk research, stakeholder interviews, focus groups, online consumer survey, and online and laboratory experiments) are provided in chapter 2 and the annexes attached to this report.

The following sections of this chapter set out the countries and products covered by the study. The remainder of the report is then structured as follows:

- Chapter 2 provides a summary of the research methods used to inform the study, with further details provided in the annexes attached to this report.
- Chapter 3 presents data and discussion relating to the features of the supply side of the non-life insurance market.
- Chapter 4 covers consumer decision-making in the non-life insurance market (the demand side).
- Chapter 5 examines the effectiveness of remedies in helping consumers to make better decisions in the non-life insurance market.
- Chapter 6 explores the main factors limiting the interest of consumers in cross-border insurance purchases, and the extent to which interventions relating to these factors could increase cross-border demand.
- Chapter 7 assesses the range of potential savings for consumers that better choices may allow in respect of the insurance products covered in the study (addressing Task 3).
- Chapter 8 makes final conclusions and recommendations.

1.1. Countries covered in the study

The ten countries covered in the study are shown in Table 1 below. To ensure that the analysis is representative of the EU, Norway and Iceland, the country selection made at the outset of the research covers:

- All four EU geographic regions of (North, West, South and East);
- Larger and smaller countries; and
- New and old EU Member States (EU13 and EU15).

Table 1: Countries covered

Research method	Countries covered
Desk-based research	France, Germany, Italy, Latvia, Luxembourg, Romania, Slovakia, Spain, Sweden, United Kingdom
Stakeholder interviews	France, Germany, Italy, Latvia, Luxembourg, Romania, Slovakia, Spain, Sweden, United Kingdom
Focus groups	Germany, Italy, Romania, Slovakia, Sweden, United Kingdom
Online experiment and survey	Germany, Italy, Romania, Slovakia, Sweden, United Kingdom
Laboratory experiment	Italy, Slovakia

In addition, the country selection was also made in order to represent a variety of European non-life insurance markets in terms of four dimensions, using data available at the outset of the project:

- Maturity (size of a country's insurance market relative to its GDP)[3];
- Density (measured using the Herfindahl-Hirschman Index)[4];
- Digitalisation (proportion of consumers who purchased non-life insurance via an online channel over five years)[5]; and,
- Cross-border relevance (share of the country's Gross Written Premium (GWP) that is written by subsidiaries or branches of other EU/EEA countries)[6].

The table below groups the countries according to these four dimensions based on the data used for the country selection at the inception of the study.

3 Schoenmaker, D. and Sass, J. (2014), 'Cross-border Insurance in Europe', *DSF Policy Paper*
4 The Herfindahl-Hirschman Index measures competition levels in a market, i.e. it refers to the density/concentration of companies present in the market. The index is based on the largest companies present in the market, weighted by company size. Europe Economics (2008), 'Retail Insurance Market Study', Final Report for EC DG MARKT. This density measure is different from insurance density, which measures the value of insurance premiums relative to population size.
5 Special Eurobarometer Survey 373 *Consumer Attitudes to Retail Financial Products (2012),* QB5.8 Thinking about the product you purchased, could you tell me how you purchased it? Other insurance products (e.g. home, health, car insurance)
6 Schoenmaker, D. and Sass, J. (2014)

Table 2: Market characteristics of selected countries (shown in bold)

Characteristic	High	Medium	Low
Maturity[1]	**LU**, IE, NL, **UK**, DK, **FR**, BE	**DE**, **IT**, AT, SI, **ES**, CY, NO, PT, **SE**, CZ, FI, IS, MT, PL, HR, HU	**SK**, BG, EE, EL, LT, **LV**, **RO**
Density[2]	**DE**, NL, **IT**, EL, **ES**, **FR**, **UK**, PT, CY, AT, BG, BE	**RO**, DK, **LV**, IE, FI	EE, CZ, **SE**, HU, PL, **LU**, LT, **SK**, SI
Digitalisation[3]	**UK**, EE, **LV**, IE, NL, **SE**, DK	FI, **DE**, **IT**, HU, **FR**, CZ, **LU**, **ES**, LT, AT, **SK**	**RO**, BE, PL, MT, SI, BG, EL, CY, PT
Cross-border relevance[1]	CZ, EE, HU, **SK**, LT, **RO**, **LU**	BG, PL, IE, **LV**, CY, EL, PT, BE, MT, HR, **SE**, FI, **UK**, AT, **IT**, DK	NO, **ES**, **FR**, **DE**, NL, IS, SI

Note: No market density data are available for Malta or Croatia. HHI <1000 indicates high density (low concentration); HHI >1800 indicates low density (high concentration)
Source: 1) Schoenmaker, D. and Sass, J. (2014), 'Cross-border Insurance in Europe', DSF Policy Paper. 2) Europe Economics (2008), 'Retail Insurance Market Study', Final Report for EC DG MARKT. 3) Special Eurobarometer 373.

1.2. Products covered in the study

As requested in the terms of reference, four types of non-life insurance product are covered by the study. These are household insurance, motor insurance, car rental insurance and insurance sold as an add-on to other primary products ('add-on insurance')

- **Household insurance:** Building insurance, contents insurance, and building and contents insurance combined.
- **Car insurance:** Third party liability and comprehensive cover.
- **Add-on insurance:** Extended warranties for furniture, home assistance, and travel insurance.
- **Car rental insurance**: basic cover included in the rental price, additional insurance cover, and damage waivers paid in addition to the rental price.

The product categories and specific product types within each category were determined based on desk research undertaken for the inception report. This was combined with input from Commission experts and the expert advisory panel engaged for this study.

The criteria used for the specific product selection were the following:

- Volume of premiums (as proxy of number of consumers who have that insurance product);
- Volume/nature of complaints about the product;
- Potential relevance for cross-border transactions; and
- Complexity of the product/distribution channels.

The first criterion is relevant because as far as possible the product selection should be broadly representative of the four wider categories of insurance (products with a large share of premiums represent more of the market).

The second criterion is relevant since it identifies products for which consumers may have difficulty understanding or exercising their rights within, leading to complaints.

The third criterion is of key relevance to this study as an important objective of the study is to assess barriers that may limit interest in and willingness to purchase insurance cross-border, and actions or interventions that may mitigate these barriers.

The fourth criterion is important since the selection should enable us to explore consumer behaviour in the non-life insurance market, and product complexity and the complexity of distribution channels are likely to affect consumer behaviour.

More detailed descriptions of the four product categories are provided in the following subsections, including the specific types of insurance provided within each category by country.

1.2.1. Household insurance

Household insurance may be divided into three main products: (i) building, (ii) contents; and, (iii) building and content insurance.

Building and content insurance covers the consumer for both the physical building and their contents, and is called multi-risk household insurance in Spain and France, where it is made up of property and casualty insurance. Property insurance protects property against loss or damage, including property repair and replacement. Casualty insurance shields the policyholder against legal liability for injuries to a person or property[7].

Building insurance is compulsory for all homeowners in Romania and France and for mortgage holders in Sweden and the UK[8], while content insurance is mandatory for tenants in France and Luxembourg.

The coverage of these two products in ten countries is described in the table below.

Table 3: Building and content insurance coverage

Country	Building	Content
DE	The risks covered by standard building insurance include: ▪ Fire; ▪ lighting strike; ▪ exploitation; ▪ storm and hail; ▪ cuts in tab water; and ▪ overvoltage. Additional elements can be included in the building insurance portfolio such as house inundation and glass breaks. Theft is not included in the building insurance product. For: Homeowners' building property.	The risks covered by content insurance are: ▪ Fire; ▪ lighting strike; ▪ exploitation; ▪ storm and hail; ▪ cuts in tab water; ▪ overvoltage; and ▪ theft. Additional elements can be also included in content insurance (including bicycle theft, glass breaks etc.). Content insurance contracts in Germany can be transferred from one property to another. Insurance includes damages that might occur to house possession while moving. If

[7] Ad Mal, 2017, Difference between property and casualty insurance. Available at: http://www.ehow.com/info_7861282_difference-between-property-casualty-insurance.html

[8] Fire insurance in household insurance (building and contents) in Spain is only compulsory when taking out a mortgage according to the law "Ley de Regulación del Mercado Hipotecario". Source: MAPFRE, ¿Es obligatorio el seguro de incendios?. Available at: https://www.mapfre.es/seguros/particulares/hogar/faqs/seguro-incendio.jsp

Country	Building	Content
		someone moves from one house to another, the two houses will be covered for two months. For: Homeowners' and tenants' movable property (including clothing, furniture, house electronics etc.)
ES	Most contracts cover damage from: ▪ Fire[9]; ▪ water; ▪ theft; ▪ liability; and ▪ legal defence. Building insurance usually covers: ▪ Material damage; ▪ Liability; ▪ Assistance both at the domicile of the insured and during travels. For: Homeowners' housing property and casualty. Applies to facilities and fixed elements, i.e. all those goods that cannot be separated from the property without causing an impairment, garages and storage, as well as the proportionate share of the common areas of the building.	Most contracts cover damage to belongings from: ▪ Fire; ▪ water; ▪ theft; ▪ liability; and ▪ legal defence. Complementary covers such as vehicles inside garages or home appliances. For: House content property and casualty. Applies to furniture, appliances, clothing, other personal belongings, supplies and food. Unless otherwise agreed, insurers typically exclude vehicles from their coverage, as well as potentially dangerous animals, plants, jewellery and valuables, furs, antiques.
FR	Building insurance covers material damage from: ▪ Fire; ▪ Water leakage; ▪ Natural disasters; ▪ Storms; ▪ Attacks; and ▪ Technological disasters Civil liability of the owner or tenant (to compensate damage to third party), and generally legal protection and assistance are also included. For: Homeowners' building property and casualty.	Content insurance covers material damage from: ▪ Fire; ▪ Water leakage; ▪ Natural disasters; ▪ Storms; ▪ Attacks; and ▪ Technological disasters; ▪ Theft; ▪ Glass breakage; ▪ Damage to electric appliances As is the case for building insurance, civil liability of the owner or tenant (to compensate damage to third party), and generally legal protection and assistance are also included.

[9] Fire insurance in household insurance (building and content) in Spain is only compulsory when taking out a mortgage according to the law "Ley de Regulación del Mercado Hipotecario". Source: MAPFRE, ¿Es obligatorio el seguro de incendios?. Available at: https://www.mapfre.es/seguros/particulares/hogar/faqs/seguro-incendio.jsp

Country	Building	Content
		For: Household content property and casualty.
IT	The Italian household insurance market is divided into three types of products: • Fire and natural forces: covers against damage caused by: ▪ Fire; ▪ Explosion; ▪ Thunderstorm; ▪ Other natural events; ▪ Nuclear energy; and ▪ Land subsidence. • Other damage to property: covers against all other damage, such as hailstorm, frost or theft. • Financial loss: covers against financial damage derived by a variety of situations such as: ▪ Squatting; ▪ Inability to pay the mortgage; ▪ Loss of rent; and ▪ Unexpected expenses. For: Homeowners' building property.	The Italian household insurance market is divided into three types of products: • Fire and natural forces: covers against damage caused by: ▪ Fire; ▪ Explosion; ▪ Thunderstorm; ▪ Other natural events; ▪ Nuclear energy; and ▪ Land subsidence. • Other damage to property: covers against all other damage, such as hailstorm, frost or theft. • Financial loss: covers against financial damage derived by a variety of situations such as: ▪ Squatting; ▪ Inability to pay the mortgage; ▪ Loss of rent; and ▪ Unexpected expenses. For: Movable property (furniture and belongings).
LU	Standard building insurance coverage includes the following risks: ▪ Fire; ▪ Water damage; ▪ Glass breakage; and ▪ Storms. Additional coverage might include electrical damage, and extensions (e.g. garage, temporary rehousing, student accommodations etc.). For: Homeowners' building property (and casualty if the homeowner subscribes to a property civil liability insurance, as he/she is responsible for any damage caused by the building, its entrance, lifts and furniture).	Standard content insurance coverage includes the following risks: ▪ Fire; ▪ Water damage; ▪ Theft; ▪ Glass breakage; and ▪ Storms. Additional coverage might include theft of luggage, furniture or belongings across the world. For: Household material contents property.
LV	Building insurance in Latvia consists of two main products: ▪ Protection against fire and natural elements caused by	Content insurance in Latvia consists of two main products: ▪ Protection against fire and natural elements caused by

Country	Building	Content
	fire, explosion, nuclear energy, earth subsidence, etc.; and ▪ Protection against other damage to property such as theft, vandalism. For: Homeowners' building property.	fire, explosion, nuclear energy, earth subsidence, etc.; and ▪ Protection against other damage to property such as theft, vandalism. For: Household content property.
RO	The mandatory household building insurance covers damage only in case of: ▪ Earthquakes; ▪ Landslides and ▪ Flooding. Additional building insurance covers against risks such as: ▪ Fire; ▪ Thunder; ▪ Theft; ▪ Explosions; ▪ Falling material on the building; ▪ Storms; ▪ Sewage overflow; ▪ Water leakage; ▪ Vandalism; Damage caused by a car collision or by an animal For: Homeowners' building property.	Content insurance in Romania mainly covers damage in the event of: ▪ Theft; and ▪ Damage For: Household content property, such as furniture.
SE	Building insurance in Sweden covers in the event of the following: ▪ Fire; ▪ Natural events (flood, storm, earthquake); ▪ Water damage is also included, but depends on the specificities causing the damage; and ▪ Civil liability. Many insurance companies offer optional products for building insurance which cover additional incidents and higher limits on the claims for specific parts of the houses or specific appliances. For: Homeowners' property and casualty. Applies to the entire building, including kitchen and bathroom content, boiler, and other installations, as well as other related	Content insurance in Sweden covers damage related to: ▪ Theft and burglary; ▪ Fire in the housing (in case of rental); ▪ Water damage; ▪ Unfortunate damage (i.e. unforeseen circumstances that might damage belongings); and ▪ Civil liability. The following aspects are generally included in content insurance coverage: ▪ Protection in case of fire or burglary; ▪ Travel insurance, which is valid for up to 45 days; ▪ Economic assistance in case the consumer is responsible for compensation;

Country	Building	Content
	buildings on the lot (e.g. garage).	▪ Economic assistance in case the consumer is in need of a lawyer; ▪ Economic compensation in case the consumer is attacked or physically abused. For: Household property and casualty. Applies to furniture, clothes, electronic devices, jewellery. Everyone that is registered at the relevant address and is part of the household is covered, as well as children below the age of 18 even if they are not registered at the address.
SK	Most building insurance products include coverage against: ▪ Fire, explosion, lightning; ▪ Natural disasters (such as flood, landslide, hailstorm) ▪ Water damage; ▪ Theft; and ▪ Vandalism. While some companies offer insurance against floods, landslides or earthquake as a standard part of building insurance coverage, some companies consider it an additional insurance for which higher premium has to be paid. For: Homeowners' building property.	Content insurance usually covers against damage from the following: ▪ Fire, explosion, lightning; ▪ Natural disasters (such as flood, landslide, hailstorm) ▪ Water damage; ▪ Theft; and ▪ Vandalism. As for building insurance, some companies also include damage from floods, landslides and earthquakes as basic coverage while some considered it under premium coverage. It is also possible to arrange for extended warranties under this insurance or for expenses coverage. For: household content property (furniture, electronic appliances, textiles or sport equipment).
UK	Events covered by building insurance in the UK are mainly: ▪ Fire; ▪ flooding; ▪ theft; and ▪ explosions. Accidental damage coverage is limited, and often a 20 GBP (23 EUR) to 100 GBP (117 EUR) extra fee is added to the premium to ensure such coverage. For: Homeowners' building property. Applies to the structure of the household, e.g. walls, windows and roof as well as permanent fixtures and	Events covered by content insurance in the UK are as follows: ▪ Fire; ▪ flooding; ▪ theft; and ▪ explosions. As for building insurance, accidental damage coverage is limited, and a 20 (23 EUR) to 100 GBP (117 EUR) extra fee is added to the premium to ensure such coverage. For: Household content property. Applies to the possessions of the household.

Country	Building	Content
	fittings, such as baths, toilets and fitted kitchens.	

1.2.2. Motor insurance

Two types of motor insurance products were considered in the study:

- Motor third party liability (M3PL) insurance, which is common to all countries as it is compulsory under EU law[10]. It covers damage caused by the owner of the vehicle or one of the passengers to others, including damage to other drivers and their vehicles as well as accidental damage to lampposts and walls. However, it does not cover the driver's own vehicle.
- Comprehensive cover, which covers the driver and his vehicle. However, the extent of coverage available differs from country to country.

The differences in comprehensive cover are outlined in the table below.

A damage waiver is an optional damage coverage. It is not an insurance strictly speaking but a waiver between the consumer and the insurance company, requiring the insurer to waive its right to charge the driver for damages to the vehicle.

Table 4: Comprehensive cover insurance coverage

Country	Name of policy	Coverage
DE	Comprehensive motor vehicle insurance	It covers damage to a person's own vehicle. A distinction is made between partial and fully comprehensive motor vehicle insurance. Typically, the risks covered by partial motor vehicle insurance are: fire, explosion, theft, storm, hail, lightning, flooding, glass breakage and wiring short circuits. Fully comprehensive motor vehicle insurance relates to the same risks, but additionally covers accidents attributable to the policyholder's own fault as well as wanton or malicious acts of third parties.
ES	All risks (todo riesgo)	It covers all the risks listed under third-party, fire and theft plus all other types of damage to the owner's vehicle irrespective of how it's caused. Note that some insurance companies do not provide comprehensive cover for vehicles more than two or three years old (although it is possible to get comprehensive cover on vehicles up to ten years old). Comprehensive insurance may be compulsory for lease and credit purchase contracts. In addition, the Insurance Compensation Consortium (Consorcio de Compensación de Seguros)[11] provides

[10] Directive 2009/103/EC - Civil liability insurance for motor vehicles. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0103&from=EN

[11] Consorcio de Compensación de Seguros. Available at: http://www.consorseguros.es/web/ambitos-de-actividad/seguros-de-automoviles

Country	Name of policy	Coverage
		the compulsory insurance coverage for vehicles which are not accepted/covered by insurance companies. It also covers for damage caused by any other uninsured and/or stolen vehicles. This motor insurance service is offered by the Spanish ministry of economy and competitiveness, through the insurance compensation consortium.
FR	Garantie assurance vehicule	This product includes coverage against natural disaster, technological disaster, storm and attack. In addition, depending on the policy chosen by the consumer, the following aspects can be included: ▪ All damage waiver, covering all damage experienced by the vehicle for any accident or fault; ▪ Collision damage waiver, covering collision with a pedestrian, another vehicle or a pet; ▪ Fire and theft warranties, with which the insured receives compensation equal to the value of the vehicle on the fire/theft day; ▪ Glass breakage warranty, covering breakage of the windshield or windows.
IT	Land vehicles insurance	Land vehicles insurance allows to the holder to purchase non-mandatory additional coverage on top of the motor liability. It includes four different sub categories: theft, fire, vehicle glass and vandalism.
LU	Garantie defense-recours	The product protects the insured in civil and criminal proceedings and makes it possible to bring action against the person at fault in the event of an accident. The coverage also includes minimal guarantees such as: judicial protection, fire, theft, glass breakage, material damage to the car, animal damage and a replacement car. Insurance companies also offer specific insurance for drivers ('assurance conducteur') in case of injury or invalidity, whether or not he/she is responsible for the accident.
LV	Land vehicle insurance (or CASCO)	Depending on the insurer and policy chosen by the consumer, CASCO insurance can cover *inter alia* the destruction of the vehicle, burglary, theft, fire, traffic accidents, natural disasters, glass breakage, animals, falling objects and illegal activities of third parties.
RO	CASCO	It covers damage inflicted upon the insured party's own vehicle.
SE	Full insurance cover (helförsäkring)	The policy includes any damage made to the car in case of accidents or vandalism.
SK	Comprehensive insurance (kasko)	Protects the insured's vehicle and its components and can cover luggage or personal belongings, persons transported by the insured's vehicle, the cost of a replacement vehicle, assistance services or

Country	Name of policy	Coverage
		legal assistance. It is characterised by a high limit of insurance claims for personal injuries and fatalities (up to 10 million EUR) and damage to property and foregone income (up to 5 million EUR) per accident. Assistance services are also included under the policy.
UK	Comprehensive car insurance	Includes everything within third party liability, fire and theft insurance but also covering wider damage to the owner's vehicle, with some policies covering the owner driving other people's vehicles up to the third-party level. It is the widest coverage available for motor vehicles.

In addition, in some countries motor insurance may combine third party liability and part of the comprehensive cover. In the UK and Spain, there is an intermediary coverage named third party liability, fire and theft insurance, covering everything included in third party liability insurance, as well as the owner's vehicle if stolen or damaged by fire[12]. In Sweden, the partial cover (halvförsäkring) includes theft, fire, glass, and machinery insurance, as well as assistance in case of need for judicial protection and/or rescue.

1.2.3. Car rental insurance

Across the countries considered, all car rental insurance includes third party liability, and the product is mainly sold to consumers through car rental companies.

The table below describes the additional products that consumers can add to the compulsory third party liability insurance.

Table 5: Car rental optional insurance coverage

Country	Name of policy	Coverage
DE	Collision Damage Waiver (CDW)	Provides cover in the event of a collision or damage. However, this insurance coverage might be included in some annual travel insurance.
	Theft Waiver (TW)	Concerns theft or loss of the rental vehicle.
	Loss Damage Waiver (LDW)	Provides cover in the event of theft or loss of use of the vehicle.
ES	Collision Damage Waiver (CDW)	Offers partial collision coverage.
	Loss Damage Waiver (LDW)	Offers full coverage.
	Damage excess refund insurance	Covers the excess insurance cost in case of any damaged caused during the rental period.
FR	Personal accident	Covers physical and material damage on the

[12] http://www.which.co.uk/money/insurance/reviews-ns/car-insurance/car-insurance-the-basics/

Country	Name of policy	Coverage
	insurance	passengers and the driver.
	Super personal accident insurance	Covers luggage and personal belongings in case of fire, theft, accident of natural disaster.
	Collision damage waiver	The consumer is only liable to pay a pre-determined amount of the excess in case of collision.
	Super collision damage waiver	The consumer is not liable to pay any of the excess in case of collision.
	Theft protection coverage	The consumer is only liable to pay a pre-determined amount of the excess in case of theft.
	Super theft protection coverage	The consumer is not liable to pay any of the excess in case of theft.
	Glass breakage insurance	The consumer is not liable to pay any of the excess for damage caused to the vehicle windows.
IT	Collision damage waiver (CDW)	Covers the car from collision damages, nevertheless damage to tires, windshields or undercarriages due to vandalism or misuse are not mandatory and, if not included they might be sold as add-on. CDW reduces the excess to around 100 – 1000 EUR[13].
	Theft Waiver (TW)	Protects the vehicle in case of theft. TW reduces the excess to around 300 – 1000 EUR[14].
	Damage excess refund (DER)	Reduces (totally or partially) the excess.
	Personal insurance	Covers the driver in case of injury.
LU	Collision Damage Waiver (CDW)	In case of damage of the vehicle, reduces the excess to a range between 650 EUR to 1425 EUR[15], depending on the vehicle type.
	Theft protection waiver.	In case of theft of the vehicle, reduces the excess to a range between 650 EUR to 1425 EUR[16], depending on the vehicle type.

[13] AutoEurope, Driving in Italy: Car Rental Information & Tips. Available at: http://www.autoeurope.com/go/driving-information/italy/
[14] AutoEurope, Driving in Italy: Car Rental Information & Tips. Available at: http://www.autoeurope.com/go/driving-information/italy/
[15] Auto Europe: Luxembourg – Car Rental and Driving Information. Available at: http://www.autoeurope.com/go/driving-information/luxembourg/
[16] Auto Europe: Luxembourg – Car Rental and Driving Information. Available at: http://www.autoeurope.com/go/driving-information/luxembourg/

Country	Name of policy	Coverage
	The Super CDW and super theft protection waiver cover	Reduces the excess to zero in case of damage or theft of the vehicle.
	Glass Breakage protection	Covers all costs for damage to the windshield or windows of the vehicle.
	Personal Accident Insurance (PAI)	Covers medical costs of the driver in the event of an accident[17].
	Super Personal Accident Insurance (SPAI)	Covers a higher amount of the PAI costs, as well as luggage protection and emergency transport.
LV	Collision Damage Waiver	Generally included in the price of the rental in Latvia. Reduce the renter's liability in case of damages to the rented vehicle. Collision Damage Waiver has an excess between 293 EUR and 1,050 EUR[18].
	Theft protection.	Generally included in the price of the rental in Latvia. Reduce the renter's liability in case of theft to the rented vehicle. Theft protection has an excess between 293 EUR and 1,050 EUR[19].
	Personal Accident Insurance	Insures the driver and passenger in case of death or disability.
	Super Collision Damage Waiver	Allows the excess to be close to zero.
RO	Personal accident insurance	A package composed of: medical assistance, passenger death compensation, urgent medical treatment, permanent disability, aesthetic damages or temporary loss of labour capacity. There are certain ceilings for the damages covered in such a personal accident insurance.
	Road service needs	Covers costs in case the renter loses the car keys, leaves the key inside the car, in case the battery gets depleted due to misuse, in case fuel is not administered properly or if the tires are damaged[20].

[17] See for example the conditions of Avis (https://www.avis.com/en/locations/lu/luxembourg/lux) or Europcar (https://www.europcar.com/terms-and-conditions/insurances-and-protection) in Luxembourg.
[18] Auto europe, Information about Car Rental and Driving in Latvia. Available at: http://www.autoeurope.com/go/driving-information/latvia/
[19] Auto europe, Information about Car Rental and Driving in Latvia. Available at: http://www.autoeurope.com/go/driving-information/latvia/
[20] http://www.avis.ro/avisonline/ro/avis.nsf/c/Ghid_de_inchirieri,Termeni_si_conditii

Country	Name of policy	Coverage
SE	Collision damage waiver (CDW)	Reduces the excess to 152 – 731 EUR (1,463 – 7,035 SEK) in case of damage to the vehicle[21].
	Theft protection	Reduces the excess to 152 – 731 EUR (1,463 – 7,035 SEK) in case of theft[22].
SK	Collision Damage Waiver	Releases the person who hired the car from full financial responsibility for the vehicle in case of an accident, however, the person will still be responsible for an excess unless the No Excess rate package was purchased.
	Theft protection	Releases the person who hired the car from full financial responsibility for the vehicle in case of theft, however, the person will still be responsible for an excess unless the No Excess rate package was purchased.
	Personal accident protection (PAP)	Covers the consequences of an accident. PAP limits the liability to 3,980 EUR for invalidity, 7,970 EUR for death, and 830 EUR for medical costs.
	Tire and Glass Coverage (GT)	Provides cover against the consequences of damages on tires and windscreen. If GT claim is not accepted, the customer will be held liable for the full value of damage on tires and windscreen.
UK	Collision Damage Waiver	Covers the full cost of repairing any damage to the car, and is included in the rental price. Excess levels for this product are typically between 500 GBP (i.e. 590 EUR) and 2,000 GBP (i.e. 2,370 EUR). This product does not cover specific areas of the car, including the windscreen, tyres and the undercarriage. Coverage for the following aspects is also not under the product: damage caused while breaching the rental agreement, caused by negligence, or using the wrong fuel[23].
	Theft protection	Coverage for the full cost of replacing the vehicle if it is stolen. This product can be included in the rental price of the vehicle. However, some thefts such as those resulting from negligence (e.g. leaving the keys in the ignition) are not covered.
	Super collision damage waiver (or Super cover, or Damage Excess Waiver)	Reduces the policyholder's liability to a very low amount. However, the windows, tyres and the undercarriage may still be excluded.

[21] Auto-Europe, Sweden Driving information. Available at: http://www.autoeurope.com/go/driving-information/sweden/
[22] Auto-Europe, Sweden Driving information. Available at: http://www.autoeurope.com/go/driving-information/sweden/
[23] Which, Care hire insurance. Available at: http://www.which.co.uk/reviews/car-hire/article/car-hire-advice/car-hire-insurance

Country	Name of policy	Coverage
	Personal accident insurance	Covers the policyholder in case of any injury to the driver or passengers. This can also be covered as part of travel insurance.
	Multi-trip care hire excess insurance	Covers the policyholder in the event of an accident or theft of the hired car. It also covers damage to the windows, undercarriage, roof, tyres and headlights, in addition to typical car rental company coverage. There is also a Family and Partners policy which covers two people, who must be family members. This policy can either be applicable for trips in the UK and Europe, or worldwide depending on the chosen product[24].

1.2.4. Insurance sold as add-ons to other primary products

This study focused on three types of add-on products: travel insurance, extended warranties and home assistance.

Travel insurance

In Germany, there are five types of travel insurance which can be taken out for a single travel or for a fixed period: travel cancellation insurance, travel interruption insurance, travel luggage insurance, travel protection insurance and travel health insurance. Travel interruption insurance can only be taken out in combination with travel cancellation insurance[25].

In France, travel insurance can comprise cancellation, accident, sickness, and luggage theft. The cancellation coverage may be included in the travel price, or included as an add-on insurance to the travel, or included in a travel insurance contract subscribed to individually which also covers civil liability, luggage and accident. Premium credit cards and household, motor or health insurance may also provide travel insurance for certain risks (e.g. luggage, medical expenses and repatriation, personal assistance)[26].

Italian travel insurance policies generally cover risks related to sickness, transport, financial loss and assistance. Typically, packages include all-inclusive travel insurance cover and the insurance premium is indicated, both in the absolute amount and as a percentage. Travel insurance packages are rarely separated from the trip. Current account holders may receive such policies automatically when opening a current account, by entering into an all-inclusive package or by specifically expressing their intention to buy the (linked) insurance product(s). The insurance covers can be referred to as accident, sickness, assistance and other damage to property insurance[27].

In Latvia, the travel insurance basic cover includes medical expenses, evacuation and repatriation, as well as loss or theft of passport or ID-card. In addition, consumers can choose optional covers such as travel cancellation, loss, theft, damage or destruction of

[24] http://www.insurance4carhire.com/worldwide-car-hire-excess-insurance
[25] GDV, 2015, Reisenversicherung. Available at: http://www.gdv.de/wp-content/uploads/2015/09/GDV-5013_Reisen_0615.pdf
[26] FFA, 2016, Vacances assurance et assistance. Available at: http://www.ffa-assurance.fr/content/vacances-assurance-et-assistance-0?parent=74&lastChecked=122
[27] IVASS, 2014, You are insured and perhaps you have not realized it. Available at: www.ivass.it/ivass_cms/docs/F9800/sei%20assicurato_en.pdf

luggage and civil liability. Higher levels of coverage include legal assistance, interruption of travel and expenses for the arrival of a relative in exceptional cases[28].

In Luxembourg, insurance companies offer travel insurance coverage either as a package or separately. The most common types of coverage are travel cancellation and multi-risk insurance. The latter includes both travel assistance (repatriation, reimbursement of medical expenses abroad) and travel insurance (travel cancellation, lost or stolen luggage)[29].

In Romania, travel insurance usually covers medical assistance, personal third-party liability and baggage/personal possessions coverage[30].

In Spain, travel insurance protects consumers from risks related to their health, personal accident, luggage, delays or cancellation. Depending on the type of trip, the standard temporary travel insurance allows consumers to purchase options such as trip cancellation, studying abroad, hiking, skiing and winter holidays, hunting and safari, golf and adventure sports[31].

In Slovakia, travel insurance mainly covers medical costs and repatriation, lost/stolen luggage including personal belongings or cancellation fees. There are also specialised packages covering certain sports, for example, one insurance company has a year-long travel insurance product for golf players that includes not only travel insurance but also insures the golfing equipment[32]. Consumers may also acquire travel insurance through health insurance companies.

In Sweden, travel insurance for up to 45 days at least is included in all household insurance. In the case of longer travel, or activities considered risky (e.g. extreme sports), an add-on product can be bought. The insurance normally covers accidents and emergencies, as well as transport back to the country of origin in case of emergency.

In the UK, there are two options for travel insurance depending on the extent of travel: annual trip cover, which is more cost-effective if the customer goes on more than two trips within a year, or single trip cover. The different coverage options are emergency medical cover, cancellation, personal belongings and money, personal liability cover[33].

Extended warranties

According to the EU Directive 1999/44/EC on certain aspects of the sale of consumer goods and associated guarantees[34], products come with a manufacturer's or retailer's warranty which lasts for two years, covering the repair or replacement of the purchased product due to mechanical or electrical breakdown.

In Germany, simple extended warranties cover repair costs for product defects beyond the first two years of the statutory liability of the seller[35]. If the product can no longer be repaired or the repair costs exceed the fair value, consumers are generally paid a replacement or the fair value. Extended warranties offer consumers, in addition to the

[28] BTA, Travel insurance. Available at: https://www.bta.lv/en/private/travel-insurance#-what-are-the-risks-covered-by-the-insurance
[29] Union Luxembourgeoise des Consommateurs (ULC), 2015, Le droit des consommateurs. Available at: https://www.ulc.lu/fr/Konsument/Detail.asp?T=6&D=descr&ID=198
[30] Allianz Direct, 2016, Descriere asigurare de calatorie. Available at: http://www.allianzdirect.ro/calatorie/descriere-asigurare-calatorie.html
[31] Mapfre, 2016, Seguros de viaje. Available at: https://www.mapfre.es/seguros/particulares/viajes-ocio/seguros-viaje/
[32] Allianz - Slovenská poisťovňa, 2016, Cestovné poistenie pre hráčov golfu. Available at: https://www.allianzsp.sk/cestovne-poistenie-pre-hracov-golfu
[33] http://www.which.co.uk/money/insurance/reviews-ns/travel-insurance/travel-insurance-the-basics/
[34] EU Directive 1999/44/EC on certain aspects of the sale of consumer goods and associated guarantees. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31999L0044&from=EN
[35] Stifting Warentest, 2015, Garan-tieverlängerung für Elektrogeräte. Available at: https://www.test.de/Garantieverlaengerung-fuer-Elektrogeraete-Was-der-teure-Schutz-leistet-4942185-0/

repair of product defects, protection against falls, liquid damage and, in some cases, theft.

In France, according to Article L211-15 of the Consumption Code[36], the retailer proposing an extended warranty must indicate the content, scope, duration and price of the extension to the customer.

In Italy, manufacturers and retailers can offer a "conventional guarantee" (garanzie convenzionali), sold separately or offered for free. The conventional guarantee can be offered during the first two years but must provide additional covers and services compared to the legal guarantee (e.g. accidental damage, fire and theft)[37].

In Latvia, extended warranties for home or electronic appliance cover risks of breakage, water, fire and theft. In addition, if the object is considered as permanently damaged, it is replaced under the insurance cover[38].

In Luxembourg, the conditions of the extended warranty must be exposed in writing to the consumer according to Article L212-11 of the Consumption Code[39].

In Romania, extended warranty products can be bundled with other insurance services like accident and theft policy. Extended warranty covers risks of malfunction of the purchased good due to a manufacturing or a material error, after the expiry of the legal warranty of that product[40].

In Slovakia, some insurance companies offer extended warranties on household appliances with an extra premium on their household content insurance. It is also possible to purchase extended warranties when buying the product in shops via a retailer, however, with these purchases, the consumer is the insured party but the payer of the policy is the product retailer, who does not have an obligation to advise the consumer on the insurance details[41].

In Spain, the price of extended warranty depends on the quality and price of the product, as well as the duration and the additional warranty coverage. However, sellers usually charge around 15% of the price of the good for extended warranty[42].

In Sweden, the duration of the legal guarantee is 3 years for new and second-hand goods. Extended warranty covers repair in case of malfunction, firmware updates, preventive maintenance and free shipping.

In the UK, extended warranties can last for two, three or four years after the manufacturer's or retailer's warranty has expired. Some extended warranties have no fixed term and can be paid for on a month-to-month basis. Exclusions from the contract can include e.g. cosmetic damage and delivery or installation costs[43].

Home assistance

[36] Code de la Consommation. Available at : https://www.legifrance.gouv.fr/affichCode.do?cidTexte=LEGITEXT000006069565
[37] AGCM, 2011, Garanzia legale sui beni di consumo: ecco i diritti dei consumatori. Available at: http://www.agcm.it/consumatore/decalogo/5102-garanzia-del-venditore-guida-per-il-consumatore.html
[38] Warranty expert. Available at: https://warranty.expert/latvia/en
[39] Consumption Code. Available at: http://www.legilux.public.lu/leg/textescoordonnes/codes/Code_de_la_Consommation/Code_de_la_Consommation.pdf
[40] IStyle-Pro.RO, 2016, Asigurare/Garantie extinsa. Available at: http://www.istyle-pro.ro/servicii/asigurare-si-garantie-extinsa#icare_fees
[41] Decodom, 2016, Časté Otázky- Spoločnosť a sortiment. Available at: https://www.decodom.sk/clanky/caste-otazky-2/caste-otazky-spolocnost-a-sortiment
[42] Atencion al Consumidor, 2015, Garantías extendidas: ¿merece la pena contratarlas? Available at: http://atencionalconsumidor.com/?p=11966
[43] ABI, Extended Warranty. Available at: https://www.abi.org.uk/Insurance-and-savings/Products/Extended-warranty

Home assistance covers events at the domicile of the insured that are considered to be an emergency. Home assistance may be covered under household insurance, depending on the countries, insurers and contracts.

In Germany, home emergency insurance and assistance policies are sold on a stand-alone basis, or bundled with utility services, household insurance or banking products. Home assistance coverage in Germany is included within household building and content insurance coverage.

In Italy, the insurance products connected with the supply of electricity and gas or water can be referred to as assistance and other damage to property insurance, and show common features (all inclusive, automatic subscription, duration related to that of the principal service and automatic withdrawal when the principal guarantee no longer exists)[44].

In Latvia, home assistance is generally included in property insurance and provides assistance by a qualified specialist (plumber, locksmith, builder) in case of emergency[45].

Similarly, in France, home assistance consists in providing emergency services such as plumbing and locksmiths. Health assistance includes the provision of nurses or baby-sitters.

In Luxembourg, home assistance can be included in household insurance ("assurance habitation") as an optional warranty or as a complementary service. The home assistance warranty covers the costs of sending professionals (e.g. locksmiths, plumbers, electricians) in case of home damage, as well as accommodation costs, baby-sitting, pet care, and furniture care during the repair or assistance[46].

In Romania, home assistance provides repairs to interior electric installations, locksmiths' assistance and water and gas installation repairs. This type of insurance is available whenever there are malfunctions in the household's heating or drainage system, water, gas or electricity installations, air conditioning, or the lock. It consists of putting the client in touch with professionals qualified to fix the identified problems. It does not cover the costs of the actual repairs[47].

In Spain, home assistance provides different types of repairs/services:

- 24 hours' urgency services including: locksmithing, plumbing, electricity, glass wear etc. These services are provided in less than 3 hours.
- Repairs and installations: plumping, masonry work and locksmithing.
- Maintenance: preventive and corrective maintenance services.

In Slovakia, insurance companies offer assistance services as a free bonus to their insurance packages for property insurance or with an additional premium to their basic insurance. Assistance services may be provided with property insurance and can include assistance in unforeseen situations, e.g. when the insured party is locked out of his/her property or when the property is uninhabitable due to pest infestation. Some insurance companies also provide assistance with their motor insurance[48].

[44] IVASS, 2014, You are insured and perhaps you have not realized it. Available at: www.ivass.it/ivass_cms/docs/F9800/sei%20assicurato_en.pdf

[45] Swedbank, Home Insurance. Available at: https://ib.swedbank.lv/private/insurance/home/ihome?language=ENG

[46] Assurances.lu, 2016, Home insurance. Available at: http://www.assurances.lu/particuliers/assurance-habitation

[47] SOS24.ro, 2016, Conditii Generale privind cardul de asistenta SOS24. Available at: http://www.sos-24.ro/conditii-generale

[48] FINinfo MF SR, 2013, Neživotné poistenie. Available at: http://www.fininfo.sk/sk/financne-produkty/poistovnictvo/nezivotne-poistenie [Last updated: 6.9.2013]

In Sweden, household insurance normally includes home emergency insurance without assistance which means that there is limited scope for the involvement of external providers[49]. Home emergency insurance covers, for instance, electronic replacement costs such as household appliances[50].

In the UK, home assistance (or home emergency) covers at least domestic emergencies such as plumbing and drainage. In such cases, the insurance company pays for the problem to be fixed by a qualified tradesman. Additional coverage can include glazing and locks, external gas and water supplies and roofing cover[51].

[49] Finaccord, 2014, Home emergency insurance and assistance in Europe. Available at: http://www.finaccord.com/uk/tables-of-contents_html/home-emergency-insurance-and-assistance-in-europe.htm#sweden

[50] If skadeförsäkring, 2016, Home insurance. Available at: https://www.if.se/web/se/sitecollectiondocuments/private/home_insurance_summary_english.pdf

[51] http://www.money.co.uk/home-insurance/home-emergency-insurance.htm

METHODOLOGY

2. Summary of the research methods used to inform this study

This chapter summarises the various methodologies employed to inform this study, i.e. desk-based research, stakeholder interviews, focus groups, the online experiment and survey, and the laboratory experiment and survey. Each methodology is outlined in broad high-level terms under a separate subheading below. More in depth descriptions of the methodologies are provided in the relevant annexes.

2.1. Desk-based research

2.1.1. Literature review

The study team carried out a systematic literature review of existing studies and documents in 10 country case studies: France, Germany, Italy, Latvia, Luxemburg, Romania, Slovakia, Spain, Sweden, and the UK. In addition to this in-depth systematic search, the team also conducted a broad sweep of literature outside the 10 case study countries, including e.g. studies in the US or cross-country comparative publications, as well as documents identified through the stakeholder consultation.

In order to answer the study research questions, the researchers focused on the characteristics of non-life insurance supply, aspects of consumer decision-making in the non-life insurance market, factors potentially leading to problems with consumer decision-making, and remedies put in place.

During the literature review the study team collected information from legislative texts, academic literature, economic studies, and research papers / studies published by national supervisory authorities, consumer associations, complaints handling organisations as well as international organisations (e.g. OECD, European institutions).

2.1.2. Market data collection

In addition to the literature review, market data on non-life insurance in the sample countries was also collected, including on distribution channels, number of contracts, premiums, insurance density, number of claims, claims ratios, combined ratios, complaints, excess and switching rates.

To streamline the data collection process and ensure that all relevant data are recorded in the 10 countries, the study team in cooperation with the European Commission prepared and agreed upon an Excel-based data collection template covering data on the non-life insurance market overall and on four categories of insurance products (household, motor, car rental and add-on insurance).

The template provided for the collection of data on all non-life insurance business with consumers (B2C), to the extent possible in the relevant country[52] and business of firms in the relevant country conducted cross-border via FPS (i.e. outwards sales via FPS).

The findings from the market data collection (quantitative and qualitative) are reported in 10 country fiches (provided as a separate annex), one for each country studied, which contain:

- Descriptions of the 10 products of the study, including their coverage and excess levels where available;
- Overviews of the national non-life insurance markets, as well as the markets of the four product categories considered, i.e. household, motor, car rental and add-on insurance;

[52] i.e. domestic business, plus incoming via freedom of establishment (FOE), plus incoming via freedom to provide services (FPS).

- Information on the different distribution channels available to consumers, and the use trends (current and future);
- All quantitative data included in the data collection templates (e.g. on premiums, claims, complaints);
- Key features of cross-border transactions;
- Information on consumer decision-making in the non-life insurance market, including the types of problems, consumer understanding and awareness, as well as existing remedies and their efficiency.

Data for the country fiches were gathered in several steps. First, through a systematic search of available documentation in the case study country (including literature published by national supervisory bodies, trade associations, consumer associations, complaints handling organisations, etc.). While every effort was made to collect data on all indicators in this first stage a number of gaps remained, so in a second step background documentation indicated by our experts and stakeholders consulted in interviews was considered. Finally, stakeholder interviews (see next section) were carried out to fill remaining data gaps, where possible.

2.2. Stakeholder interviews

During the inception phase, the study team developed a list of relevant stakeholders to be interviewed in the context of Task 1, which were shared with the Commission. These included five categories of stakeholders:

- National supervisory authorities (in control of non-life insurance products);
- Trade associations;
- Consumer associations;
- European Consumer Centres; and
- Consumer complaints handling organisations[53].

During the desk research, the team identified those organisations most likely to hold up-to-date data and information on the relevant non-life insurance products and contacted these organisations first. A set of internal guidelines were used by the field researchers to ensure that the study team had a full understanding of the subject. The guidelines can be found in the annexes document.

2.2.1. Interviews at Member State level

Our team of researchers contacted stakeholders across the 10 sample countries. Interviews aimed to fill data and information gaps in the country fiches for the countries under review, and to obtain up-to-date and first-hand information on the non-life insurance market.

The desk research at Member State level enabled the researchers to determine the data gaps for each country assessed. On the basis of these results, the stakeholder interview guide was adapted to focus on filling data gaps. The interview questions were shared with interviewees before the interview, allowing them to prepare their answers, consult internally within their organisations, and gather necessary data before the interview. Most interviews were undertaken in the national languages. Overall, the study team

[53] The study team included consumer complaints organisations in the preliminary list of stakeholders. It was noted that these organisations vary in nature (e.g. ombudsman, national supervisory authorities, consumer associations). These organisations were expected to be in a position to provide useful information regarding complaints in particular, potentially helping to complete gaps in the information provided by other stakeholders, so it was considered appropriate to ask questions relating specifically to consumer complaints to these types of organisations (extracted from the interview guide for consumer associations).

completed 41 interviews. The annexes document presents the distribution of interviews across the different types of stakeholders in the 10 countries, as well as the names of the organisations.

2.2.2. Interviews with stakeholders at EU level

At European level, the team conducted interviews with industry and consumer associations as well as insurance companies providing cross-border products via FOE and FPS, including Insurance Europe, Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), BEUC, and companies providing cross-border services (i.e. Unipol S.A, Assurance Macif and BNP Paribas Cardif). These interviews were crucial in *inter alia* raising awareness about the study, and accessing national data and national contacts for interviews at Member State level.

2.3. Focus groups

Consumer focus groups were carried out with the aim of exploring consumer decision-making in non-life insurance products and services, and identifying sources of consumer problems in such decision-making. The focus groups provided in-depth qualitative evidence to complement the experiment and consumer survey observations.

Two focus groups were conducted in six countries (Germany, Italy, Romania, Slovakia, Sweden, and the United Kingdom). In each country, groups were conducted in the local language, by experienced moderators.

All four types of insurance of interest to the study were covered in the focus groups, although to ensure there was sufficient time to cover all relevant topics during each session motor insurance and add-on insurance were split equally between the six countries (home insurance and car rental insurance were covered in all six countries).

2.3.1. Sampling and recruitment

Eight participants were recruited per group. Group dynamic is most efficient when a relatively homogeneous group of participants is convened for group discussions, creating a comfortable environment in which views are likely to be expressed. Thus, in each country, one focus group was conducted with people of high educational level, and one with participants of a lower educational level. In each group, we aimed to include a balanced mix of men and women, aged 25 to 60 years old (this age range was set in order to ensure that the age gap between participants was not too wide, bearing in mind the need to maximise communication and participation). Each group included participants of different age groups and life stages and from different professional backgrounds.[54]

Most participants had at least some experience with the type of insurance products discussed (by owning, having bought in the past or planning to buy in the future one or several of the insurance products discussed). All participants were recruited using free-find face-to-face techniques, which means that they were approached and invited to take part in the research on the street, in a shop etc., as opposed to being selected from a list of people who have registered their interest in taking part in research projects.

All participants had to meet the following eligibility requirements:

- Individuals were excluded from consideration if they had participated in another focus group in the past six months;

[54] Different professional backgrounds was set as a "soft" criterion, not included in the screener questionnaire. We simply asked recruiters to take care that not all participants belonged to the same category (not two respondents with the same profession, mix of employed and non-working etc.).

- Individuals were excluded from consideration if they worked in the insurance sector;
- Individuals had to be responsible or co-responsible for decisions in their household with regards to buying/renewing insurance contracts; and
- Individuals had to complete the screener questionnaire in order to assess their group membership (low education group vs. high education group) and their experience with the insurance products covered in the group (home, motor, car rental or add-on insurance).

2.3.2. Discussion guide

A discussion guide ensured commonality between the groups and guided the discussion around the key research topics. The document was structured as follows:

- Presentation and introduction;
- Warm up section: general discussion about participants' experience with non-life insurance products;
- Decision-making process when selecting:
  - Home insurance
  - Car rental insurance
  - Motor insurance (in Italy, Romania and the UK)
  - Insurance products bought as an add-on (in Germany, Slovakia and Sweden); and
- Attitudes and experience with regards to cross-border insurance.

2.4. Online experiment and survey

An online survey with an embedded behavioural experiment was implemented in six countries, namely Germany, Italy, Romania, Slovakia, Sweden, and the UK. Prior to implementation, the survey and experiment were piloted in the UK and Slovakia to test functionality and fitness for purpose. Full details of the pilot can be found in the annexes document.

The broad objectives of the survey and behavioural experiment were threefold and in line with the task description in the terms of reference.

- First, it collected primary data on consumers' experience, attitudes, and interests in insurance purchases through survey questions.
- Second, it examined whether consumers' decisions during a non-life insurance purchasing process could be improved through the use of behavioural remedies.
- Third, it tested respondents' interest in buying insurance cross-border and how this might be increased and potential barriers to cross-border purchases.

We briefly outline all components of the experiment in the following sections. **Full details of all components can be seen in the experiment script in the annexes document.**

2.4.1. Sample sizes

The total sample size is 5,404, with around 850 responses (ranging from 850 to 852) collected in each of the comparably smaller countries of the sample (RO, SE and SK), and

around 950 (ranging from 950 to 952) responses collected in each of the larger countries (DE, IT and the UK).[55]

2.4.2. Components of the experiment and survey

The experiment and survey included the following components:

- **Introduction to the Survey**: This part introduced the topic and importance of the study for the European Commission, and introduced the concept of incentives by indicating that respondents could gain additional extra survey points based on their decisions in the experimental exercise (see section 2.4.6 on the incentive structure below).
- **Socio-demographics**: A series of questions on the socio-demographic background of our respondents, some of which are used for quota purposes (age, gender, education). Others are important for the analysis of consumers' decision-making in the experiment, such as the financial situation of participants or how close they live to the nearest bordering country. Socio-demographics are used as control variables in the empirical analysis.
- **Cognitive ability and behavioural characteristics**: Information on behavioural drivers such as cognitive ability, risk aversion and trust in the insurance sector was collected for use in the later analysis and reporting of the findings from the behavioural experiment. Similar to the use of socio-demographics, it could be that the effect of the tested remedies is dependent on certain behavioural characteristics, for example, it could be that very risk-averse individuals are more likely to read additional information provided during the purchasing process.
- **Insurance contract choice task**: The aim of the insurance choice task was to mimic the consumer journey through the purchasing process for non-life insurance and to apply a range of treatments (described in the next section) in order to investigate the factors that affect decision-making. It is described in section 2.4.3 below.
- **Comprehension and awareness questions**: These questions, some of which were direct follow-up questions to the contract choice task, assessed participants' comprehension and awareness regarding insurance policies. The concepts covered related to risk coverage, geographic limitations, consumers' and insurers' rights to cancel a policy and consumers' obligations.
- **Experience with non-life insurance**: These questions examined participants' current or previous experiences with non-life insurance purchases, such as the types of products they had previously purchased, the way they accessed information about these products, their switching behaviour, and reasons for purchasing specific types of non-life insurance products.
- **Identifying cross-border oriented consumers**: According to the terms of reference, respondents are classified as cross-border oriented if they live in border regions (i.e. we asked for the distance of the place of residence to the next border), consumers who are living/working or have lived/worked in another EU country in the past, or envisage doing so in the future, online shoppers for insurance or domestic shoppers who indicate that they have bought insurance from another EU country in the past or are potentially interested to do so in the future.
- **Questions on interest in and potential obstacles to cross-border insurance purchases**: This part of the survey asked participants about their awareness of the possibility to purchase and interest in purchasing insurance from cross-border providers, as well as about the potential barriers to cross-border purchases.

[55] Relative country size is defined in terms of population, which is a proxy for the number of actual or potential non-life insurance consumers. The populations of RO, SE and SK are all well below the average of the six countries covered in the survey, whereas the populations of DE, IT and UK are all well above the average.

2.4.3. Structure of the contract choice task

The contract choice task was embedded within the survey questions. The aim of the choice task was to mimic the consumer journey through the purchasing process for non-life insurance and to apply a range of treatments (described in section 2.4.4) in order to investigate the factors that affect decision-making in the non-life insurance market.

The task was introduced as an exercise in which respondents should choose to purchase the most suitable (fictitious) insurance product offered to them, taking into account the information that was provided to them as well as their own personal situation. They were moreover informed that they could earn additional survey points (i.e. monetary stakes) for correct choices.

The choice task was designed with an identical structure for the product pair of home and motor insurance, and with a similar but slightly different setup for the product pair of car rental and add-on (i.e. furniture) insurance. The table below sets out the main steps of the contract choice task for each product pair.

Table 6: Stages of the contract choice task

	Home contents & comprehensive motor insurance	Car rental & add-on (i.e. furniture) insurance
Stage 1	Consumer scenario information	Consumer scenario information
Stage 2	Profile stage	Initial offer stage
Stage 3	Comparison stage	Comparison stage
Stage 4	Confirmation stage	Confirmation stage

Stage 1: Consumer scenario information

All respondents were given a situation in which they may wish to purchase insurance and were told that over the following few screens they would be able to access information about alternative insurance offers and that they should choose the most appropriate offer. They received information regarding the type of insurance they were 'shopping' for and were given some essential background information regarding the vehicle, home contents, rental car or product (a bed) that they could insure (or decide not to insure). A key purpose of this stage was to set up the choice task such that there were objectively correct and incorrect choices at later stages of the task.

Stage 2 for home and motor insurance: Profile stage

Respondents in the home and motor insurance settings then completed the 'profile stage', at which they were asked about their basic preferences regarding the type of insurance they desired, given the information provided at the scenario information stage. For example, they were asked to choose an excess level and some of the specific risks they wished to cover. The correct decisions for each respondent at this stage depended on the information presented to them at the profile information stage and their own personal financial situation.

Stage 2 for car rental and add-on insurance: Initial offer stage

Instead of the profile stage, respondents in the car rental and add-on insurance settings were shown one insurance offer up front (i.e. before any of the other alternative offers). This was in order to mimic the way in which retailers and car rental agencies commonly promote one particular insurance product to consumers at the point-of-sale. At this stage, respondents had the choice to select the insurance policy on offer, choose to see alternative offers, or decide not to purchase insurance at all. Those who decided to continue without purchasing insurance finished the choice task at this point and went on

to answer comprehension and awareness questions. Those who selected the product on offer went to the confirmation stage (stage 4 described below). Those who chose to see alternative offers continued to the comparison stage (stage 3 below).

Stage 3: Comparison stage

This stage presented **three different insurance offers** to respondents for comparison (from insurers 'A', 'B' and 'C'). For **home and motor insurance** there were 18 offers in total in the experiment.[56] Each respondent was shown three of these 18 offers. The three offers shown were determined by their answers at the profile stage. In the case of **car rental and add-on insurance**, there were six offers in total in the experiment.[57] Each respondent saw three of these, where the three shown depended on the treatment to which they were assigned. They either saw three overpriced offers, or three offers among which one was 'advantageous' (i.e. provided value-for-money).

Information was presented on each offer including the insurer name and address, insurance premium, excess, additional less relevant information[58] and, depending on the experimental treatment (see the 'timing and highlighting' treatment described below), which precise risks were covered or not.

Respondents could select to confirm any of the three offers, or decide to continue without purchasing insurance. If they chose the latter, they were routed to the comprehension and awareness questions. If they selected an offer, they would continue to the confirmation stage (stage 4 described below).

In addition, at this stage half of the respondents in the home and motor settings were able to manipulate the level of the excess and the risks covered (which in turn would automatically change the premiums shown). See the description of the 'manipulation' treatment (section 2.4.4) below for more details.

Stage 4: Confirmation stage

This stage displayed a summary of the respondent's selected insurance offer, with greater detail than at the comparison or initial offer stages. Respondents could confirm their selection, choose to continue without purchasing insurance, or return to the comparison stage.[59] The first two of these three choices ended the choice task for respondents and routed them to the comprehension and awareness questions. Otherwise, respondents were returned to the comparison stage.

2.4.4. Treatments

Five types of treatment were applied within the contract choice task. For each treatment type, each participant was independently and randomly assigned to a single treatment group or 'condition'. The number of groups/conditions per treatment type ranged from two to four. The types of treatment related to:

- Marketing practices at the initial offer stage;
- Information provision;
- Manipulation of the excess and covered risks; and

[56] There were 18 offers in total as there were three providers offering insurance contracts with three different levels of excess and two levels of risk coverage (3 x 3 x 2 = 18).
[57] There were six offers in total as there were three providers and two price levels (i.e. either all offers were overpriced, or one offer provided value-for-money).
[58] This additional information included qualitative claims of the insurers' quality such as 'reliable cover', an indication on customer service availability, e.g. '24h customer service', or information on coverage such as excess for garden furniture which was not relevant for making the optimal choice.
[59] Although this was only available to those who had reached the comparison stage previously, which was not the case for those in the car rental and add-on settings who chose the initial offer.

- Timing and highlighting of information; and
- Cross-border information.

We briefly describe each type of treatment in turn below.

Marketing practices at the initial offer stage

These treatments were only applicable to respondents in the car rental and add-on insurance settings. These respondents were split at random into three groups:

- **No Pressure:** This was the baseline case as described above under 'Step 2) Initial offer stage' above
- **Pressure:** Participants in this group saw an identical screen to those in the 'No Pressure' group, but they only had 20 seconds to make their choice at this screen. The time pressure was made evident to respondents by a prominently placed 'countdown' on the screen and the instruction to make a choice within 20 seconds. This condition was designed to mimic the time pressure and persuasive sales techniques that can be felt when car rental and add-on insurance is offered by ancillary sellers at the point-of-sale of the primary product.
- **Low Prominence:** This condition was similar to the 'No Pressure' condition, except that the buttons via which individuals could select to see alternative offers or proceed without purchasing insurance were visually less prominent. This condition was added during the course of the design of these treatments in order to mimic current market practices.

Information provision

These treatments (applied to all four products) varied whether additional explanatory information (regarding the features of the contracts shown) was available to respondents, and the way in which this information was presented to them. There were three treatment groups:

- **No Information:** Respondents did not have access to the additional information during the contract choice task.
- **Glossary:** Respondents in this group had access to a self-contained 'glossary' document which explained selected technical terms such as the meaning of the word "excess", explanations of risks such as "natural hazards", "vandalism", etc. This glossary was available via a click-on button at the bottom of the page at the profile questionnaire (home and motor only), comparison (all), and confirmation (all) stages.
- **Short Guide:** Respondents in this group had access to the same information as those in the 'Glossary' treatment group. However, for this group of respondents the information was presented via multiple small click-on icons that were attached to the relevant terms at the profile questionnaire, comparison, and confirmation stages.

Manipulation of the excess and covered risks at the comparison stage

These treatments were relevant only for participants in the home and motor settings. These respondents were divided at random into two groups:

- **Manipulation possible:** Respondents in this group were able to manipulate their chosen level of excess and risks covered (i.e. whether to include cover for natural hazards or vandalism) at the comparison stage. The treatment featured dropdown menus to change these two features for the offers being compared. The three

offers being displayed would update automatically according to these manipulations and display the resulting price change.

- **Manipulation not possible:** Respondents in this group were unable to manipulate their chosen level of excess and risks covered at the comparison stage.

Timing and highlighting of information at the comparison stage

These treatments varied the timing and highlighting of information provided relating to the alternative offers. Participants were divided at random into three groups:

- **High 1:** All key features were shown at the comparison stage, including risks covered and not covered, and no features were highlighted. This was the baseline condition.
- **High 2:** The column showing which risks are covered and which are not covered was not shown at the comparison stage. This condition was intended to test potentially detrimental current market practices which hide important information from consumers at certain stages during the purchasing process.
- **High 3:** This condition was identical to the baseline condition (High 1), but also highlighted the column showing which risks are covered/not covered.

Cross-border information

Before seeing any insurance offers, either at the initial offer or comparison stage, some respondents were shown an information 'banner', which gave them information about cross-border insurance policies. Respondents were randomly assigned to one of the following groups:

- **Domestic:** Respondents in this baseline group saw only insurance offers from domestic providers. They saw no cross-border information banner.
- **Cross-border without banner:** One randomly selected insurance provider was identified as being from another EU country (Luxembourg). All other features of the cross-border provider (including the insurance policies offered by the provider) remained the same as they were under the 'Domestic' condition. The country of origin of the cross-border provider was made evident via the provider's address, which was shown at the comparison as well as at the confirmation stage. Respondents in this condition saw no cross-border information banner.
- **Cross-border with banner A:** One insurance provider was identified as being from another EU country and, in addition, respondents saw a cross-border information banner which gave them key information relating to the pre-contractual phase. More specifically, the 'banner' told respondents that (i) insurers from other countries could be cheaper, or offer additional cover and (ii) the same payment methods applied for domestic and foreign providers.
- **Cross-border with banner B:** As above, but this time the banner featured information relevant during the lifetime of the contract. It informed participants that (i) all insurance offers shown to them, including those from providers in other EU countries, would cover them in their own country according to European Law, (ii) foreign insurance companies offered customer service in their own language, and (iii) they could always make a claim through a local agent or representative if they were insured by a foreign provider.

The rationale behind this design was to enable the experiment to answer the research questions set out in the terms of reference to understand better what currently deters cross-border insurance purchases and which types of information could encourage interest in cross-border purchases. The content of the banners was also validated by initial findings from the focus groups which explored concerns surrounding legal issues of

cross-border insurance, and fears relating to language concerns and the availability of customer service.

2.4.5. Interlocking of treatments

In order to collect data to answer all research questions of the terms of reference, the total number of treatment groups is rather large compared to the overall sample size. To maintain scientifically robust sample sizes per treatment group the experiment was designed such that treatments can be interlocked in the later analysis.

This means that respondents were assigned to a specific group in one treatment (say to the manipulation group) and, independently from this first assignment, they were also assigned to groups within the other treatments (say within the information and highlighting treatment). In the analysis, treatment effects are presented for a particular treatment, while averaging across all other treatments. This ensures that the sample is not split into more than four groups (in case of the cross-border treatment) during the analysis.

For a detailed description of the theoretical argument that validates the approach, as well as the mathematical derivation of the argument, see the annexes document.

2.4.6. Incentive structure

The contract choice task and a part of the comprehension and awareness questions were incentivised. All respondents received a fixed payment for their participation in the study, following good practice in market research. Respondents were informed at the outset of the experiment that they could earn additional incentives for correct answers in the choice experiment. The payments were made as set out below:

- **Home and motor insurance choice task:** Correct answers, i.e. choosing the correct provider, correct level of excess, and the correct coverage, paid the full incentive. Respondents could earn partial points for partially correct choices. For example, half the incentive was paid if individuals chose the correct provider, and excess, but chose to insure the substantial risk even when it was not strictly necessary (a partially correct choice).
- **Car rental and add-on insurance:** Respondents were paid the full incentive if they either purchased from the correct provider, correctly self-insured by not purchasing any insurance (if they were able to cover the loss given their financial situation)[60], or correctly decided not to purchase insurance if all products on offer were overpriced (see the section in the annexes on the offers presented in the experiment for further detail).

The monetary incentives in the choice experiment were significant and should be sufficient to ensure respondents' attention to and engagement with the task (see the annexes document for more information on the incentive structure).

2.5. Design of the laboratory experiment and survey

The laboratory experiment collected data from 100 participants each in Slovakia and Italy. The design of the laboratory experiment and survey closely mirrored the structure of the online experiment.

However, in order to collect scientifically robust data in terms of sample size per treatment condition, the scope of the laboratory experiment was narrowed compared to the online experiment. The following changes were made:

[60] Each respondent's financial situation was established via a survey question asking whether they could cover an unexpected demand for a certain amount of money.

- **Only motor insurance was tested**: Motor insurance was chosen in particular because it is a simpler product for cross-border provision and purchasing than home insurance and it is a more important market compared to add-on (furniture insurance).
- **The number of treatments was limited**: The main objective of the laboratory experiment was to test the cross-border treatments in depth with cross-border oriented consumers (which were recruited from border regions in Slovakia and Italy).
- **The cross-border banner was tested in a modified version**: The laboratory tested the effectiveness of showing a cross-border banner compared to showing no banner at all. In the laboratory setting, a single version of the cross-border banner (combining banners A and B described in section 2.4.4 above) was shown to participants.
- **Lab experiments were followed by a group discussion**: A group discussion, conducted following the survey and experiment, reflected on the key parts of the experiment.

For further details relating to the above refer to the annexes document.

2.6. Approach to measuring potential savings consumers could make

The aim of Task 3 is to estimate the range of potential savings for consumers that better choices may allow in respect of the studied insurance products. The following sections describe how the information and data collected through the project is used in order to assess potential savings.

Assessment of potential premium savings using experiment data, for home and motor insurance

Data from the experiment is used to examine the savings that consumers could make by avoiding particular decision-making errors. Decision-making errors in the home and motor insurance versions of the experiment that resulted in overpaying of premiums included:

- Selecting an overpriced insurer (Insurer 'A' was clearly overpriced);
- Selecting an excess that was lower than necessary (i.e. lower than the amount the consumer could bear given their financial circumstances); and
- Covering a risk that was not necessary to cover.[61]

For each respondent, i, the experiment provides data on the price of the contract chosen by the respondent ($Price_chosen_i$) and the price of the optimal (cheapest) contract that they could have chosen ($Price_optimal_i$). From this data the average overpayment as a result of the above three decision-making errors can be calculated as:

$$Average\ overpayment = SUM_i\ (Price_chosen_i - Price_optimal_i) / N$$

For each respondent who made each of these errors, we calculate the overpayment they made in the experiment as a result of the relevant error. This calculation is made *holding all other aspects of the respondent's choice constant*; for example, if a respondent selected an overpriced insurer (the first error above), their overpayment as a result of this error is calculated taking their choices of excess and covered risks as given. For all

[61] This third error was only relevant/a possibility for a participant if they were assigned to the scenario in which they did not need to cover the specific risk (flood in the case of home insurance, vandalism for motor insurance). Hence, the calculations are made *among those for who these errors were relevant/a possibility*.

respondents who did not make a particular error their overpayment due to that error is (of course) zero.

We then calculate the average overpayment per respondent as a result of each error, firstly among those who overpaid/made the error, and secondly among all respondents.

Assessment of potential premium savings using experiment data, for car rental and add-on insurance

In the car rental and add-on insurance versions of the experiment decision-making errors that resulted in overpaying of premiums included:[62]

- Failing to select the cheapest offer when it was optimal to take an insurance; and
- Taking an insurance when it was not optimal to take any insurance on offer.

The average overpayments per respondent resulting from each of these errors are calculated in the same way as explained above for the home and motor insurance settings (i.e. holding all other aspects of the respondent's choice constant, firstly among those who overpaid, then among all respondents).

Impact of the experiment treatments in terms of premium savings

The analysis of potential savings based on the experiment data described above is extended to examine the potential savings per consumer due to particular treatments, relative alternative treatments, as follows:

Potential saving	*= Average overpayment per respondent under Treatment X – Average overpayment per respondent under Treatment Y*

This means that the potential saving from a particular treatment (e.g. information provision) is obtained by calculating the average overpayment for all respondents in the baseline treatment (e.g. no information tool was available) and comparing this to the average overpayment in the treatment group (e.g. additional information was provided).

This calculation is made for every individual treatment variant relative to the baseline group. The resulting potential savings are reported for all treatments that are found to have a statistically significant effect on decision-making for home, motor, car rental and add-on insurance.

Assessment of potentially higher claims pay-outs using experiment data

A second source of potential 'savings' that consumers may be able to make in the non-life insurance market is in the form of higher claims pay-outs (including in some cases being able to successfully make a claim at all). In the experiment, respondents could have made various decision-making errors that would have restricted their ability to make a claim in the event of an insurable loss. These are set out in the table below.

The shares of respondents who made these decision-making errors are calculated from the experiment data, and the impact of the treatments on these shares is calculated. We compute the shares of respondents making any of the decision-making errors described in the table below first for the baseline group and then for any treatment which had a statistically significant effect on decision-making for home, motor, car rental and add-on insurance.

[62] Which of these errors was relevant to/a possibility for each respondent depended on the scenario they were assigned to (i.e. the scenario in which they saw at least one fair-priced offer, or the scenario in which they saw only overpriced offers). Hence, again the calculations are made *among those for who these errors were relevant/a possibility*.

Table 7: Decision-making errors that would restrict consumers' ability to claim

Insurance	Decision-making errors restricting ability to make a claim
Home	Failure to purchase home insurance at all Failure to include cover for flooding when this was relevant
Motor	Failure to purchase comprehensive motor insurance at all Failure to include cover for vandalism when this was relevant
Car rental	Failure to purchase car rental insurance when it was optimal to do so
Add-on	Failure to purchase add-on insurance when it was optimal to do so

Assessment of potential premium savings using survey data

Survey data on prices paid is analysed with information on how respondents searched for policies and how many offers they compared. In particular, regression analysis is used to estimate the price paid for insurance as a function of search behaviour:

Price paid = f (Number of offers compared, Search behaviour, Controls)

This analysis is conducted including among the explanatory variables all the captured variables that would be expected to influence the price paid (the number of products compared when searching for insurance, and the information sources used[63]) as well as all relevant control variables.[64]

The intention is that the coefficient estimates from this analysis provide estimates of how much consumers could have saved had their search behaviour been different in certain ways. However, an important caveat is that insurance policy prices also vary due to a wide range of factors that cannot all be controlled for in the model. Therefore, it is important not to give too much weight to the results from this method.

Assessment of potential savings based on the desk-based literature review

Studies and publications providing estimates and analyses of potential consumer savings have been sought during the desk-based literature review. Such publications have been sought in the various languages of the study countries. The analysis undertaken as part of Task 3 summarises the relevant findings from any useful sources that have been identified.

Assessment of potential savings based on the stakeholder consultations

National supervisory authorities and consumer associations were specifically asked for any information or data on the monetary detriment consumers experience due to problems in the non-life insurance market, and for any estimates of potential savings that consumers could make that they are aware of. The analysis extracts all information and responses given in response to this question.

Assessment of potential savings based on the focus groups

Insurance purchasing experiences were covered at length during the focus groups, giving participants the opportunity to discuss any savings they may have made in the past or to mention their beliefs about possible savings. Any relevant insights and evidence coming

[63] For number of products compared see survey question S2Q6, and information sources used see survey question S2Q7.
[64] The controls included occupation, age, gender, education level, living situation, financial situation, cognitive ability, and trust level in the insurance market and intermediaries. For occupation see survey question D5_occup; for age see D1; for gender see D2; for education level see D5; for living situation see D6; for financial situation see D9; for cognitive ability see S3Q1 and S3Q2; for trust in the insurance market and intermediaries see S3Q3; and for risk aversion see S3Q4.

out of these discussions are presented in the chapter addressing Task 3, adding a qualitative aspect to the analysis.

EVIDENCE AND FINDINGS

3. Features of the non-life insurance market

This chapter addresses the objective set out in the terms of reference to collect data and evidence on the specific features of the non-life insurance market for the products and services under review. The first section presents and discusses data on the non-life insurance market, the second section covers insurers' practices, and the final section discusses cross-border selling

3.1. Non-life insurance market data

This section presents and discusses data on the non-life insurance market, describing and explaining significant observations and developments. Full data tables will be presented in the final country fiches (to be provided alongside the final report).

The study focuses on business to consumers (B2C) data, however, it should be noted that B2C information is available to a very limited extent. The data collected by the national supervisory authorities and trade associations rarely specified the share of B2C, and the stakeholders interviewed across 10 countries could not provide quantitative estimates[65]. When the data was specifically disentangled between B2C and business to business (B2B), such as to some extent in France, Romania and the UK, this is clearly indicated.

Data gathered through desk research have enabled an overview of the non-life insurance market across the ten countries studied, i.e. Germany, Spain, France, Luxembourg, Italy, Latvia, Romania, Sweden, Slovakia and the UK. Of the four types of non-life insurance that the present study focusses on, in the ten countries studied household and motor insurance were held by more consumers than car rental and add-on insurance, according to data collected by Insurance Europe[66], as well as national supervisory authorities and trade associations. This is partly due to the compulsory nature of third party liability insurance for vehicles[67] in all EU countries and the fact that household insurance is mandatory in some countries (e.g. building insurance for all homeowners in Romania and France and for mortgage holders in Sweden and the UK, and home contents insurance for tenants in France and Luxembourg).

The market data presented below are the result of data collected by national authorities and trade associations in the 10 countries studied, as well as Insurance Europe and the OECD in order to compare data and their evolution in the last 5 years. While stakeholders were asked for quantitative estimates of likely market evolutions over the next 5 years they were only able to comment on possible qualitative future trends on some occasions. Where such comments were provided, it is indicated in the text below.

3.1.1. Key structural data

Table 8: Main economic indicators of the European insurance sector

Economic indicator	EU level figures
EU Total number of insurance companies on domestic market (2015)	3,259 (top 3 EU MS: Germany 549; United Kingdom 496; France 365)

[65] Most commonly stakeholders indicated that they do not feel comfortable giving quantitative estimations of B2C share or they did not have sufficient knowledge to be able to draw such estimates.
[66] Insurance Europe, 2014, European Insurance in Figures. The Final Report for the study will include 2015 data when it is published.
[67] Directive 2009/103/EC - Civil liability insurance for motor vehicles

Economic indicator	EU level figures
EU Number of direct employees, domestic market (2015)	974,435 (top 3 EU MS: Germany 295,580; France 147,100; and United Kingdom 100,800)
Europe insurance premiums as percentage of total worldwide (%)	2013: 35.3%; 2014: 35.5%; 2015: 32.3%
EU total direct premiums written on domestic market (2015, € bn)	1,117
EU total direct non-life premiums written by domestic companies, excl. health (2015, € bn)	314

Source: Insurance Europe

This section will describe and discuss data on penetration, density, concentration and employment in the sector.

Penetration

Non-life insurance penetration represents the ratio of this sector's premiums to GDP. The table below presents non-life insurance penetration across the countries studied between 2011 and 2014.

Table 9: Non-life insurance penetration (excluding health) across studied countries (2011-2014)

Country	2011	2012	2013	2014
DE	2.1%	2.1%	2.2%	2.2%
ES	2.2%	2.2%	2.2%	2.1%
FR	2.6%	2.7%	2.7%	2.7%
IT	2.1%	2.0%	1.9%	1.9%
LU	1.7%	1.7%	1.7%	1.6%
LV	1.3%	1.3%	1.7%	1.2%
RO	1.0%	0.9%	1.0%	1.0%
SE	1.4%	1.3%	1.3%	1.4%
SK	N/A	N/A	1.2%	1.2%
UK	3.3%	3.1%	3.1%	2.6%

Source: Insurance Europe, 2016, European Insurance Industry Database

According to the table above, non-life insurance penetration is above 1% of GDP across all countries studied. It was highest in Germany, France and the UK. Non-life insurance represented lower shares of countries' GDP in Sweden, Romania, Latvia and Slovakia. In some instances, differences between studied countries are significant, as for instance the non-life insurance penetration is 2.6 times higher in the UK than in Romania. Such discrepancies are correlated with other structural data presented below, such as the level of premium and density. While the level of penetration remained relatively stable in most countries, it decreased year-on-year in the UK and in Italy.

The data provided by the Insurance Europe database provide similar results for motor and household insurance[68], with the same countries having the highest or lowest penetration rate for these products as for non-life insurance.

Household insurance penetration ("property insurance" in Insurance Europe data) was the lowest in Luxembourg and Romania with 0.2% and the highest in France and the UK with 0.8% in 2014. Over the last five years, it was stable and above 0.5% in Germany, Spain, France, Sweden and the UK, and below 0.5% in Italy, Luxembourg, Latvia, Romania and Slovakia. Here, the national legislations making household insurance compulsory in certain countries do not seem to have an impact on the penetration rate of this product category (e.g. in Romania and Luxembourg). In some countries where there is no such obligation and where household insurance penetration is low, the lack of an insurance culture in the country was perceived as a possible explanation[69].

Motor insurance penetration varied between 0.6% in Sweden and 1.1% in Italy in 2014. The relatively homogeneous and stable penetration rate for motor insurance across the studied countries can be explained by the fact that with the Motor Insurance Directive 2009/103/EC, all motor vehicles in the EU must be covered by compulsory third party insurance motor insurance.

No specific information on car rental and add-on insurance penetration could be found.

Density

Non-life insurance density is the average amount of premiums per capita spent on non-life insurance[70]. The table below presents non-life insurance densities across the 10 countries considered.

Table 10: Non-life insurance density (excluding health) across studied countries (2011-2014) in EUR

Country	2011	2012	2013	2014
DE	693	716	738	775
ES	506	499	484	477
FR	833	853	865	873
IT	569	554	523	500
LU	1,394	1,419	1,432	1,397
LV	128	142	199	147
RO	67	63	72	72
SE	589	592	612	635
SK	N/A	N/A	167	172
UK	980	990	978	913

Source: Insurance Europe, 2016, European Insurance Industry Database

Density was highest in Luxembourg, where it was over 1,000 EUR per person, and lowest in Romania where it was under 100 EUR. The level of non-life insurance density can be linked to the level of income in the different studied countries, to the number of mandatory insurance products, and to the insurance culture and habits (e.g. the

[68] No comparable data could be found on car rental and add-on insurance.
[69] Swiss Re, 2012, New Swiss Re publication provides insights into the future of Italy's insurance market. Available at: http://media.swissre.com/documents/News_release_exp_pub_italys_insurance_market_Aug_12.pdf
[70] Insurance Europe, 2016, European Insurance in Figures – 2014 data. Available at: http://www.insuranceeurope.eu/sites/default/files/attachments/Statistics%20N%C2%B051%20European%20Insurance%20in%20Figures_0.pdf

tendency to be over-insured was reported by stakeholders in Luxembourg and Germany). In terms of evolution between 2011 and 2014, non-life insurance density recorded a year-on-year decrease in the UK, Spain and Italy, while it continuously increased in Germany, France and Sweden. The variations observed for non-life insurance density are similar to those identified for motor and household insurance, based on the Insurance Europe database.

Household insurance density ("property insurance" in Insurance Europe data) ranged between 13 EUR in Romania to 300 EUR in Sweden in 2014. It was above 200 EUR in Germany, France, Luxembourg, Sweden and the UK, and below 100 EUR in Italy, Latvia, Romania, Slovakia. Over the last five years, household insurance density increased continuously in Germany, France, Latvia, Sweden, while it decreased in Italy.

Motor insurance density ranged from 50 euros in Romania to 733 EUR in Luxembourg in 2014. It was above 200 EUR in Germany, Spain, France, Italy, Luxembourg, Sweden and the UK, while below 100 EUR in Latvia, Romania and Slovakia. Over the last five years, motor insurance density has continuously increased in Germany, France, Luxembourg, Romania, Sweden while it decreased year-on-year in Spain, Italy and Slovakia.

No comparable data could be found on car rental and add-on insurance. However, in France a survey from January 2013 indicated that 81% of French consumers had already subscribed to an add-on insurance product and that in average, each French consumer owned at least 2.4 add on insurance products[71]. The most common add insurance products sold are cancellation insurance for tickets or travel and the extension of warranty[72]. In Italy, the national supervisory authority conducted an investigation on the offer of add-on insurance products, which stated that 15 million people own add-on insurance products.

Market concentration

Market concentration measures the relative position of large enterprises in the provision of non-life insurance products[73]. The table below presents the market share of the 5 largest non-life insurance companies in the 10 countries of the study.

Table 11: Non-life insurance market concentration across countries studied (5 largest companies)

Country	2011	2012	2013	2014
DE	42%	42%	41%	41%
ES	48%	45%	45%	45%
FR	55%	55%	56%	56%
IT	69%	67%	73%	72%
LU	88%	89%	N/A	N/A
LV	N/A	N/A	N/A	N/A
RO	N/A	68%	N/A	N/A
SE	83%	83%	84%	84%
SK	87%	86%	N/A	N/A

[71] Laurent Thévenin, Les Echos, 2013, Assurance-voyage, portables, extensions de garanties : une image en berne. Available at: http://www.lesechos.fr/23/01/2013/LesEchos/21360-134-ECH_assurance-voyage--portables--extensions-de-garanties---une-image-en-berne.htm#lBc7tPZ4sQKlxREA.99

[72] Amrae, 2015, Vraie garantie ou fausse assurance ? Available at: www.amrae.fr/sites/default/files/udr/2015_02_AtelierB4VraieGarantieFausseAssurance_Amrae_C.pdf

[73] OECD, Glossary of industrial organisation economics and competition law. Available at: www.oecd.org/regreform/sectors/2376087.pdf

UK	41%	41%	N/A	N/A

Source: Insurance Europe, 2016, European Insurance Structural Data.

Although data on market concentration was limited, it shows that the non-life insurance market is concentrated in the ten countries studied. Indeed, the 5 main players covered over 40% of the market in all countries. Markets which were most concentrated during the period of the study were Luxembourg, Sweden and Slovakia, with over 80% of the market belonging to the 5 main companies. On the other hand, the UK, Germany and Spain were less concentrated (under 50%). In terms of evolution, market concentration has remained relatively stable according to the data available, with a small increase in France, Italy, Luxembourg and Sweden, and a small decrease in Germany, Spain and Slovakia. According to the data collected, the concentration increase of the non-life insurance market is linked to mergers and acquisitions in most of the studied countries, while in Romania, two large insurance companies (ASTRA Asigurari in 2015, Carpatica Asig in 2016) declared bankruptcy in 2015 and 2016[74].

As regards to household insurance, market concentration has increased in Germany and the UK. In Germany, 120 insurance companies were offering household insurance products in 2014, compared to 125 in 2011[75]. In the UK, the number of companies fell from 288 in 2011 to 269 in 2013[76].

The motor insurance market appears increasingly concentrated in most of the studied countries. In France, the number of companies operating in the motor insurance sector dropped from 103 companies in 2011, to 95 in 2012 and 93 in 2013.[77]. The same trend can be observed in Germany, with 94 insurance companies offering motor insurance products in 2015, compared to 99 in 2011[78]. In Romania, the number of companies operating in the motor insurance market has been stable between 2013 and 2015 with 21 firms, while it used to be 26 in 2010[79]. In Spain, 50 companies were offering motor insurance in 2015 and the top insurance companies accounted for 56.86% of the motor premiums[80]. The number of companies operating in the motor insurance sector also dropped in Italy and Latvia and remained stable in Slovakia between 2011 and 2013[81]. On the contrary concentration decreased in Luxembourg, Sweden and the UK, with for instance 280 companies providing motor insurance in 2013 in the UK, compared to 263 in 2011 and 2012[82].

No specific information on market concentration for car rental and add-on insurance products could be found.

[74] Carpatica Asigurari, 2016, Important pentru clienti. Available at: http://www.carpaticaasig.ro/important-pentru-clienti.aspx
[75] GDV, 2015, Statistical Yearbook of German Insurance. Available at: http://www.en.gdv.de/wp-content/uploads/2015/10/GDV-Statistical_Yearbook_2015.pdf
[76] Insurance Europe, 2016, European insurance industry database. Available at: http://www.insuranceeurope.eu/european-insurance-industry-database
[77] Insurance Europe, 2016, Non-life insurance data. Available at: http://www.insuranceeurope.eu/sites/default/files/attachments/Non-life_Insurance_Data.xlsx
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[79] Insurance Europe (2016). European Insurance Industry Database. Retrievable at: http://www.insuranceeurope.eu/european-insurance-industry-database
[80] Dirección General de Seguros y Fondos de Pensiones, 2015, Annual report. Available at: http://www.dgsfp.mineco.es/sector/documentos/Informes%202015/INFORME%20SECTOR%202015.pdf
[81] Insurance Europe, 2016, European insurance industry database. Available at: http://www.insuranceeurope.eu/european-insurance-industry-database
[82] Insurance Europe, 2016, Insurance Europe industry database. Available at: http://www.insuranceeurope.eu/sites/default/files/attachments/Non-life_Insurance_Data.xls

Employment

The table below presents employment in the insurance sector in terms of number of direct employees in the domestic market, at year end, for the ten countries studied[83].

Table 12: Number of direct employees on the domestic insurance market across countries studied

Country	2011	2012	2013	2014	2015
DE	300,400	301,300	300,900	293,510	295,580
ES	47,265	46,726	46,324	45,876	45,876
FR	147,500	148,200	147,300	146,600	147,100
IT	47,477	47,712	47,936	47,452	46,754
LU	3,572	3,609	3,725	4,439	4,911
LV	N/A	3,000	3,000	3,000	3,000
RO	8,230	11,837	12,299	9,346	9,346
SE	20,428	20,551	20,710	16,782	17,376
SK	6,097	6,097	6,099	5,981	5,785
UK	110,363	105,800	104,715	100,800	100,800

Source: Insurance Europe, 2016, European Insurance Structural Data.

The level of employment in the insurance sector is quite heterogeneous among the studied countries, due to the different levels of population and of insurance penetration. In 2015, the number of people employed in the insurance sector was above 100,000 in Germany, France and the UK, while it was below 10,000 in Luxembourg, Latvia, Romania and Slovakia. Over the last five years, the level of employment in the insurance sector has been continuously increasing in Luxembourg and decreasing in the UK, Spain and Slovakia. It is interesting to note that all countries except Luxembourg and Latvia have experienced a decrease in insurance employment between 2013 and 2014.

No specific information on employment in the non-life, motor, household, car rental and add-on insurance sectors could be found.

3.1.2. Online purchasing

The **digitalisation of the market** is increasing in the EU and a survey conducted in 2014 by CapGemini showed that by 2018, insurers anticipate almost one fifth of their business to come from online sales through personal computers[84]. A study from Swiss Re indicated that the use of insurance intermediaries will continue to prevail but the trend for online sales is expected to grow, particularly for young people who tend to favour this channel[85].

According to the Special Eurobarometer 373[86], in 2011, 18% of people bought non-life insurance products online directly from the provider in the EU. Moreover, research through consumer surveys conducted by Finaccord[87] revealed that online channels in France, Germany, Italy, Poland, Spain and the UK represented 42% of motor and household insurance policy purchases in 2012, compared to 35% in 2008. Out of the six

[83] The data was extracted from the Insurance Europe database but it does not distinguish between life and non-life insurance.
[84] CapGemini, 2014, World insurance report 2014
[85] Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf
[86] http://ec.europa.eu/internal_market/finservices-retail/docs/policy/eb_special_373-report_en.pdf
[87] Finaccord, 2013, Aggregation Metrics: Consumer Approaches to Insurance Comparison Sites in Europe.

aforementioned countries, the online sale of these products was highest in the UK (69%) and lowest in France (25%) in 2012.

However, the increase in non-life insurance sales varies across Member States, mainly due to cultural differences and consumption habits. Stakeholders noted that insurance websites are sometimes used as an information channel more so than as a purchasing tool. According to a study on the digitalisation of retail financial service and insurance[88], the likely main reason behind it is that the insurance industry has not yet managed to propose an effective digitalised distribution chain including pre-sales, sales and post-sales phases. The use of online sales also differs between categories of products. The same study shows that European consumers are more likely to compare relatively simple and homogeneous products (e.g. M3PL insurance) online, but that more complex products are more largely sold via intermediaries[89].

In Latvia, Slovakia, Sweden and the UK, online sales have already developed considerably over the past few years and they are expected to grow according to national supervisory authorities, trade associations and consumer associations. In the UK, according to a trade association, consumers are already used to buying products and services online, therefore buying insurance products online was not a novelty for them[90]. In Sweden, interviewees agreed that online sales are particularly increasing among young consumers. In Slovakia, the share of online sales is estimated at 20%, including via insurance companies' websites and comparison websites[91]. In Latvia, stakeholders considered that online sales are growing because it is the cheapest channel for purchasing insurance as a consumer and the cheapest channel for a company to supply the product[92].

In France, Germany, Luxembourg, Italy, Spain and Romania, the increase of online sales is much slower. In France, less than 10% of customers purchase insurance products online, as direct personal contact remains important for French consumers[93]. However, online sales are expected to increase according to a trade association, and popular products such as motor and domestic property insurance are already being more and more sold online over the past few years, with online channels (both insurers' own sites and through comparison websites) accounting for 25% of motor and household insurance policy purchases in 2012[94]. In Germany, consumers still prefer to get personal advice through an agent or broker, so online sales are not growing as dynamically as expected, as noted by the national supervisory authority[95]. Nevertheless, internet distribution has developed over the past few years in Germany, especially for motor insurance products (notably third-party liability), as these products are easier to sell online[96]. According to Müller-Peters[97], online-oriented motor insurance purchasers now take completely new paths for obtaining information and making decisions. Using online media in the decision-making process is a matter of course for net-savvy customers. "Media jumps" between

[88] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

[89] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

[90] Interviews with ABI (trade association), FCA (national supervisory authority)

[91] Interview with a FSUG expert

[92] Interviews with the Latvian Insurers Association and the FCMC (national supervisory authority)

[93] Capgemini, 2016, World Insurance Report. Available at: http://www.claimsprocessing.com.au/world-insurance-report-2016-mc

[94] Finaccord 2013, Aggregation Metrics: Consumer Approaches to Insurance Comparison Sites in Europe. Available at: http://www.finaccord.com/documents/press%20mentions/2013/aggregation-metrics_consumer-approaches-to-insurance-comparison-sites-in-europe_fanews_february-2013.pdf

[95] GDV, 2016, So schließen Versicherungskunden ihre Verträge ab. Available at: http://www.gdv.de/2016/01/so-schliessen-versicherungskunden-ihre-vertraege-ab-2/

[96] Ernst and Young, 2014, Global insurance outlook. Available at: http://www.ey.com/Publication/vwLUAssets/EY-2014-global-insurance-outlook/%24FILE/EY-2014-Global-insurance-outlook.pdf

[97] Horst Müller-Peters (2013), Kundenverhalten im Umbruch, Cologne university of Applied Science, 2013,

the different sources of information are perfectly normal – especially for those who change contracts. This includes switching between online and offline channels (here, "research online, purchase offline" is preferred to the converse way "research offline, purchase online") as well as jumps within the online or the offline world.

In Luxembourg, online sales are estimated at 18% but are not growing very quickly as there is a limited offering available online, according to the national supervisory authority[98]. In Spain, only a minor share of insurance products was bought online (between 2.38% and 2.55% in 2013-2014)[99]. In Romania, online sales have developed considerably over the past few years, especially for products such as motor (notably third-party liability) and household insurance[100]. However, it was noted by a consumer association that consumers in rural areas still rely on local insurance branches or brokers; so overall, the growth of online sales is not increasing as much as in the urban areas, where access to internet is more common[101]. In Italy, the stakeholders consulted as part of this research agreed that consumers use the internet to gather information on non-life insurance, and therefore the national supervisory authority has required insurance companies to provide detailed information related to their products online[102].

In terms of product categories, online sales seem to be mostly used for motor insurance and for travel insurance. In Latvia, internet distribution represents 40% of the sales of motor and travel insurance products[103]. In the UK, 20% of private motor insurance contracts (B2C) were sold online in 2012[104]. Car rental insurance is also commonly sold online (e.g. in France, Germany, Italy), together with renting a car.

The development of online sales is closely linked to the widespread use of **price comparison websites** (PCWs) in some countries (e.g. UK, Latvia, Slovakia, Italy), while in others (e.g. France, Germany, Spain), the two phenomena are not intertwined. There are two categories of comparison tools: those that simply provide information on different products (provided by companies, NGOs, governments) and others where it is possible to buy products online. The information provided by price comparison websites differs among Member States according to their funding mechanism and ownership. However, stakeholders interviewed during the study mentioned that PCWs focus mainly on price rather than quality and coverage, and measures have been implemented in some countries to increase their transparency. Additionally, some portals have increasingly been criticized by the press for a lack of user friendliness and of dubious handling of data.[105]

A specific feature of the UK non-life insurance market is the large increase of PCWs as a distribution channel over the last 5 years. PCWs are considered a faster and cheaper distribution channel for consumers and insurers alike and are easy to use with the use of infographics[106]. Young consumers are especially used to this distribution channel, which is expected to grow in the next 5 years, along with distribution via smartphone applications. Private motor insurance (B2C) is the most common product sold via PCWs, representing 24% of their sales in 2012[107]. In addition, one of the four large PCWs is owned by one of the ten largest motor insurers[108]. However, consumer associations[109] in the UK point out that the fact that some PCWs are owned by big insurance companies

[98] Interviewe with CAA (national supervisory authority)
[99] Dirección General de Seguros y Fondos de Pensiones, 2015, Informes Seguros y Fondos de Pensiones
[100] Interviews with AURSF and APPA-Asigurari (consumer associations)
[101] Interview with APPA-Asigurari (consumer association)
[102] Interview with IVASS (national supervisory authority)
[103] Interview with the Latvian Insurers Association
[104] CMA, 2012, Private Motor Insurance Market Investigation. Available at: https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf
[105] Müller-Peters (2012), 'Vergleichsportale und Verbraucherwünsche'.
[106] ABI, FCA, Citizen's Advice, BIBA
[107] CMA, 2012, Private Motor Insurance Market Investigation. Available at: https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf
[108] Confused.com, which is owned by the insurer Admiral
[109] Interviews with Financial Services Consumer Panel, Financial Inclusion Centre and Citizen's Advice

does not help increase transparency and trust. To increase transparency, a trade association has made available a premium tracker for motor[110] and household[111] insurance, offering information on the average premium paid in the UK per person every quarter of the year.

In Latvia, PCWs are mostly used for motor and travel insurance because these products are more easily sold online. Indeed, through the Motor Insurance Bureau and the car registration office's data, it is easy for consumers to enter the information required to purchase motor insurance as part of their information is already in the database. Furthermore, the insurer has instant access to the driver's history, which helps to determine a quote. However, for property insurance, consumers have to enter all the information themselves, which is a time-consuming task, and they may prefer to resort to intermediaries or buy products directly from insurers.

In Slovakia, the use of PCWs is increasing mainly for motor insurance (M3PL and comprehensive cover) and travel insurance. In Romania, the rise of online sales came together with comparison tools, although no complete neutral comparison tool exists in the country. In Sweden, the use of PCWs is growing and to avoid biased information, the main insurance consumer association provides its own independent comparison website[112].

In Italy, there is an increasing use of PCWs for search and purchase of insurance products, particularly in the area of M3PL insurance[113]. The national supervisory authority offers its own independent comparison tool[114] and it has also conducted an investigation to verify the level of transparency and fairness of PCWs[115]. This investigation found that only a few companies are represented on these PCWs, and that there is no clear transparency on the actual coverage of the market and the comparison criteria, and the link between PCWs and companies. Following this investigation, the national supervisory authority introduced several requirements for PCWs[116], including: a requirement on PCWs to indicate the commercial links with the companies advertised, specify the market coverage of the PCW, forbid product bundling, and allow consumers to not only compare the price but also other characteristics of the products.

In France, Germany and Spain, the use of PCWs is growing for information purposes only. Due to the complexity of the offers and their lack of transparency and commercial ties, only few sales are carried out via this channel. In Germany, the PCWs are particularly popular for motor insurance, but also for travel and car rental insurance, as they have a short-term duration and large switching rate. In Germany, Müller-Peters (2012) showed that comparison portals like to advertise with the promise of high savings. In this study, 500 private vehicle owners that are active internet users tested three different portals: two insurance calculators and one site of a direct insurer. Compared to the actual current insurance equipment of the internet-active sample, most of these promises were exaggerated. Nevertheless, the testers averagely found

[110] ABI, 2016, ABI average quarterly motor insurance premium tracker, Q4 2015 statistics. Available at: https://www.abi.org.uk/News/Industry-data-updates/2016/01/ABI-average-motor-insurance-premium-tracker-Q4-2015-data

[111] ABI, 2016, ABI average quarterly motor insurance premium tracker, Q4 2015 statistics. Available at: https://www.abi.org.uk/News/Industry-data-updates/2016/01/ABI-average-motor-insurance-premium-tracker-Q4-2015-data

[112] Available at: http://www.konsumenternas.se/om-oss/forsakringsbyran

[113] IVASS, 2014, Investigation into comparison websites in the Italian insurance market. Available at: http://www.ivass.it/ivass_cms/docs/F4449/INVESTIGATION_INTO_COMPARISON_WEBSITES_IN_THE_ITALIAN_INSURANCE_MARKET.pdf

[114] Official IVASS price comparative platform available at: http://www.tuopreventivatore.it/prevrca/prvportal/index.php

[115] IVASS, 2014, Investigation into comparison websites in the Italian insurance market. Available at: http://www.ivass.it/ivass_cms/docs/F4449/INVESTIGATION_INTO_COMPARISON_WEBSITES_IN_THE_ITALIAN_INSURANCE_MARKET.pdf

[116] IVASS, 2015, Indagine sui siti comparativi nel mercato assicurativo italiano Risultanze e conseguenti interventi di vigilanza. Available at: http://www.ivass.it/ivass_cms/docs/F13968/Risultanze_indagine_e_interventi_di_vigilanza.pdf

economically priced contracts, and at least every second person could significantly save money by changing insurances: averagely slightly more than € 100 per annum.

In France, PCWs are registered as insurance intermediaries, and a recent Decree[117] aims at enhancing transparency by imposing an obligation on PCWs to indicate certain specific information[118]. In Spain, PCWs are used to compare insurance products, mainly based on price, but consumers do not use them much to purchase products. In Luxembourg, no information was found on PCWs and interviewees considered that these were not commonly used in the country.

As a result of these evolving practices and the differences in consumer preferences across countries, Swiss Re highlighted the fact that "*the challenge for intermediaries and insurers is therefore to adapt their business models to meet the varying needs and preferences of customers, while at the same time keeping the costs of integrating and maintaining multiple distribution channels under control*"[119]. In many of the countries studied, PCWs facilitate sales but they are also used as the first information point by consumers. Their use has grown rapidly in last few years and it is important to ensure that information provided to consumers is correct, also regarding ownership of the site and any commercial ties behind the offer. As noted by the study on the digitalisation of retail financial services and insurance[120], some EU Member States could achieve complete digitalisation of the pre-sale phase for non-life insurance in the near future, but complete digitalisation of the sale and post-sale phases will most likely take more time and will not occur at the same time for all countries.

3.1.3. Premiums

For data on premiums across countries, Insurance Europe presented the most relevant comparable data, as they consider the same types of companies in terms of non-life insurance companies. However, these do not include cross-border transactions according to the following statement in Insurance Europe's report: "*premiums are gross written premiums (direct business) on home territory underwritten by companies with their head office in the corresponding country*"[121]. The data is presented in the table below.

Data on premiums were also retrieved from national supervisory authorities, however, it was not always clearly stated if cross-border activity was included in the figures. Furthermore, while the national supervisory data on gross written premium (GWP) in some countries was the same as that of Insurance Europe (e.g. in Italy), differences were noticed in countries such as Germany, suggesting that other components were taken into account (these were not specified).

Gross written premiums on the domestic market

The table below presents the data for non-life insurance GWP[122] across the studied countries. To facilitate comparability, the table includes the data from Insurance Europe,

[117] Décret n° 2016-505 du 22 avril 2016 relatif aux obligations d'information sur les sites comparateurs en ligne. Available at: https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000032447402&categorieLien=id

[118] PCWs must indicate the criteria of comparison, the existence of contractual links with referenced companies, the existence of a remuneration of the website, the variability of guarantees of the proposed products, the exhaustive nature of the compared products and the frequency of the comparison update.

[119] Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf

[120] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

[121] Insurance Europe, 2014, European Insurance in Figures. Available at: www.insuranceeurope.eu/sites/default/files/attachments/StatisticsNo50EuropeanInsuranceinFigures.pdf

[122] The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period. Source: Aviva glossary. Available at: http://www.aviva.com/glossary/#C

while GWP data from national authorities or trade associations are presented in the country fiches.

Table 13: Non-life insurance (excluding health) gross written premiums (GWP) on the domestic market in million EUR

Country	2011	2012	2013	2014
DE	56,615	58,619	60,556	62,581
ES	23,609	23,356	22,594	22,186
FR	54,155	55,673	56,684	57,471
IT	33,770	32,878	31,244	30,369
LU	714	745	769	768
LV	265	290	403	295
RO	1,351	1,267	1,436	1,430
SE	5,550	5,616	5,844	6,121
SK	- N/A	N/A -	902	929
UK	61,759	62,858	62,471	58,685

Source: Insurance Europe, 2016, European Insurance Industry Database

GWPs were largest in Germany (over 60,000 million EUR), followed by the UK and France (over 50,000 million EUR). The countries with lowest domestic GWP generation were Latvia, Luxembourg and Slovakia, all under 1,000 million EUR over the 2011-2014 period. Year-on-year GWP growth was recorded in Germany, France, Luxembourg and Sweden, while GWP decreased in Italy.

While in most of the studies countries, B2C and B2B data were not disentangled, in France, a report from the national trade association indicates that the B2C share in non-life GWP was 62.7% in 2015, for a total of 32,800 million EUR[123]. According to the report, in 2015, 56.4% of B2C non-life insurance premiums (18,500 million EUR) resulted from motor insurance, 30.6% from property insurance and 5.7% from assistance. In Latvia, the share of B2C in non-life GWP was 37% in 2015, for a total of 121.7 million EUR[124]. In Romania, B2C M3PL contracts have a lower average premium than for B2B. The difference has been increasing between 2011 (2.28 times lower) and 2015 (2.88 times lower)[125].

Regarding motor and household insurance GWP on the domestic market, the data collected from Insurance Europe and the national authorities present similar trends to the above table. Household insurance ("property insurance" in Insurance Europe data) GWPs were above 14,000 million EUR in Germany, France and the UK but below 3,000 million EUR in Luxembourg, Latvia, Romania and Slovakia between 2011 and 2014. A year-on-year increase of household insurance GWP was observed in Germany, France and Sweden, while it fluctuated in the other countries. In Germany, data from the national trade association show that the part of building insurance is twice as big as the part of

[123] FFA, 2016, Property and Liability Insurance key data for 2015. Available at: http://www.ffa-assurance.fr/file/845/download?token=eV2eIehV
[124] Financial and Capital Market Commission, 2011-2015, Operation of Insurance Companies. Available at: http://www.fktk.lv/en/statistics/insurance/quarterly-reports.html
[125] Financial Supervisory Authority, 2015, Evolutia Pietelor Financiare Nebancare in anul 2015, page 78.

content insurance[126]. According to Insurance Europe, motor GWP were above 15,000 million EUR in Germany, France, Italy and the UK, while there were below 1,000 million EUR in Luxembourg, Latvia, Romania and Slovakia between 2011 and 2014. Motor GWP increased continuously in Germany, France, Luxembourg, Romania and Sweden while they decreased in Spain, Italy and Slovakia. In Germany, data from the national trade association show that the part of M3PL insurance is almost twice as big as the part of comprehensive motor insurance[127].

GWP data for car rental and add-on insurance was not available in all 10 countries. However, in France, GWP for travel insurance amounted to 48.5 million EUR and extended warranty to 68 million EUR in 2013[128]. In Slovakia, assistance GWP represented 31.2 million EUR in 2015. In the UK, the national authority estimates that in 2012, home assistance GWP represented 1,190 million EUR and travel insurance represented 950 million EUR[129].

Cross-border gross written premiums

While the GWP of cross-border sales could not be identified in all 10 countries, the table below presents the GWP data from Insurance Europe for Germany, Spain and Italy, and from national authorities for Luxembourg and Latvia. The data for Latvia comprise gross written premiums by insurers registered in Latvia through branches or freedom to provide services (FPS), and the data for Luxembourg includes gross written premiums by Luxembourgish insurers registered abroad through FPS and freedom of establishment (FOE). For Germany, Spain and Italy, the data provided consists of premiums written on the domestic market by companies operating through FPS, including health premiums.

Table 14: Non-life insurance gross written premiums (GWP) of cross-border transactions, in million EUR

Country	2011	2012	2013	2014	2015
DE	1,800	1,691	1,718	- N/A	- N/A
ES	614	519	1,373	- N/A	- N/A
IT	1,258	821	1,282	- N/A	- N/A
LU	1,636	1,894	2,117	2,270	- N/A
LV	- N/A	- N/A	110.8	168.3	157.0

Sources: Insurance Europe, 2016, European Insurance Industry Database; Latvian Insurers Association, 2013 to 2015, Premiums written and claims paid by insurance companies, Latvia; Commissariat aux Assurances, 2016, Annual Report 2014/2015, Luxembourg

According to the table above, the largest share of GWP generated in Luxembourg is through cross-border activities (FOE+FPS). In Germany, Spain and Italy, GWP via FPS were above 1,000 million EUR in 2013. The table also demonstrates that there is a significant share of cross-activity via FPS in Latvia.

Earned premiums

[126] GDV, 2015, Statistical Yearbook of German Insurance. Available at: http://www.en.gdv.de/wp-content/uploads/2015/10/GDV-Statistical_Yearbook_2015.pdf
[127] GDV, 2015, Statistical Yearbook of German Insurance. Available at: http://www.en.gdv.de/wp-content/uploads/2015/10/GDV-Statistical_Yearbook_2015.pdf
[128] Amrae, 2015, Vraie garantie ou fausse assurance ? Available at: www.amrae.fr/sites/default/files/udr/2015_02_AtelierB4VraieGarantieFausseAssurance_Amrae_C.pdf
[129] FCA, 2014, General insurance add-ons: Provisional findings of market study and proposed remedies. Available at: https://www.fca.org.uk/publication/market-studies/ms14-01.pdf

Data on earned premiums[130] across the 10 countries are presented in the table below.

Table 15: Non-life insurance earned premiums in million EUR

Country	2011	2012	2013	2014	2015
DE	63,515	66,923	69,298	71,215	N/A
ES	31,348	31,515	30,985	30,863	31,147
FR	45,940	47,010	47,210	48,160	N/A
IT	33,590	33,257	32,241	31,353	30,675
LU	2,333	2,555	2,927	2,897	3,191
LV	242.3	275.2	281.1	298.9	304.5
RO	437	450	508	550	699
SE	N/A	N/A	5,704	6,520	N/A
SK	930	927	917	928	954
UK	N/A	N/A	N/A	N/A	N/A

Sources: DE: BaFin, 2014, Statistik der Bundesanstalt für Finanzdienstleistungsaufsicht – Erstversicherungsunternehmen und Pensionsfonds; ES: Dirección General de Seguros y Fondos de Pensiones 2011 to 2015, Informes Seguros y Fondos de Pensiones. ; FR: ACPR, 2014, Figures of the Bank and Insurance Market in France; IT: IVASS, 2016, Relazione sull'attività svolta dall'Istituto nell'anno 2015; LU: Commissariat aux Assurances, 2016, Annexe au Rapport Annuel 2015/2016; LV: Financial and Capital Market Commission, 2011-2015, Operation of Insurance Companies; RO: Financial Supervisory Authority, 2016, Annual Report 2015; Financial Supervisory Authority, 2015, Prime brute subscrise - Asigurari generale la data de 30.06.2014 (LEI) and same documents for years 2008-2013; SE: Statistics Sweden; SK: National Bank of Slovakia. UK: no data publicly available

According to the data presented in the table above, non-life earned premiums in Germany, France, Spain and Italy are above 30,000 million EUR but in Latvia, Romania and Slovakia they are below 1,000 million EUR. Year-on-year growth can be observed in Germany, France, Latvia, Romania and Sweden while a decrease is noted in Italy.

In some countries, the data was also provided per category of products by national authorities or trade associations. In France, household earned premiums accounted for 16,160 million EUR and motor earned premiums for 19,900 million EUR in 2014[131]. In Germany in 2014, house content earned premiums amounted to 2,742.3 million EUR, and house building earned premium to 5,782.5 million EUR[132]. M3PL earned premiums amounted to 15,016 million EUR and motor comprehensive earned premiums to 8,462 million EUR in 2015[133]. In Italy, motor earned premiums accounted for 14,450 million

[130] Premium payments received by an insurer for cover provided during the current accounting period. Premiums received for future insurance coverage are known as unearned premiums. Source: Aviva glossary. Available at: http://www.aviva.com/glossary/#C

[131] ACPR, 2014, Insurance Data. Available at: https://acpr.banque-france.fr/fileadmin/user_upload/acp/publications/rapports-annuels/20151007_series_statistiques_assurance_2014.xlsx

[132] BAFIN 2014, Statistik der Bundesanstalt für Finanzdienstleistungsaufsicht – Erstversicherungsunternehmen und Pensionsfonds. Available at: https://www.bafin.de/SharedDocs/Downloads/DE/Statistik/Erstversicherer/dl_st_14_erstvu_gesamt_va.pdf?__blob=publicationFile&v=2

[133] GDV, 2015, Kfz Versicherung Ueberblick. Available at: http://www.gdv.de/zahlen-fakten/kfz-versicherung/ueberblick/

EUR in 2015[134]. In Romania, household earned premiums accounted for 122.1 million EUR in 2014, of which 94.1 million EUR for building insurance and 28 million EUR for content insurance. That same year, motor insurance earned premiums amounted to 276.15 million EUR, of which 213.58 million EUR for M3PL and 62.58 million EUR for comprehensive cover[135]. In Slovakia, household earned premiums generated 235 million EUR in 2015, while M3PL 266.7 million EUR and comprehensive cover 253.9 million EUR, as well as 31.2 million EUR for assistance[136]. In Spain, M3PL earned premiums represented 4,980 million EUR and other motor insurance contracts 9,568 million EUR in 2015, while household multi-risk insurance 3,807 million EUR[137].

3.1.4. Claims

This section presents the number and type of claims, the size of claims pay-outs and claim ratios for the different categories of non-life insurance products, according to available data.

Number and type of claims

The number of claims is not reported evenly across the studied countries and between the different categories of products. Overall, where the data was available, the number of claims appeared to decrease in 2014 and 2015 compared to the previous years. Claims related to motor insurance form a larger part of the total non-life claim number than those related to household insurance. The most frequent types of household claims were fire, water damage and burglary. Among motor insurance claims, most of them related to material damage.

In France, the national trade association estimated a total of 14 million claims in 2014 and 13.3 million claims in 2015 for non-life insurance. In 2015, 65% of the non-life claims related to motor claims and 25% to multi-risk household insurance[138]. For multi-risk household insurance, over half of the claims are related to fire, water damage and theft. In recent years there has also been an increase in claims related to storm/hail/snow, natural disaster[139] and electric accidents[140]. For motor insurance, two thirds of the claims are related to physical civil liability, damage to the vehicle and material civil liability[141].

In Germany, 22.485 million non-life claims were reported in 2014, a decrease of 5% on the previous year. The number of household claims experienced a peak at 5.518 million in 2013 due to important storms and floods in Germany, which affected more house building than house content insurance claims. In 2014, 8.978 million motor claims have been declared in Germany, a reduction in compared to 2013, and divided almost evenly between M3PL and comprehensive motor claims. Over the last 5 years, the most frequent type of house building insurance claim related to tap water issues. In 2013 and 2015, the number of storm and hail claims increased and became the most recurrent

[134] IVASS, 2016, Relazione sull'attività svolta dall'Istituto nell'anno 2015. Available at: http://www.ivass.it/ivass_cms/docs/F23273/Relazione%20IVASS%202015.pdf
[135] Financial Supervisory Authority, 2016, Evolutia Pietelor Financiare Nebancare in anul 2015, Available at: http://asfromania.ro/files/analize/Raport%20piete%20financiare%20nebancare%202015_site.pdf
[136] Národna banka Slovenska, 2016, Súhrnné štatistické údaje: Agregované údaje za neživotné poistenie. Available at: http://www.nbs.sk/sk/dohlad-nad-financnym-trhom-prakticke-informacie/publikacie-a-vybrane-udaje/vybrane-udaje/suhrnne-statisticke-udaje-poistneho-sektora
[137] Direcion General de Seguros y Fondos de Pensiones, 2016, Aseguradoras y Reaseguradoras. Available at: http://www.dgsfp.mineco.es/sector/EntidadesAseguradoras.asp
[138] FFA, 2016, Property and Liability Insurance key data for 2015. Available at: http://www.ffa-assurance.fr/file/845/download?token=eV2eIehV
[139] Natural disasters are defined here as floods, droughts and earthquakes. Source: FFA insurance scoreboard of 2013, 2014, 2015. Available at: http://www.ffa-assurance.fr/search?search_api_views_fulltext=tableau+de+bord
[140] FFA insurance scoreboard of 2013, 2014, 2015. Available at: http://www.ffa-assurance.fr/search?search_api_views_fulltext=tableau+de+bord
[141] FFA, 2016, L'assurance automobile des particuliers en 2014. Available at: http://www.ffa-assurance.fr/content/assurance-automobile-des-particuliers-en-2014

type of claim in 2015[142]. In terms of house content insurance, the majority of claims relate to burglary and fire[143].

In Luxembourg, the number of claims was not identified, but for household insurance the most frequent types of claims reported are theft, electrical damages and damages to the household (e.g. furniture)[144]. For motor insurance, the most reported claims are collisions between two vehicles due to speeding, alcohol abuse, refusal to give way and vehicle theft[145].

In Romania, the number of non-life claims was 9,919 in 2015, a decrease compared to the previous years. In 2015, 8,437 claims were reported for motor insurance (mostly M3PL) but only 473 for household insurance[146].

In Slovakia, the number of claims paid was 411,161 in 2015, an increase compared to 2014. In 2015, 269,633 motor claims were reported (relating more to comprehensive cover than to M3PL), 58,612 household claims and 20,045 claims linked to assistance services[147].

In Spain, the most frequent types of motor claims relate to "own damage" and material damage[148].

In Sweden, 868,000 claims were reported in 2014 for household insurance, and 1,200,000 for motor insurance[149]. Water damage and burglary are the most common claims for household insurance, while it is material damage for motor insurance and theft for travel insurance[150].

In the UK, 2.380 million claims were reported for household insurance in 2013 (a decrease to the previous year), 4.225 million for motor insurance (an increase to the previous year) and 581,000 for travel insurance[151]. Household claims were mainly related to weather conditions (25%), followed by water leakage (21%), fire and theft (both at 13% of claims made)[152]. Travel insurance claims related mainly to emergency medical treatment while on holiday and holiday cancellation[153].

Claims paid

The table below presents the amounts of claims paid in the studied countries in 2014 for non-life, motor and household ("property" in Insurance Europe data).

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[142] GDV, 2016, wohngebaeudeversicherung. Available at http://www.gdv.de/zahlen-fakten/schaden-und-unfallversicherung/wohngebaeudeversicherung/#schaeden-je-gefahr
[143] GDV,2016, Hausrat. Available http://www.gdv.de/zahlen-fakten/schaden-und unfallversicherung/hausratversicherung
[144] atHome.lu, 2016. Available at: http://www.athome.lu/blog/votre-habitation-est-elle-bien-assuree
[145] Information extracted from http://www.assurances.lu/
[146] Financial Supervisory Authority, 2016, Situatia petitiilor inregistrate la ASF in anul 2015. Available at: http://asfromania.ro/files/analize/Analiza%20petitii%202015%20-%20%20Situatia_petitiilor_modif.pdf
[147] Národna banka Slovenska, 2016, Súhrnné štatistické údaje: Agregované údaje za neživotné poistenie. Available at: http://www.nbs.sk/sk/dohlad-nad-financnym-trhom-prakticke-informacie/publikacie-a-vybrane-udaje/vybrane-udaje/suhrnne-statisticke-udaje-poistneho-sektora
[148] Mapfre, 2014, The Spanish Insurance Market. Available at: http://www.mapfreglobalrisks.com/portal/global-risks/docs/MercadoEspaniol2014-en.pdf
[149] Svensk Försäkring, 2015, Non-life insurance statistics. Available at: http://www.svenskforsakring.se/Huvudmeny/Fakta--Statistik/Statistics-list/Skadeforsakring/
[150] Svensk Försäkring, 2015, Non-life insurance. Available at: http://www.svenskforsakring.se/Startsidan-EN/Huvudmeny/About-the-industry/Undersidor/Insurance-in-Sweden/Undersidor/Non-Life/
[151] ABI, 2016, UK Insurance & Long Term Savings Key Facts 2015. Available at: https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Statistics/Key%20Facts%202015.pdf
[152] ABI, 2016, UK Insurance & Long Term Savings Key Facts 2015. Available at: https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2015/Statistics/Key%20Facts%202015.pdf
[153] ABI, 2016, Travel insurers pay out £1 million every day. Available at: https://www.abi.org.uk/News/News-releases/2016/06/Travel-insurers-pay-out-1-million-every-day

Table 16: Claims paid in 2014 in million EUR

Country	Non-life (excluding health)	Motor	Household
DE	45,381	20,656	12,177
ES	13,860	6,994	3,870
FR	39,594	17,000	11,400
IT	21,258	13,028	3,427
LU	539	282	125
LV	161	128	23
RO	896	760	84
SE	- N/A	2,318	594
SK	444	327	72
UK	35,368	13,752	7,629

Source: Insurance Europe, 2016, European Insurance Industry Database

According to the table above, the size of claim pay-outs for non-life and motor insurance was highest in Germany, France and the UK, while it was lowest in Latvia, Slovakia and Luxembourg. For motor insurance, Italy was also among one of the countries with the highest claim pay-outs. For household insurance, Germany and France were the only countries with more than 10,000 million EUR of claims paid, while Latvia, Romania and Slovakia had less than 100 million EUR of claims paid.

When looking at Insurance Europe data for the period 2011-2014, the size of non-life and motor claims pay-outs fluctuated in most countries, but decreased year-on-year in Spain and Italy. For household insurance, the size of claims paid fluctuated in all the studied countries, except in Sweden where it decreased continuously.

Little data could be identified on claims pay-out for car rental and add-on insurance. In France, the Fédération des garanties et assurances affinitaires (FG2A) estimates that only 20% of the claims for extended warranty for "nomadic products" (e.g. smartphones, tablets or cameras) entail refunding. Instead, most of the time, the insurer proposes to repair or replace the product[154].

Claim ratio

The table below shows the claim ratios[155] for motor and household insurance in 2014.

Table 17: Claim ratio per product category in 2014

Country	Motor	Household

[154] Pascal Frasnetti, Le Particulier, 2014, Appareils nomades : déjouez les pièges des assurances. Available at: http://www.leparticulier.fr/jcms/p1_1554803/appareils-nomades-dejouez-les-pieges-des-assurances

[155] Claims incurred, adjusted for any reinsurance, expressed as a percentage of net premiums earned. Sometimes referred to as loss ratio. Source: Aviva glossary. Available at: http://www.aviva.com/glossary/#C

DE	85.1%	90.8%
ES	77.1%	58.6%
FR	87.4%	75.40%
IT	69.6%	N/A
LU	126.52%	50.39%
LV	N/A	N/A
RO	N/A	N/A
SE	71.3%	76.5%
SK	N/A	N/A
UK	N/A	N/A

Source: DE: GDV, 2015, Statistical Yearbook of German Insurance; FR: ACPR, 2014, Insurance Data; FFA, 2016, Property and Liability Insurance key data for 2015; LU: CAA, 2016, Annex to Annual Report 2015/2016; ES: Mapfre, 2014, The Spanish Insurance Market; SE: Svensk Försäkring, 2015, Non-life insurance statistics.

The information in the table above shows that the claim ratios for motor insurance were between 70% and 80% in Spain and Sweden, between 80% and 90% in Germany and France, and above 100% in Luxembourg in 2014. However, motor claim ratio in Luxembourg was below 100% in 2011 to 2013 and in 2015. For household insurance, claims ratios were between 50% and 60% in Spain and Luxembourg, between 70% and 80% in France and Sweden and above 90% in Germany in 2014.

3.1.5. Combined ratios

Regarding the technical result of the non-life insurance sector in each country, the table below reports on the combined ratios[156] in the ten countries studied.

Table 18: Non-life combined ratios across countries studied (2011-2013)

Country	2011	2012	2013
DE[1]	98%	97%	104%
ES	95%	96%	98%
FR	93%	94%	98%
IT	106%	105%	98%
LU	57%	58%	57%
LV	112%	99%	85%
RO	122%	106%	102%

[156] The claims and expenses of an insurer/reinsurer for a given period divided by its premium for the same period. It is normally expressed as a percentage with any figure in excess of 100% signifying a technical underwriting loss. Source: Lloyd's glossary. Available at: https://www.lloyds.com/common/help/glossary

SE	82%	125%	106%
SK	N/A	N/A	N/A
UK	85%	87%	73%

Source: Insurance Europe, 2016, European Insurance Industry Database. 1. GDV Statistical Yearbook 2015.

Combined ratios, which are the sum of loss ratios[157] and expense ratios[158], illustrate that out of the 10 countries studied, between 2011 and 2013, the UK, Spain, Luxembourg and France were the only countries in which the non-life insurance sector consistently recorded an underwriting profit[159], among which the technical result of the sector was most positive in Luxembourg (under 60%). In Latvia, non-life insurance technical results became increasingly profitable between 2011 and 2013, the combined ratio decreasing by 27 percentage points from 112% in 2011 to 85% in 2013. This was also the case in Romania, where it decreased by 20 percentage points, however, non-life insurance technical results remained not profitable in 2013 with a combined ratio of 102%. Over that period, Germany, France, Spain and Sweden recorded a decrease in technical profitability.

Over the period 2011-2015, the non-life claim ratios followed the same fluctuations in the UK, Sweden, Romania, Italy, France, Spain and Germany, which can explain the evolution of the technical results in these countries. In Latvia, the variation of the non-life combined ratio between 2011 and 2012 can be explained by a decrease in the claim ratio while the expense ratio remained stable, but between 2012 and 2013 on the contrary, it can be linked to a decrease in the expense ratio, while the claim ratio remained stable[160].

In Luxembourg, the data from the national supervisory authority demonstrate that the non-life insurance activities performed on the domestic market are more profitable than the cross-border activities, as the combined ratio of the former remained around 80% during the period 2011-2015, while the combined ratio of the latter was above 100% in 2013 and at 97% in 2015.

From the data available in the countries studied by category of products, it appears that motor combined ratios are more often above 100% while household combined ratios are mainly below 100%.

For motor insurance, the combined ratio was mostly above 100% in France, Germany, Romania and Sweden in the period 2011-2015. In Germany, however, the motor combined ratio was below 100% in 2014, following an improvement of the combined ratios for M3PL and motor comprehensive insurance[161]. In Sweden, the motor combined ratio improved to 84.3% in 2013, linked to an amelioration of the claim ratio, while the

[157] Proportionate relationship of incurred losses to earned premiums expressed as a percentage. Source: International Risk Management Institute. Available at: www.irmi.com

[158] The percentage of premium used to pay all the costs of acquiring, writing, and servicing insurance. There are two methodologies to measure the expense ratio; a trade basis, which is expense divided by written premium and on a statutory basis when the expense is divided by earned premium. Most typically, the ratio is calculated using written premium. Source: International Risk Management Institute. Available at: www.irmi.com

[159] Underwriting profits is "the profit that an insurer derives from providing insurance or reinsurance coverage, exclusive of the income it derives from investments." The combined ratio calculated using the expense ratio on a statutory basis, is indicative of an underwriting profit, if it is below 100 per cent. Source: www.irmi.com

As regards the combined ratio, the technical result of an insurance company is positive if the combined ratio is below 100%, i.e. if the company uses less than all their premiums to cover expenses and losses. Cf. definition of combined ratio.

[160] Insurance Europe, 2016, Insurance Europe Database. Available at: http://www.insuranceeurope.eu/sites/default/files/attachments/Non-life_Insurance_Data.xlsx

[161] GDV, 2015, Statistical Yearbook of German Insurance. Available at: http://www.en.gdv.de/wp-content/uploads/2015/10/GDV-Statistical_Yearbook_2015.pdf

expense ratio remained stable. In 2014, the claim ratio and expense ratio both increased, leading the combined ratio to rise to 127.6%[162]. In Romania, motor combined ratios improved over the period 2011-2015, but have remained above 100%, which can be explained by the fact that 25-30% of car drivers do not have third party liability insurance, by the absence of a common approach of the courts and the insurers to estimate body injuries, and by the deficiencies in Romania's road infrastructure[163].

Motor combined ratios were below 100% in Luxembourg, Slovakia and Spain, at approximately 98%. However, in Slovakia, this positive ratio for total motor insurance was composed of combined ratios for M3PL below 100% and comprehensive cover combined ratios above 100%, showing that the former activity is more profitable than the latter[164].

During the period 2011-2015, combined ratios for household insurance were mostly below 100% in France (except in 2012), Germany (except in 2013), Slovakia and Spain. However, in Germany, the combined ratios of house building insurance were always above 100%, while those for house content insurance were always below 100%[165]. In Luxembourg, the household combined ratio was above 100% in 2015.

In Sweden, the combined ratio improved year-on-year, staying above 100% in 2011, 2012, but passing below 100% in 2013 and 2014. During this period, the expense ratio remained stable but the claim ratio improved[166].

3.1.6. Consumer complaints

To further investigate the performance of the non-life insurance market, data on consumer complaints were collected. The Consumer Market Scoreboard[167] provides information about the share of consumers who complained when experiencing a problem with insurance services, and the recipient of these complaints. In 2015, across the EU 28, 78.5% of the consumers who experienced a problem with insurance services have complained, an increase of 5.4% compared to 2013. The table below presents more information regarding complaints at the EU level[168].

Table 19: Share of insurance consumers complaining after experiencing problems

Product category	Complaint to retailer/ provider 2015	Complaint to third party 2015	Total complained 2015	*Difference 2015-2013*	*Difference 2013/2012*	*Difference 2012/2011*
Home insurance	11%	60%	78%	+4.9%	-3.9%	-4.1%
Motor insurance	12%	67%	83%	+9.6%	-3.6%	-6.7%

Source: DG JUST, 2016, Consumer market scoreboard

[162] Svensk Försäkring, 2015, Non-life insurance statistics. Available at: http://www.svenskforsakring.se/Huvudmeny/Fakta--Statistik/Statistics-list/Skadeforsakring/
[163] Stefan Prigoreanu, 2016, Interview with 1asig.ro. Available at: http://www.1asig.ro/VIDEO-Stefan-PRIGOREANU-MIB-Rata-daunei-pe-RCA-este-mare-si-din-cauza-ca-infrastructura-de-drumuri-este-cu-mult-in-urma-altor-tari-din-Europa-de-Est-articol-3,100-54619.htm
[164] Národna banka Slovenska, 2016, Správa o stave a vývoji finančného trhu za rok 2015. Available at: http://www.nbs.sk/_img/Documents/_Dohlad/Makropolitika/Sprava_o_stave_a_vyvoji_slovenskeho_financneho_trhu_za_rok_2015.pdf
[165] GDV, 2015, Statistical Yearbook of German Insurance. Available at: http://www.en.gdv.de/wp-content/uploads/2015/10/GDV-Statistical_Yearbook_2015.pdf
[166] Svensk Försäkring, 2015, Non-life insurance statistics. Available at: http://www.svenskforsakring.se/Huvudmeny/Fakta--Statistik/Statistics-list/Skadeforsakring/
[167] EC DG Justice, 2016, Consumer Markets Scoreboard. Available at: http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/index_en.htm
[168] The table indicates the share of complaints addressed to insurance retailers/providers and to third parties. The total share of complaints includes also complaints to friends/family.

The increase in consumer complaints regarding their insurance policies can be explained by two factors as the Market Scoreboard suggests. On the one hand, the level of detriment linked to consumer problems may have increased in the studied period. However, since data on detriment were not collected systematically, this view cannot be supported by quantitative evidence. On the other hand, the rise of complaints can be linked to the empowerment of consumers who are more aware of the complaint handling and redress procedures[169]. While consumer empowerment is an import factor, availability of online services and access to the internet should also be considered. Insurance providers are more accessible then they were ever before. Consumers can get in touch with insurers or complaint bodies not only through the telephone, but also through emails or feedback forms available online or though apps on mobile devices. For example, French insurers launched an official free mobile phone application ("e-constat") through which policyholders can report their motor accidents directly to their insurers from a smartphone. However, in order to investigate differences between countries, data on consumer complaints were collected in all ten countries (e.g. through Ombudsmen services and complaints boards of national supervisory authorities, such as the one of the Italian national supervisory authority IVASS, and consumer associations). These complaints do not include complaints made to insurance companies which were solved between the insurer and the consumer without involvement of a third party. Alternative dispute resolution (ADR) bodies were identified during desk research, and these include ombudsmen and associations of insurance providers such as the Motor Insurers' Bureau[170] for motor insurance in Latvia or the Association of British Travel Agents[171] for travel insurance in the UK, as well as consumer associations such as the Consumer Rights Protection Centre[172] in Latvia. In Romania, consumer complaints regarding mandatory building insurance can be addressed to PAID, an organisation responsible for certifying such products.[173] However, as alternative dispute resolution bodies in Romania and Slovakia were only created in 2016, the information on complaints from these Member States were limited.

The table below presents the number of complaints received by the main recipients of consumer complaints (Ombudsmen, boards of national supervisory authorities or consumer associations) regarding non-life insurance.

Table 20: Number of complaints regarding non-life insurance across countries studied

Country	2011	2012	2013	2014	2015
DE	17,733	17,263	18,740	19,897	20,827
ES[1]	5,977	6,588	7,674	7,339	N/A
FR	5,719	6,118	6,997	7,754	N/A
IT	N/A	N/A	N/A	N/A	19,712
LU	N/A	22	20	23	24
LV[1]	68	65	47	55	N/A
SE[1]	N/A	N/A	996	988	801

[169] EC DG Justice, 2016, Consumer Markets Scoreboard. Available at: http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/index_en.htm
[170] http://www.ltab.lv
[171] https://abta.com/
[172] http://www.ptac.gov.lv/en
[173] PAID, 2016, Reclamatii. Available at: https://www.paidromania.ro/reclamatii#solutionareamiabila

UK	27,563	33,172	31,213	30,080	31,284

Note: 1. Data provided for Latvia, Spain and Sweden also includes complaints about life insurance
Source: DE: Insurance Ombudsman; ES: DGSFP (national supervisory authority); FR: Insurance Ombudsman; IT: IVASS (national supervisory authority); LU: CAA (national supervisory authority); LV: FCMC (national supervisory authority); SE: National Board for Consumer Disputes; UK: Financial Ombudsman Service[174]

The low number of complaints received in Latvia and Luxembourg is related to the small size of the market in these countries. However, on average 10,000 less complaints were received by the Insurance Ombudsman in Germany than the Financial Ombudsman in the UK[175], for a similar sized non-life insurance market according to their respective GWP, although in Germany consumer complaints are also handled by the national regulatory authority (BaFin)[176]. Similar numbers of complaints were received by bodies in France and Spain, although in Spain the statistics cover both life and non-life products. In Sweden, for which the numbers also include both life and non-life insurance, relatively low numbers of complaints were received compared to other countries and its market size.

Overall, in all countries where ADR bodies were in place, stakeholders indicated that the main topic of the complaints were claims, either on the claims handling procedure or on the amount received. Ombudsmen in almost all countries have mentioned that the length of the claims handling procedure was an issue for consumers, as insurers could take a long amount of time to pay-out. Specific data on this length could not be shared. In addition, many complaints on claim compensation relate to the estimation of damage, with issues on the role of experts and the evidence of the claims (in particular in case of theft, when original bills of the stolen items and the evidence of a break-in must be provided by the consumer).

In countries where statistics are available on the nature of complaints (e.g. the UK and Italy), complaints related to claims represent more than half of the non-life complaints. Around one third of the complaints also concern the contracts, in particular the conditions of extension and the limitations of coverage.

In the UK, the annual reviews of the Financial Ombudsman service[177] demonstrated that most complaints received are the result of a low quality of communication between insurers and their customers, leading to consumers not obtaining payment after a claim was made as the terms of the policy were unclear to them. The reviews also showed that consumers often did not disclose the correct information when making a claim, due to the fact that insurers' questions were not clear enough, as demonstrated by the enquiry carried out by the Ombudsman as a result of the complaint.

Complaints per product categories

When considering the share and nature of complaints per product category, the data is not reported evenly among the studied countries, however some trends can be observed. Most non-life insurance complaints relate to motor insurance in Italy, Latvia, Romania and the UK, while the biggest share of complaints relate to household insurance in France, Germany, Spain and Sweden. The share of complaints per product category is not reported in Luxembourg and Slovakia.

[174] In should be noted that only the main recipients of insurance consumer complaints have been included in the table above, while complementary information from other complaints handling organisations are more detailed in the country fiches. For example, in countries where there is an insurance ombudsman (e.g. France, Germany, UK), some complaints are also still received by the national authorities. On the other hand, in some countries where the national supervisory authority is the main recipient of complaints (e.g. Latvia, Luxembourg, Spain), other bodies deal with consumer complaints to a lesser extent (e.g. the consumer association OCU in Spain, the recently created insurance ombudsman in Luxembourg, the consumer right protection centre in Latvia).

[175] The statistics in the UK exclude PPI.

[176] In 2015, BaFin statistics show that 3,533 complaints related to non-life insurance have been handled by the national regulatory authority.

[177] Financial Ombudsman Service, 2012-2016, Annual Review. Available at: http://www.financial-ombudsman.org.uk/publications/annual-review-2016/ar16.pdf

In terms of **household insurance**, overall, complaints regarding house building insurance are more frequent than regarding house content insurance. According to the data available, most household insurance complaints related to claim estimation and compensation. In France, the number of requests received by the Ombudsman services on multi-risk insurance increased between 2011 and 2013, then decreased in 2014, to reach 2009 requests. The most common cases relate to the amount of claim payment, the role of experts evaluating claims and the limits of warranties[178]. A recurrent subject of conflict is the evidence of the claim, in particular in case of theft[179]. Indeed, for household insurance, the warranty often works only in case of break-in, which can be more and more difficult to prove with the evolution of thieves' methods (e.g. break-in with fake keys). In Germany, more complaints were received regarding house building insurance than house content insurance, accounting respectively for 1,208 and 832 requests in 2015. For both types of complaints, around 60% of the cases resulted in a decision, around 18% by a redress and around 10% by out of court settlement[180]. In Spain, household complaints represented 35.82% of all complaints received by the DGSFP in 2014. In 2014, 68% of the household complaints received were solved. The most common complaints solved related to discrepancies in the implementation and interpretation of the policy, specific questions on the regulation of theft insurance, and the estimation of claims with the role of expert[181]. In Sweden, 29% of the complaints received by the Consumer Insurance Agency concerned house and property insurance in 2015. Most complaints were related to claims adjustment and compensation for leakage damage. The Swedish consumer Report noted that due to a low level of communication among parties, consumers consider that the insurer is not actively seeking to resolve the issue[182]. In the UK, more complaints regarding house building insurance than house content insurance were received by the Financial Ombudsman service in the last five years. In 2015, 4,095 house building requests had been received (accounting for 13% of all insurance complaints) and 1,389 house content insurance (4.5% of all insurance complaints). Content insurance complaints decreased year on year between 2011 and 2015[183].

Considering **motor insurance**, overall, most complaints received by the Ombudsmen relate to M3PL. The most common subject of complaint is also claims handling and the warranties conditions and exclusions. In France, 1,795 requests received by the Ombudsman services in 2014 related to motor insurance. The most common cases for motor insurance complaints relate to vehicle theft (and the warranties conditions and exclusions), the evaluation of liabilities during an accident (evidence, law applied to determine the liable person) and the amount of claim payment proposed by the insurer[184]. In Germany, 1,252 motor insurance complaints were addressed to the Ombudsman in 2015[185].In Italy, 13,329 complaints related to M3PL insurance were received by the national supervisory authority in 2015, a share of 58% of the total insurance complaints, but a decrease compared to 2014. Most motor insurance

[178] Gema Insurance Ombudsman, 2014, Annual Report. Available at; http://www.mediation-assurance.org/medias/mediation-assurance/rapportsmediateur/rapportdumediateurgema2014.pdf
[179] FFSA Insurance Ombdusman, 2015, Annual Report 2014-2015. Available at: http://www.mediation-assurance.org/medias/mediation-assurance/rapportsmediateur/rapportmediateurffsa2014.pdf
[180] GDV, 2015, Statistical Yearbook of German Insurance. Available at: http://www.en.gdv.de/wp-content/uploads/2015/10/GDV-Statistical_Yearbook_2015.pdf
[181] Dirección General de Seguros y Fondos de Pensiones, 2011-2014, Annual reports of the Complaint Service. Available at: http://www.dgsfp.mineco.es/reclamaciones/
[182] Konsumentverket, 2015, The Swedish Consumer Report, The consumer situation in different markets. Available at: http://www.konsumentverket.se/Global/Konsumentverket.se/Best%C3%A4lla%20och%20ladda%20ner/rapporter/2015/Konsumentrapporten-2015-ENG-kov.pdf
[183] Financial Ombudsman Service, 2012-2016, Annual Review. Available at: http://www.financial-ombudsman.org.uk/publications/annual-review-2016/ar16.pdf
[184] Insurance Ombudsman, 2011-2015, Annual reports. Available at: https://www.mediation-assurance.org/Publications
[185] German Insurance Ombusman, 2015, Yearbook of German Insurance Ombusman. Available at: http://www.versicherungsombudsmann.de/Ressourcen/PDF/Jahresbericht-2015.pdf

complaints (79.1%) concern delays and inefficiencies in claims handling[186]. In Romania, most motor insurance complaints received by the national supervisory authority concern M3PL. Many complaints relate to claims handling delay and partial compensation. Moreover, the high number of complaints for motor insurance can be explained by insurers' irregularities in this sector. In 2014, three of the main insurance firms in the sector (representing 30% of the market share) were involved in authorities' investigations. In the same year, 21 insurance firms had motor insurance in their portfolio, even though only 11 of them had the license to issue M3PL insurance[187].In Spain, 789 motor insurance complaints were received by the national supervisory authority in 2014, representing 11% of all insurance complaints received. The number of motor insurance complaints increased year on year between 2011 and 2013, before decreasing slightly in 2014. In 2014, 88% of the motor complaints received were solved. The most common subject of complaints solved related to discrepancies in the implementation and interpretation of the policy, as well as issues related to the exercise of the right to opposition to the extension of the contract and the related valuation damage and theft coverage[188].In Sweden, 21% of complaints received by the Consumer Insurance Agency in 2015 were related to motor insurance[189].In the UK, 8,585 motor insurance complaints received by the Financial Ombudsman Service in 2015, a share of 27.5% of all insurance complaints received[190].

As regards to **car rental** and **add-on insurance**, the data on related complaints is scarce. In Italy, the consumer association Unione Nazionale Consumatori[191] (UNC) reported that, out of 1,000 complaints received in the summer of 2016 (1 July – 15 September) on the tourism industry, 9% were related to car rental. The numbers have declined compared to 2015 when it accounted for 14%[192]. According to UNC, when renting a car abroad, some consumers complained about the fact that the information was written in the national language, which they could not understand. At cross-border level, the number of complaints received by the European Consumer Centres for the car rental sector doubled between 2010 and 2016. There were about 1,050 cases in 2012, 1,750 in 2014, and more than 2,000 in 2016. These complaints concerned mainly the lack of transparency of the costs included in the rental price (e.g. insurance and additional waivers).[193] In terms of add-on insurance, travel insurance accounted for 2% of the insurance complaints in France[194], 5% in Sweden[195] and 7.5% in the UK[196] in 2014. That same year, complaints related to extended warranty represented 6% of the insurance complaints in France[197] and 2.5% in the UK[198]. In the UK, home assistance

[186] IVASS, 2016, Relazione sull'attività svolta dall'Istituto nell'anno 2015. Available at: http://www.ivass.it/ivass_cms/docs/F23273/Relazione%20IVASS%202015.pdf

[187] Andreea Cosma, 2014, Motor claims practices in Romania. Available at: https://eiopa.europa.eu/Publications/Speeches%20and%20presentations/9.1_IRSG_Consumer_Trends_Presentation.pdf#search=romania

[188] Ministry of Economy, 2014, Seguros y Fondos de pensiones. Available at: http://www.dgsfp.mineco.es/sector/documentos/Informe%20anual%20Servicio%20de%20Reclamaciones%202014.pdf)

[189] Konsumenternas, 2015, Yearly report. Available at: http://www.konsumenternas.se/globalassets/pdf/kfb-vb-2015.pdf

[190] Financial Ombudsman Service, 2012-2016, Annual Review. Available at: http://www.financial-ombudsman.org.uk/publications/annual-review-2016/ar16.pdf

[191] http://www.consumatori.it/

[192] UNC, 2016, Turismo: la classifica Unc dei reclami dell'estate 2016. Available at: http://www.consumatori.it/comunicati-stampa/turismo-la-classifica-unc-dei-reclami-dellestate-2016/#.V-5AWIWcH4g

[193] European Commission, 2017, Car rental companies improve treatment of consumers, thanks to EU-wide enforcement. Available at: http://europa.eu/rapid/press-release_IP-17-86_en.htm

[194] FFSA Insurance Ombudsman, 2015, 2014-2015 Annual Report. Available at: http://www.mediation-assurance.org/medias/mediation-assurance/rapportsmediateur/rapportmediateurffsa2014.pdf

[195] Konsumenternas, 2015, Yearly report. Available at: http://www.konsumenternas.se/globalassets/pdf/kfb-vb-2015.pdf

[196] Financial Ombudsman Service, 2012-2016, Annual Review. Available at: http://www.financial-ombudsman.org.uk/publications/annual-review-2016/ar16.pdf

[197] FFSA Insurance Ombudsman, 2015, 2014-2015 Annual Report. Available at: http://www.mediation-assurance.org/medias/mediation-assurance/rapportsmediateur/rapportmediateurffsa2014.pdf

[198] Financial Ombudsman Service, 2012-2016, Annual Review. Available at: http://www.financial-ombudsman.org.uk/publications/annual-review-2016/ar16.pdf

complaints represented 5.5% of the insurance complaints received by the Financial Ombudsman service in 2015. In France, the insurance Ombudsman reports that for add-on insurance many consumers complain of the lack of information and advice as this type of product is often sold by sale professionals who do not have experience in the insurance sector[199].

3.2. Insurers' practices and distribution channels

This section examines insurers' practices in the non-life insurance market, covering distribution channels used, sales techniques and practices, and discriminatory practices.

3.2.1. Distribution channels

Selling and distribution practices are part of an insurer's business model, and encompass how a company interacts with consumers. Insurers sell non-life insurance products through a range of distribution channels, which include:

- Direct sales (online, via phone or in the insurer's premises);
- Intermediaries (agents and brokers);
- Bancassurance;
- Ancillary sellers (particularly for car rental and add-on insurance); and
- Price comparison websites.

As shown in the table below, non-life insurance sales via intermediaries dominate the market. Agents represent more than half of non-life insurance sales in Luxembourg and Slovakia, and just over 80% in Italy. Sales via agents prevail also in Germany and Spain, and together with direct writing form the most common distribution channel in France. Brokers predominate in Romania, Latvia and facilitate more than half of non-life insurance sales in the UK.

Table 21: Distribution channels for non-life insurance sales for the latest year available

Country	Direct writing	Agents	Brokers	Bancassurance	Others
DE	12%	**46%**	30%	6.0%	4.8%
ES	18%	**40%**	19%	14%	9.5%
FR	**34%**	**34%**	18%	13%	1.0%
IT	5.8%	**81%**	8.2%	4.9%	0%
LU	13%	**60%**	26%	0.53%	0.57%
LV	20%	20%	**40%**	N/A	20%
RO	25%	36%	**39%**	0.2%	0%
SE[200]	N/A	N/A	N/A	N/A	N/A
SK	22.2%	**64.3%**	0.7%	0.0%	12.8%

[199] FFSA Insurance Ombudsman, 2015, 2014-2015 Annual Report. Available at: http://www.mediation-assurance.org/medias/mediation-assurance/rapportsmediateur/rapportmediateurffsa2014.pdf

[200] The interviewees (Finansinspektionen, Konsumenternas and Svensk Forsakring) indicated that information about distribution channels are collected only for life insurance, therefore only qualitative information regarding practices of insurers has been collected.

UK	24.8%	4.7%	**55.2%**	7.4%	7.9%

Note: Latest year is 2011 for SK, 2012 for RO and UK, 2014 for DE and ES, 2015 for FR, IT, LV, LU.
Source: DE: GDV, 2015, Statistical Yearbook of German Insurance; ES: Dirección General de Seguros y Fondos de Pensiones, 2015, Informes Seguros y Fondos de Pensiones; FR : FFA, 2016, Insurance scoreboard for 2015 ; IT : IVASS, 2016, Relazione sull'attività svolta dall'Istituto nell'anno 2015; LU: Commissariat aux Assurances, 2016, Annex to Annual Report 2015/2016; LV: Interview with the Latvian Insurers Association; RO, SK, UK: Insurance Europe, 2014, European Insurance in Figures

The distribution channels may also vary depending on where consumers live and what type of products they buy. Interviewees in Germany suggested that consumers purchase insurance products via brokers more commonly in towns than in the countryside[201]. In Luxembourg, non-life premiums are mostly sold via agents on the domestic market, while for cross-border products 70% of the contracts are written by brokers[202].

In addition, as reported by stakeholders in Germany and France, several channels may be used in the process of purchasing a non-life insurance product. Typically, consumers would first use insurance companies' websites and PCWs to look for information and to explore product options available to them, and then contact an agent or a broker to get additional advice and purchase the non-life insurance policy. Interviewees agreed that consumers still value professional advice and personal contact to make an informed decision, but it is important to ensure accuracy of information available online.

Desk research and interviews at the national level allowed us to observe different trends as regards to the evolution of distribution channels in non-life insurance. According to data gathered by the national supervisory authority in Spain, sales through intermediaries have been growing in the last five years[203], and in Romania the share of brokers is expected to increase according to consumer associations[204]. A trade association in France[205] and the national supervisory authority in Italy[206] noted an increase of the share of bancassurance in the last five years and this positive trend is expected to continue. In contrast, in Romania sales through bancassurance dropped considerably over the last ten years but no specific explanation for this drop was provided by the interviewees. [207]. In parallel, the share of direct writing is slightly decreasing in France while it is increasing in Italy, according to the annual reports of the national supervisory authorities.

Overall, the share of online sales varies from country to country, which is largely due to cultural differences according to trade associations interviewed. However, a survey conducted in 2014 by CapGemini showed that by 2018, insurers anticipate almost one fifth of their business to come from online sales through personal computers[208]. Overall, consumer associations, national supervisory authorities and trade associations interviewed agree that there is an increasing trend in online sales across all EU countries, particularly for young people who will tend to favour this channel. This was also mentioned in the study conducted by Swiss Re[209].

Data gathered within the scope of this study show that online sales are already growing in Latvia, Romania, Slovakia, Sweden. In Germany, direct sales through online and PCWs have grown in the last five years, but less dynamically than it was expected by the

[201] Interview with the Federation of German Consumer Organisations (VZBV)
[202] Interview with Commissariat aux Assurance (national supervisory authority)
[203] Dirección General de Seguros y Fondos de Pensiones, 2015, Informe Seguros y Fondos de Pensiones. Available at : http://www.dgsfp.mineco.es/sector/documentos/Informes%202015/INFORME%20SECTOR%202015.pdf
[204] Interviews with AURSF and APPA-Asigurari (consumer associations)
[205] Interview with Fédération Française de l'Assurance (trade association)
[206] IVASS, 2016, Relazione sull'attività svolta dall'Istituto nell'anno 2015. Available at: http://www.ivass.it/ivass_cms/docs/F23273/Relazione%20IVASS%202015.pdf
[207] Interviews with AURSF and APPA-Asigurari (consumer associations)
[208] CapGemini, 2014, World insurance report 2014
[209] Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf

national supervisory authority[210]. In the UK, there has been an increase of online sales via PCWs which, according to the trade association, will continue, while the use of brokers will be likely to decrease[211].

Information on sales through different distribution channels per product category was not comprehensively available among the Member States, however some trends can be observed.

Overall, household and motor insurance are mostly sold via intermediaries. For instance, in France, brokers established 42.6% of the household insurance contracts and agents made up 43.4% of motor insurance contracts in 2015[212]. In Italy, the agents' share in the motor sector was 86.5% in 2015[213]. In Spain, motor insurance is mostly sold via agents, and household insurance mostly via bancassurance[214]. However, it should be noted that although intermediaries prevail as the main distribution channel of motor and household insurance, the percentage of sales conducted online has been growing over the past few years in France[215], Romania[216] and for motor insurance in Germany[217]. In the UK, a study on private motor insurance (B2C)[218] pointed out that in 2012 the 10 largest providers[219] sold more than a third of their GWP through direct phone and online channels, while 31% of policies were purchased using brokers, and a quarter via PCWs. In fact, a Swiss Re study pointed out that the motor insurance market in the UK (B2C) is now dominated by online sales, as shown in the table below.

Table 22: Share of distribution channels in the UK B2C motor insurance sector in 2012

Distribution channel	Percent by value (gross written premiums)	Percent by volume (number of policies)
Direct - internet	20%	23%
Direct - telephone	17%	15%
Brokers	31%	32%
Price comparison websites	24%	21%

[210] GDV, 2016, So schließen Versicherungskunden ihre Verträge ab. Available at: http://www.gdv.de/2016/01/so-schliessen-versicherungskunden-ihre-vertraege-ab-2/
[211] Interview with ABI (trade association)
[212] FFA, 2016, Property and Liability Insurance key data for 2015. Available at: http://www.ffa-assurance.fr/file/845/download?token=eV2eIehV
[213] IVASS, 2016, Relazione sull'attività svolta dall'Istituto nell'anno 2015. Available at: http://www.ivass.it/ivass_cms/docs/F23273/Relazione%20IVASS%202015.pdf
[214] Dirección General de Seguros y Fondos de Pensiones, 2015, Informe Seguros y Fondos de Pensiones. Available at : Available at: http://www.dgsfp.mineco.es/sector/documentos/Informes%202015/INFORME%20SECTOR%202015.pdf
[215] Finaccord 2013, Aggregation Metrics: Consumer Approaches to Insurance Comparison Sites in Europe. Available at: http://www.finaccord.com/documents/press%20mentions/2013/aggregation-metrics_consumer-approaches-to-insurance-comparison-sites-in-europe_fanews_february-2013.pdf
[216] Interviews with AURSF and APPA-Asigurari (consumer associations)
[217] Franco-German ECC, 2014, Der europäische Versicherungsbinnenmarkt, Grenzüberschreitende Versicherungsverträge: Abschluss oder Ausschluss?
Available at: http://www.evz.de/fileadmin/user_upload/eu-verbraucher/PDF/Berichte/FINAL_Studie_Versicherungsbinnenmarkt.pdf
[218] CMA, 2012, Private Motor Insurance Market Investigation. Available at: https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf
[219] The ten largest motor insurers are: Admiral Group plc (Admiral), Ageas NV/SA (Ageas), Aviva plc (Aviva), AXA Insurance UK plc (AXA), CIS General Insurance Limited (CISGIL), Direct Line Insurance Group plc (DLG), esure Insurance Limited (esure), Liverpool Victoria Insurance Company Limited (LV), Royal & Sun Alliance Insurance plc (RSA) and Zurich Insurance plc (Zurich). Source: CMA. 2012. Private Motor Insurance Market Investigation. Available at: https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf

Retail partnerships	2%	2%
Banks/building societies	1%	1%
Other	6%	7%
Total	100%	100%

Source: Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf

When considering car rental and add-on products, there is insufficient quantitative data to allow conclusions to be made on trends. In Latvia, an interviewee[220] noted that motor and travel insurance products were increasingly sold online and via call centres, with online sales making up as much as 40% of the market in these cases. In Germany and Luxembourg, interviewees noted that travel insurance is mostly sold online as a complementary product to trips purchased on the internet. Similarly, car rental insurance is often bought online in Germany, while in France and Italy, car rental insurance is purchased via the car rental company either by face to face or online when completing the reservation. In France, add-on insurance is mostly sold through ancillary sellers or the product retailers[221], while in Italy, these contracts are more often sold via agents[222].

3.2.2. Excess

An excess can be applied to all the non-life insurance product categories. An excess is a fixed amount or percentage of an insurance claim that is the responsibility of the insured, and which the insurance company will deduct from the claim payment. Excess levels are regulated by law in some Member States (France, Romania and Luxemburg) for some categories of insurance products (e.g. motor or household insurance). In France, the Central Tarification Bureau[223] defines the amount of the premium for which an insurance company covers a risk.[224]. It can also determine the amount of excess left at the consumer's charge, upon conditions fixed by decree from the Conseil d'Etat[225]. In Romania, the regulated insurance products (i.e. mandatory M3PL and household insurance) cannot have an excess, while the extra coverage products, such as voluntary household insurance, allow an excess to be included. In Luxemburg, the Regulation of 11 November 2003 related to motor insurance stipulates that when an excess is foreseen in the insurance contract, it cannot be greater than 1 500 EUR per claim if the insured is a natural person and to 6000 EUR if the insured is a legal person[226].

As regards to **household insurance**, not all products include an excess, or not for all coverage levels. In Germany and Italy, an excess is generally included in household insurance policies. In Italy and Slovakia, the excess can be increased by the consumer against a lower premium. In France, excess levels for household insurance are regulated by the Insurance Code[227]. In other Member States, the inclusion and level of excess varies between insurers. In Luxembourg, some insurers apply an excess on

[220] Interview with the Latvian Insurers Association
[221] Interviews with the CLCV (consumer association) and the FFA (trade association)
[222] IVASS, 2014, You are insured and perhaps you have not realized it. Available at: www.ivass.it/ivass_cms/docs/F9800/sei%20assicurato_en.pdf
[223] The Central Tarification Bureau is a public joint body gathering representatives of insurers and of insured persons. Available at: http://www.bureaucentraldetarification.com.fr/
[224] Mandatory insurance in France is motor, household and health insurance.
[225] Article L2012-1 of the Insurance Code. Available at: https://www.legifrance.gouv.fr/affichCode.do?cidTexte=LEGITEXT000006073984
[226] "Règlement grand-ducal du 11 novembre 2003 pris en exécution de la loi du 16 avril 2003 relative à l'assurance obligatoire de la responsabilité civile en matière de véhicules automoteurs. Available at : http://www.legilux.public.lu/rgl/2003/A/3282/1.html"
[227] Code des Assurances. Available at: https://www.legifrance.gouv.fr/affichCode.do?cidTexte=LEGITEXT000006073984

compensation paid for damages caused by storm.[228] In Romania, firms usually charge an excess of 1-5% on their voluntary building and content insurance products for earthquakes[229].

For **motor insurance**, the consumer is liable to pay an excess if they are responsible for the event leading to the claim. Most car insurers have two types of excess: a compulsory excess, which is set and cannot be modified, and a voluntary excess, which consumers can set themselves. A large voluntary excess would lead to a lower premium, but makes claiming very expensive. The level of excess is regulated by law in some countries such as France[230], Luxembourg[231], and Romania[232]. For comprehensive motor insurance (or "casco"), excess levels vary depending on the motor type and vehicle model, and can also be reduced to zero with a special no-excess rate. In Luxembourg, excesses do not apply to third party liability insurance, except for young drivers (having their license for less than two years). Young drivers can reduce the level of the excess by paying a higher premium, but are also exposed to higher excesses for casco insurance compared to other age groups. A special "youth excess" is also applied in Sweden for casco insurance.

For **car rental**, the third-party liability cover included by default in the rental price generally includes an excess, and it varies depending on the vehicle category and the insurance provider. Additional protections, such as Collision Damage Waivers (CDWs) and Theft Protection Waivers (TPWs), allow the consumer to reduce the excess to be paid by the insured in case of a claim. More advanced and generally more expensive products, i.e. Super CDWs and Super TFWs, can bring the excess down to zero (or close to zero). In France, a specific Decree related to pre-contractual information to consumers and price advertisement of car rental[233] extends the insurer's obligation to provide information and service to car rental companies. Following this Decree the rental company must inform the consumer about the automatic inclusion of third party liability insurance in the rental package, about the warranties, exclusions and excess for other insurance products included in the rental package and for optional insurance products.

Excesses on **add-on insurance** vary across countries and providers and the information available was limited, which does not allow for cross border comparisons. In Romania, excesses were declared illegal for travel insurance products in 2014, after the Department for SMEs, Business and Tourism found that many travel operators were using excesses as a way to save money[234].

[228] Assurances.lu, 2016, Home Insurance. Available at: http://www.assurances.lu/en/individuals/home-insurance

[229] 1Asig.RO, 2010, Asigurarea completa a locuintei de la OMNIASIG VIENNA Insurance Group. Available at: http://www.1asig.ro/Asigurarea-completa-a-locuintei-produsul-saptamanii-2,72,76-263-40.htm

[230] Frédéric L'assureur, 2016, Dois-je payer la franchise ? (automobile ou habitation). Available at : http://fredericlassureur.fr/dois-je-payer-la-franchise-automobile-habitation/

[231] Règlement grand-ducal du 11 novembre 2003 pris en exécution de la loi du 16 avril 2003 relative à l'assurance obligatoire de la responsabilité civile en matière de véhicules automoteurs. Available at : http://www.legilux.public.lu/rgl/2003/A/3282/1.html

[232] 1Asig.RO, 2013, Cat costa asigurarea de raspundere civila a evaluatorilor. Available at: http://1asig.ro/Cat-costa-asigurarea-de-raspundere-civila-a-evaluatorilor-articol-2,3,100-47627.htm

[233] Arrêté du 17 mars 2015 relatif à l'information précontractuelle des consommateurs et à la publicité des prix des prestations de location de véhicules. Available at: https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000030375910

[234] Mihai Cracea, 2014, Fransizele din politele de insolventa ale agentiilor de turism vor fi eliminate, iar primele de asigurare vor fi achitate integral. Available at: http://1asig.ro/Fransizele-din-politele-de-insolventa-ale-agentiilor-de-turism-vor-fi-eliminate-iar-primele-de-asigurare-vor-fi-achitate-integral-articol-3,100-48302.htm

3.2.3. Sales techniques and practices

In line with the Distance Marketing of Financial Services Directive[235], insurers must provide consumers with comprehensive information before a contract is concluded (price, conditions, duration, withdrawal, termination, redress procedure).

The Insurance Distribution Directive[236] will enter into force in 2018, and it will establish the obligation for insurance distributors to provide pre-contractual information on non-life insurance products. Insurance distributors will be obliged to provide a standardised insurance product information document (IPID) on paper or on another durable medium. The IPID shall contain information about the insurance cover (risks insured, sum insured, geographical scope, excluded risks), premium payment, obligations during the contract and when a claim is made, period of the contract and rules for termination.

In Slovakia, some stakeholders[237] noted that on many occasions, insurers fulfilled their information obligation by simply asking the customer whether he/she has any question, instead of presenting in detail the terms and conditions. The Slovak national supervisory authority has introduced, among insurers, a voluntary pre-contract form, listing the information to be relayed to clients before a contract can be signed. However, the positive impacts of this initiative are yet to be seen according to the interviewees.

A standardised contract form has been defined in Italy for motor insurance, or a Product Information Sheet in Germany.[238] In France, the Insurance Code stipulates that non-life insurance contracts (except for assistance and travel insurance) should include information on duration, conditions of tacit renewal, and conditions for extension or termination of the contract, obligations of the consumers in terms of risk declaration, modalities for declaring a claim, and the period to receive claim compensation.

In Latvia, the Insurance Contracts Law[239] defines the compulsory information to be included in insurance contracts and stipulates that, before concluding a contract, the insurer must inform the customer about the law applicable and the procedures for out-of-court settlement of complaints.

In Luxembourg, the Law on Contracts[240] defines the information that the insurer must communicate to the client before concluding a contract, and on the contract itself. This requirement includes information on i.e. the risks covered and their limitations/exclusions, the duration of the contract and the conditions of contract termination, the modalities of premium payment, and the procedure of complaint handling.

In Romania, pursuant to FSA Order 23/2009[241], all insurance providers must provide consumers with detailed information about the law applicable to the insurance contract, redress options, and about the existence of the Guarantee Fund for Insurance[242]. The insurance contract must contain the definition of each insured risk and the sums insured, the exclusions, the conditions for cancellation and termination of the contract, the

[235] Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002L0065&from=EN

[236] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L0097&from=FR

[237] FSUG expert, SOS Poprad consumer association

[238] Ordinance Governing the Supply of Information within the Scope of the Insurance Contract Act

[239] Law on Insurance Contracts, 2006. Available at: http://www.fktk.lv/texts_files/aParapdrpsinasanasligumuargrozAngl.doc

[240] Loi du 27 juillet 1997 sur le contrat d'assurance, as amended 1st January 2016, available at : http://www.commassu.lu/upload/files/3/Loi_ContratAssurance_1997-07-27_coord_2016-01-01.pdf

[241] Financial Supervisory Authority, Order 23/2009. Available at: http://asfromania.ro/legislatie/legislatie-sectoriala/legislatie-asigurari/legislatie-secundara-csa/norme-csa/2985-ordin-nr-232009

[242] Guarantee Fund for Insurance. Available at: http://www.fgaromania.ro/

conditions for claim handling, and the penalties in case the contract is ceased before its term, either unilaterally or in other scenarios.

In Spain, the compulsory information to be presented in the insurance contract is defined in the Law 50/1980 on Insurance contracts[243], and in Sweden by the Law on Insurance Agreements[244].

In the UK, all regulated insurers must respect the conduct rules set by the national supervisory authority in the Insurance Conduct of Business Sourcebook (ICOBS)[245]. This requirement includes the obligation to inform customers about the law applicable to the contract, the arrangements for handling policy holders' complaints and the conditions for cancellation.

Insurers' advertising techniques were not disclosed during interviews with national supervisory bodies, however desk research determined that an increasing share of insurers' advertising strategies involved online methods, especially through price comparison websites according to studies carried out by national supervisory authorities in Italy[246] and the UK[247]. However, no additional data could be found on this.

Studies have also shown that social media is increasingly being used for advertisement and promotion of a company as consumers tend to turn to it for advice on the products from their friends, acquaintances, online groups and even experts who frequent the same sites[248].

Regarding advertising strategies by companies selling add-on insurance products, such as travel agents, car rental companies or retail sellers, a study carried out by the British supervisory authority on these products highlighted the fact that companies typically focused their advertising on the price and features of the primary product (e.g. the car, piece of furniture, etc.) and not the add-on insurance products[249].

Criticisms have been raised regarding various sales practices. Consumer associations reported issues with the widespread practice of "pre-ticking" of extra options, in particular for add-on insurance and car rental insurance, but also for motor insurance. In fact, in some Member States these practices are not allowed, for example in France due to the Consumption Code, in Germany due to the Civil Code, in Luxembourg due to the Consumption Code, and in the UK according to FCA Policy Statement PS 15/22, the "pre-ticking" of optional warranties is forbidden.

Many stakeholders also acknowledge that add-on insurance is mostly sold via retailers who lack expertise and professional knowledge about the insurance product and often do not provide sufficient information to the consumer. As they are also driven by commercial considerations (e.g. commission based), they tend to emphasize the potential risks of not being properly insured (instead of clearly informing about the legal warranties), pushing the consumer to purchase the extra coverage without time for reflection and without time for comparison with other insurance providers.

3.2.4. Discriminatory practices

In parallel, common types of **discriminatory practices** have been identified throughout the Member States linked to age and level of health, principally in motor, car rental and travel insurance.

[243] Ley 50/1980, de 8 de octubre, de Contrato de Seguro. Available at: http://www.dgsfp.mineco.es/sector/documentos/legislacion/CONTRATO%20JULIO%202006.pdf
[244] Försäkringsavtalslag (2005:104). Available at: https://www.riksdagen.se/sv/dokument-lagar/dokument/svensk-forfattningssamling/forsakringsavtalslag-2005104_sfs-2005-104
[245] FCA, 2016, Insurance Conduct Business Sourcebook. Available at: https://www.the-fca.org.uk/firms/insurance-conduct-business-sourcebook-icobs
[246] IVASS, 2014, indagine sui siti comparativi nel mercato assicurativo italiano
[247] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector, UK
[248] Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf
[249] FCA, 2014, General insurance add-ons: Provisional findings of market study and proposed remedies

A **higher motor premium** is generally applied to **young drivers**, related to their lack of experience and statistically higher probability of claiming[250]. For example in France, a higher premium can be applied to drivers holding their driving's license for less than 3 years or not having been covered by a motor insurance for the last 3 years. This additional premium will be divided by two for every consecutive year without accident[251]. In Luxembourg, for motor third party liability insurance, drivers holding their license for less than two years are subject to an excess (while other drivers are not), which can be cancelled with a higher premium. For CASCO motor insurance, an excess is also specifically applied to young drivers (around 2.5% of the value of the vehicle)[252]. In Romania, a driver aged 18-25 would need to pay three times more than a beginner aged 35 for their third-party liability insurance[253]. In Spain, drivers (between 18 and 25) pay an average premium of 1,298 EUR for their motor insurance, which is 101.5% more than drivers aged 26-35, who pay an average premium of 634 EUR, and 145% more than drivers between 36 and 50 years old, who pay an average of 522 EUR for their motor insurance policy[254]. Similar discriminatory practices have been identified in Italy, Sweden, Slovakia and the UK. A petition was even submitted to the UK Government and Parliament in 2016 against higher premiums for drivers under 25 years of age, which collected 64,226 signatures[255]. The Government responded that the responsibility for setting premiums rests with insurers and that the Government is reforming and strengthening the *learning to drive process* so that drivers can present themselves as a lower risk and obtain lower premiums.

Higher premiums in motor insurance are also applied to the **elderly** in Italy, Germany (for third-party liability insurance and car theft insurance) and the UK. According to an article[256], in the UK older-age premiums are higher than any other age group and have been rising at a faster pace. The article indicates that according to ABI, premiums for those aged 66 to 70 were 241 GBP in 2012 (266 EUR), increasing to 255 GBP (281 EUR) for ages 71 to 75 and 291 GBP (321 EUR) for 76 to 80. For those aged over 81, the premium increases to 352 GBP (388 EUR). Motorists are thought by insurers to drive more safely if they share a car or are driving with their spouse, so aged drivers may be charged more if they are alone than if their spouse still lives[257].

As for **car rental insurance**, drivers must be over the age of 21 and have held their driving license for more than one year in France, Italy, Latvia, Romania (up to three years for certain categories, and some companies impose a limit to drivers aged 70+), Spain. In Germany, the driver must be at least 18 years old and have held the driving license for 1-3 years depending on the rental car category reserved. Drivers age 18-22 must purchase Collision Damage Waiver. In Luxembourg, drivers must be above 23 years old and have held their license for one year. Drivers under the age of 25 are generally charged with a young driver surcharge in France, Germany, Italy, Latvia, Luxembourg, Spain and Slovakia.

[250] AsigurariTM, 2012, Tarifarea in functie de varsta pentru asigurarile RCA si CASCO e intemeiata. Available at: http://www.asiguraritm.ro/tarifarea-functie-varsta-pentru-asigurarile-rca-casco-este-intemeiata.html

[251] ServicePublic.fr, 2015, Assurance auto : jeune conducteur et surprime. Available at: https://www.service-public.fr/particuliers/vosdroits/F2663

[252] Assurances.lu, 2016, Assurances Auto FAQ. Available at: http://www.assurances.lu/particuliers/assurance-auto-questions-frequentes

[253] AsigurariTM, 2012, Tarifarea in functie de varsta pentru asigurarile RCA si CASCO e intemeiata. Available at: http://www.asiguraritm.ro/tarifarea-functie-varsta-pentru-asigurarile-rca-casco-este-intemeiata.html

[254] ABC, 2014, El desangre economico de ser conductor y joven. Available at: http://www.abc.es/economia/20140827/abci-jovenes-pagan-seguro-coche-201408261303.html

[255] Petition to UK Government and Parliament, 2016, Stop car insurance companies ripping under 25s off with sky high prices. Available at: https://petition.parliament.uk/petitions/120950

[256] The Telegraph, 2015, Ageism in car insurance: do these cases prove insurers overcharge older drivers? Available at: http://www.telegraph.co.uk/finance/personalfinance/insurance/motorinsurance/11739759/Ageism-in-car-insurance-do-these-cases-prove-insurers-overcharge-older-drivers.html

[257] The Telegraph, 2015, Ageism in car insurance: do these cases prove insurers overcharge older drivers? Available at: http://www.telegraph.co.uk/finance/personalfinance/insurance/motorinsurance/11739759/Ageism-in-car-insurance-do-these-cases-prove-insurers-overcharge-older-drivers.html

For **travel insurance**, it is quite common that companies apply restrictions based on age and health conditions. In some Member States, travel insurance providers tend to refuse to cover consumers beyond a certain age, for example in Sweden for those over the age of 70[258], in France for 75+ year-old passengers[259] or in Romania over 70 years[260], 75 years[261] or 85 years[262]. 91% of annual travel insurance policies across the UK market impose an upper age limit, one in four of policies do not cover people aged 65 and over, and less than 30% cover the over-75s. Considering single trip policies, 77% impose an upper age limit, with a fifth freezing out anyone aged 65, and over half refusing cover to people over 75[263]. In Luxembourg, some companies only cover people aged 70+ for a period of 21 days[264]. In Germany, some travel insurance companies apply a higher premium for the elderly than for other age groups[265]. On the other hand, in some Member States, travel insurance restrictions focus more on health conditions. In Spain, the main travel insurance companies exclude claims for medical emergency and cancellation associated with consumers with pre-existing medical conditions[266]. In Romania[267] and Slovakia[268], some travel insurance companies also exclude to cover claims related to pre-existing deadly disease.

Albeit denounced by consumer associations, such discriminatory practices are allowed on the basis of risk-adequate pricing and actuarially determined risk assessment, embedded in law in the General Act on Equal Treatment in Germany[269] and in the Equality Act in the UK[270]. In 2012, an agreement between ABI, BIBA and the UK government entered into force, requiring all ABI members applying age restrictions to direct customers to an alternative appropriate provider, which will offer a product regardless of age[271].

Taking into account the technological development such as the use of black boxes in cars to monitor the driver's behaviour and personalise motor insurance policies and premiums, the FISMA study on digitalisation[272] notes that new norms should emerge regarding the ethics of the algorithms implemented and the use of this personal data. The personal data collected for marketing, credit scoring or prevention purposes present significant specific risks, such as enhanced discrimination. As stated by the European

[258] ERV, 2016, terms and conditions for travel insurance smart. Available at: https://www.erv.se/contentassets/96bb54e62e904aac9b696fba6a8b16df/villkor/engelska/smart/aktuella-villkor/villkor_reseforsakring_smart_eng.pdf

[259] Instinct voyageur, 2014, Assurance voyage : quelle est la meilleure ? (+ conseils). Available at: http://www.instinct-voyageur.fr/assurance-voyage-comparatif-conseils-choisir-meilleure/

[260] AllianzDirect, 2016, Descriere asigurare de calatorie. Available at: http://www.allianzdirect.ro/calatorie/descriere-asigurare-calatorie.html

[261] Asigurari-Sanatate.Ro, 2016, Asigurari medicale de calatorie. Available at: http://www.asigurari-sanatate.ro/medicale.htm

[262] Omniasig, 2016, Asigurari persoane fizice. Available at: http://www.omniasig.ro/medicas.html

[263] House of Commons, 2013, Insurance and the discrimination laws. Available at: https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0ahUKEwiZ4dbPgtPPAhUKJ8AKHbh_Cj4QFggkMAE&url=http%3A%2F%2Fwww.parliament.uk%2Fbriefing-papers%2FSN04601.pdf&usg=AFQjCNHGFuj9PCYbsu7NhMQvv8vbUkzF0A&bvm=bv.135258522,d.bGs

[264] ULC, 2016, Les assurances voyage au Luxembourg. Available at: http://www.csl.lu/index.php?option=com_rubberdoc&view=doc&id=3016&format=raw

[265] Büro gegen Altersdiskriminierung, 2015, Axa: Ab 70 wird Reiserücktrittsversicherung teurer. Available at: http://www.altersdiskriminierung.de/themen/artikel.php?id=6639

[266] Fit2Trip, 2016, Las aseguradoras españolas discriminan a las personas con discapacidad y problemas medicos. Available at: http://fit2trip.blogspot.be/2015/04/las-aseguradoras-espanolas-discriminan.html

[267] Vola.Ro, 2016, Conditii generale de asigurare. Available at: https://www.vola.ro/termeni_si_conditii_polita_asigurari

[268] Allianz, General Insurance Conditions for Travel insurance and assistance services. Available at: https://www.allianzsp.sk/tmp/image_cache/link/0000460807/7080_VPP-CP.pdf

[269] The General Act on Equal Treatment, 2006. Available at: http://www.antidiskriminierungsstelle.de/EN/TheAct/theAct_node.html

[270] Equality Act, 2010. Available at: http://www.legislation.gov.uk/ukpga/2010/15/contents

[271] ABI, 2012, ABI announces new agreement to improve access to motor and travel insurance for older customers. Available at: https://www.abi.org.uk/News/News-releases/2012/03/ABI-announces-new-agreement-to-improve-access-to-motor-and-travel-insurance-for-older-customers

[272] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

Data Protection Supervisor in its Opinion 4/2015[273], ethics and human dignity remain primordial in the technologies of the future. However, the question remains as to "what extent the application of principles such as fairness and legitimacy to these new developments might be sufficient."

3.3. Cross-border selling

This section presents and discusses available data and information on cross-border selling. There are two types of cross-border business:

- **Freedom of establishment (FE)** The freedom of establishment is the right to set up companies in other Member States.
- **Freedom to provide services (FPS)** The freedom to provide services (FPS) allows nationals of a Member State to provide services in other Member States.

For the purpose of this study only cross-border sales under FPS are considered. The table below presents the number of foreign companies operating on the domestic market through FPS, for both life and non-life insurance.

Table 23: Number of companies operating on the domestic insurance market via FPS

Country	2011	2012	2013	2014
DE	938	931	899	886
ES	667	654	647	640
FR	1,056	1,050	1,079	1,130
IT	948	972	979	1,005
LU[1]	703	683	685	687
LV	395	477	493	499

Note : 1: Commissariat aux assurances, 2016, Annexe au rapport annuel 2015/2016
Source: Insurance Europe, 2016, Structural data.

According to the table above, the number of firms operating on the domestic insurance market via FPS has decreased in Germany and Spain, while between 2011 and 2014 it has increased year-on-year in Italy and Latvia.

Companies from France, Germany, the UK and Ireland have a predominant position in the non-life cross-border insurance market via FPS according to the available data. In Luxembourg, 80% of the foreign insurance companies specialised in non-life insurance originate from the UK, Germany, France and Ireland[274]. In France, most of the companies operating via FPS come from the UK, Ireland and Germany[275]. In Italy in 2014, 764 firms operated exclusively in the non-life market and come mainly from the UK, Ireland and Germany, while 56 were active both in the life and non-life markets and were mostly from Austria and France[276]. In Spain, the firms operating on the non-life insurance domestic market originated principally from the UK, Ireland and France[277].

[273] See Opinion 4/2015 "Towards a new digital ethics Data, dignity and technology" published by the European data protection supervisor in 2015.
[274] Commissariat aux Assurances, 2016, Annex to Annual Report 2015/2016. Available at: http://www.commassu.lu/upload/files/555/rapport%20annuel%202015%20-%20annexe.pdf
[275] List of foreign insurance firms authorised to operate in France under FPS. Available at: http://acpr.banque-france.fr/fileadmin/user_upload/acp/Agrements_et_autorisations/Procedures_secteur_assurance/Passeport_europeen_assurance/20160604-01_Entreprises_europeennes_exercant_en_LPS_en_France_depuis_leur_siege_social.pdf
[276] IVASS, 2014, You are insured and perhaps you have not realized it. Available at: www.ivass.it/ivass_cms/docs/F9800/sei%20assicurato_en.pdf
[277] Dirección General de Seguros y Fondos de Pensiones, 2015, Annual report. Available at: http://www.dgsfp.mineco.es/sector/documentos/Informes%202015/INFORME%20SECTOR%202015.pdf

Very limited data on cross-border sales were available through desk-research, and a few consulted stakeholders offered any views on number of non-life insurance products sales though FPS. For example, in Romania, a consumer association noted that cross-border insurance sales are usually completed via FOE but no data were available to support this view. Overall, national supervisory authorities, trade and consumer associations mentioned that cross-border operations via freedom to provide services were currently limited in the EU, apart from in countries such as Luxembourg and Latvia. Companies selling cross-border products which were interviewed in the context of the study mentioned that little FPS activity was carried out due to language barriers, regulatory discrepancies and the high cost of market studies to investigate demand on foreign markets. In addition, insurers do not have the means to verify the risk profile or driving history of a consumer in a different country[278]. All companies interviewed highlighted that operating via freedom of establishment through the creation of a branch in the country was easier as they could create brand recognition and enable more direct contact with consumers, thus improving consumer trust in the company. Therefore, FOE was favoured over FPS when operating cross-border operations for the companies interviewed. In addition, the prevalence of FOE in terms of premiums written compared to FPS was demonstrated through data collected in Germany, as shown in the table below.

Table 24: FOE and FPS non-life insurance activity in Germany (2013-2014)

Activity	2013			2014		
	Number of companies	GWP (million EUR)	% of total GWP	Number of companies	GWP (million EUR)	% of total GWP
FOE	109	2,508	2.44	112	2,155	2.14
FPS	429	262.7	0.26	457	298.2	0.30

Source: BaFin, 2014, Statistik der BaFin - Erstversicherungsunternehmen

According to the table above, while fewer companies operate via FOE in Germany, their overall GWP is higher than that of FPS, representing over 2% of total business, as opposed to under 0.3% for FPS between 2013 and 2014.

Data on GWP were retrieved for Germany, Spain, Latvia, Italy and Luxembourg regarding operations under FPS. This data is presented in the tables below.

Table 25: Gross written premiums (GWP) generated by Luxembourgish and German companies via FPS, in million EUR

Country	2011	2012	2013	2014	2015
LU	1,636	1,894	2,117	2,270	N/A
DE	318.7	290.7	325.3	N/A	N/A

Source: LU : Commissariat aux Assurances, 2015, Rapport Annuel 2014/2015 ; DE : GDV, 2015, Statistical yearbook

Table 26: Non-life gross written premiums (GWP) generated by foreign EU and EEA companies operating via FPS, in million EUR

Country	2011	2012	2013	2014	2015

[278] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

DE	1,800	1,691	1,718	N/A	N/A
ES	614	519	1,373	N/A	N/A
IT	1,258	821	1,282	2,517	N/A
LV[1]	N/A	N/A	110.8	168.3	157.0

Source: Insurance Europe, 2016, Insurance Europe Database. 1: Includes both life and non—life. Source: Latvian Insurers Association, 2013 to 2015, Premiums written and claims paid by insurance companies

This limited data demonstrates an overall increase in outwards FPS activity in Germany and Luxembourg, as well as an overall increase of inwards FPS activity in Spain, Italy and Latvia between 2011 and 2015. In Luxembourg, the share of premiums written through FPS is significant and it has increased over the last five years[279].

According to a European Commission study[280], only 2.8% of property insurance policies are sold cross-border in the EU, while data was not available for the other categories of products. Cross-border sales of property insurance are dominated by specialised insurers aimed at niche markets such as owners of holiday homes in other countries. In the countries where FPS activities are present (i.e. where countries whose insurers sell cross border via FPS, and countries whose consumers buy cross-border via FPS), stakeholders mentioned that most products sold were travel and car rental insurance, although no data were recorded on this. In Latvia, cross-border sales through FPS cover almost all categories of non-life insurance products, apart from the compulsory M3PL and legal expenses[281]. According to consumer associations in France and Luxembourg, cross-border motor and household insurance are not offered by insurance companies as they refuse to cover these risks abroad.

Very limited information was available on distribution channels for cross border sales via FPS. In Luxembourg, brokers distributed 67.2% of the non-life contracts sold outwards via FPS[282].The Latvian Insurers Association noted that most FPS activities were conducted through brokers and agents rather than online. However, a study carried out by the French-German ECC showed that even online access to cross-border products is not straightforward. In the Study on the European insurance market[283], simulations were carried out between Austria, Germany, France and the United Kingdom to determine whether a consumer can purchase cross-border travel insurance, household insurance and motor insurance. 114 insurance contracts were tested by the ECC investigators and it was only possible to subscribe online from a different country in 9.7% of the cases.

There is no clear evidence that consumers perceive cross border sales as an opportunity. In fact, according to a French and a Spanish trade association, there is no strong evidence of consumer demand for cross-border insurance products. According to a study on the digitalisation of retail financial services and insurance[284], there is little indication that the digital customer is extending his/her product research across borders. It appears

[279] Commissariat aux Assurances, 2016, Annex to Annual Report 2015/2016. Available at: http://www.commassu.lu/upload/files/555/rapport%20annuel%202015%20-%20annexe.pdf

[280] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

[281] Latvia Insurers Association, 2011 to 2014, Premiums written and claims paid by insurance companies. Available at: http://www.laa.lv/market-data/

[282] Commissariat aux Assurances, 2016, Annex to Annual Report 2015/2016. Available at: http://www.commassu.lu/upload/files/555/rapport%20annuel%202015%20-%20annexe.pdf

[283] Franco-German ECC, 2014, Der europäische Versicherungsbinnenmarkt, Grenzüberschreitende Versicherungsverträge: Abschluss oder Ausschluss? Available at: http://www.evz.de/fileadmin/user_upload/eu-verbraucher/PDF/Berichte/FINAL_Studie_Versicherungsbinnenmarkt.pdf

[284] European Commission, 2015, Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance. Available at: http://ec.europa.eu/finance/finservices-retail/docs/policy/160701-study-digitalisation_en.pdf

that consumers are comfortable switching within their own country but not across borders, even across neighbouring jurisdictions with broadly similar regulatory regimes for motor insurance. A German trade association indicated that consumers seek security and reliability when making cross-border transactions, therefore they pay more attention to possible risks associated with cross border purchases rather than opportunities. Furthermore, the Romanian national supervisory authority noted that barriers such as language, lack of knowledge of products in other markets or what to do in case something goes wrong are amongst the main consumer issues preventing the purchase of cross-border products. According to a consumer association, the perceived risks are even further strengthened by media coverage (e.g. a firm selling third-party motor liability in Hungary went bankrupt in December 2015 and negative impacts of this bankruptcy for consumers were covered by media at the national level). In Sweden, interviewees (Finansinspektionen, Konsumenternas and Soderberg & Partners) agreed that cross-border transactions in the insurance market are rare, although the supervisory authority noted that the cross-border transactions are slightly more common between the Nordic countries.

Interviewees were not able to comment on consumer demand for cross-border products if they would be provided through local branches and in the local language. However, the language issue and lack of knowledge on complaints mechanisms available abroad were mentioned as the most common reasons preventing consumers from cross-border purchases. More information on the factors limiting cross-border purchase and on the interventions to increase cross-border demand can be found in chapter 6.

4. Consumer decision-making in the non-life insurance market

This chapter presents evidence from the desk based research, stakeholder interviews, focus groups and consumer survey, with cross references to the outcomes from the behavioural experiment, in regard to consumer decision-making in the non-life insurance market, with focus on the products studied. Other insurance products (e.g. health or legal assistance insurance) may have specific product or market features which imply that the study's results may not apply to these products.

The chapter specifically addresses the following study research questions.

- Under which situations do consumers decide to buy or renew insurance cover?
- What information are consumers interested in when shopping for insurance cover?
- What important information do consumers neglect, but would need in order to understand the premium-setting mechanism, to identify the most appropriate products given their personal situation, and to apprehend their contractual rights and obligations?
- Why consumers use and prefer different sales channels?
- Consumers' use of insurance post-sale.

Firstly, section 4.1 outlines the consumer decision-making framework that will be used to structure the discussion and analysis presented throughout this chapter.

4.1. The consumer decision-making framework

This section sets out the 'Access, Assess, Act' framework that is used to structure the discussion and analysis presented later in this chapter.

A broad range of issues and research questions relating to consumer decision-making in the non-life insurance market are relevant to this study. Therefore, in order to structure the discussion and analysis presented the *'Access, Assess, Act'* framework of consumer decision-making is used. This framework has been used in a number of previous studies for the European Commission and other policy-making organisations and has proved useful for investigating consumer issues in a systematic way.[285] In this framework consumers' interactions with suppliers are broken down into three stages:

- Access: Consumers access information on the offers available in the market;
- Assess: Consumers then assess the information they have on these offers; and
- Act: Finally consumers act on this assessment by purchasing the good or service offering the best value to them.

In addition, acknowledging the specific nature of the insurance market relative to other sectors, we augment this standard framework with two further elements:

- Pre-purchase: Before accessing and assessing information, in which situations do consumers first decide to buy or renew insurance; and
- Post-sale: After buying insurance, how do consumers use their insurance (i.e. during the lifetime of the contract), in particular in case of making legitimate claims.

[285] The 'Access, Assess, Act' framework originates from the UK Office of Fair Trading's 2010 report 'What does Behavioural Economics Mean for Competition Policy?'. The OFT's framework has subsequently been used in various studies, such as 'Behavioural economics and its impact on competition policy', a report for the Netherlands Authority for Consumers and Markets, and 'What can behavioural economics say about GB energy consumers?' a report by the UK energy regulator, as well as the recent study on consumer vulnerability for the European Commission (2016).

The structure of this chapter is guided by this framework and specifically aligns with the research questions listed above, as follows:

- Section 4.2 presents insights from the behavioural economics literature (these are then drawn on in the subsequent discussion and analysis)
- Section 4.3 examines the situations in which consumers decide to buy or renew insurance (pre-purchase);
- Section 4.4 investigates how consumers find and use information when shopping for insurance (access and assess information);
- Section 4.5 explores consumers' preferred sales channels (act); and
- Section 4.6 examines consumers' use of insurance post-sale (post-sale).

4.2. Insights into consumer decision-making from behavioural economics

This section draws on existing literature and starts by setting out the classical economic theory behind consumer behaviour in the non-life insurance market, before extending this with insights from behavioural economics relevant to non-life insurance.

The literature review on consumer decision-making focused solely on non-life insurance. A few general concepts also apply to life-insurance, but only to the extent that life-insurance is an actual insurance. Other considerations, such as the rationale behind savings and investments decisions (or preferred tax treatment) are outside the scope of this study.

4.2.1. Consumer demand for insurance according to economic theory

From a classical economics perspective, the decision to purchase insurance involves the **desire to insure against the risk of incurring a loss**.[286] The standard model underlying such decision-making under risk is **expected utility theory**.[287] This theory assumes that **individuals are rational** and display a reasonable degree of **risk aversion**. They are furthermore forward looking, which means that they are able to consider events in the near and far future and make decisions accordingly.

Situations in which consumers decide to purchase insurance - classical economics perspective

From this rational consumer perspective, individuals should particularly be interested in insuring **large risks**, such as **low-probability, high-consequence risks**. This is because individuals' personal situations, including their overall wealth, would be highly affected by the occurrence of such events. Due to their risk aversion, they should be willing to insure against these risks (i.e. pay a certain sure amount in order to limit possible future losses).[288] Examples include adverse events that would cause significant strain to a person's financial situation but that occur very rarely, such as significant damage to one's home and personal belongings caused by fire, natural hazards or theft; or the risk of causing major damage to a vehicle or building, or harming a person in a car accident.

Small risks, characterised by high probability and low consequences, on the other hand can, at least to some extent, be **self-insured**. This means, individuals may be able to accumulate sufficient savings which would allow them to cover relatively small losses

[286] Kunreuther, Pauly, McMorrow (2013) 'Insurance & Behavioural Economics – Improving Decisions in the Most Misunderstood Industry', Cambridge University Press.
[287] Rothschild, Stieglitz (1976) 'Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information' in Foundations of Insurance Economics Vol. 14; von Neumann, Morgenstern (1944) 'Theory of Games and Economic Behavior, published by Princeton University Press, 2004.
[288] Rothschild, Stieglitz (1976) 'Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information' in Foundations of Insurance Economics Vol. 14.

without the need for an insurance provider.[289] Common small risks include for example: loss or accidental damage of a mobile phone, minor home contents (e.g. bicycle theft, broken glass, furniture, stolen mobile phone), and the payment of a collision damage fee in a car rental.

The rationale for self-insuring, as long as the risk is financially bearable, lies in the fact that insurance providers charge more than the *actuarially fair value*[290] of the insurance since they need to cover their administrative costs, and profits.[291]

In the economics literature on insurance theory, an actuarially fair premium is defined as the value of the expected loss. This means multiplying the probability of a loss with the expected size (value) of the loss. See for example in the Kunreuther (2013) book referred to above, p. 30f:

> *"..the premiums people pay for insurance against a given loss represent each person's likelihood of the untoward event multiplied by the magnitude of the resulting loss, the so-called actuarially fair premium. In the real world, however, premiums are higher in order to cover administrative costs and to provide a profit to the insurer"*

In this report, when the text refers to actuarially fair value of an insurance, or close to actuarially fair premium, it thus refers to the premium an insurer would charge in a fully competitive environment where it considers the expected value of the loss and its administration costs, but does not make significant additional profits.

As a result, rational consumers would purchase insurance as new risks emerge, renew insurance if risks continue to exist, increase/decrease cover if their exposure to certain risks increases or decreases, and switch insurance policy[292] if a better policy becomes available.

Information consumers' use when shopping for insurance - classical economics perspective

According to the classical theory of consumer behaviour, individuals **search for information** about which product to purchase **until the marginal costs of additional search efforts exceed the marginal benefits** of finding a cheaper, or better quality product[293] (meaning it can therefore be a rational decision not to compare all available insurers and insurance products in the market). Furthermore, rational consumers would search for information by the most effective and efficient means available.

Such product search would also apply to **insurance renewal**. However renewal is often not an active decision. In fact, it is common practice in many EU Member States to 'silently' renew contracts at the end of the term (e.g. Bulgaria, Germany, Finland, Croatia, Spain).[294] Automatic renewal can benefit consumers as it ensures continuous risk cover. This can be particularly important for mandatory cover such as (motor) third party liability.

[289] Rabin (2000) 'Risk aversion and expected-utility theory: A calibration theorem', Econometrica.
[290] An actuarially fair insurance premium in the economic theory of insurance is defined as the probability of the loss multiplied by the expected size (i.e. value) of the loss. See, for example, Kunreuther, Pauly, McMorrow (2013) p. 30f.
[291] Kunreuther, Pauly, McMorrow (2013) 'Insurance & Behavioural Economics – Improving Decisions in the Most Misunderstood Industry', Cambridge University Press.
[292] Klemperer (1995) 'Competition when Consumers have Switching Costs: An Overview with Applications to Industrial Organization, Macroeconomics, and International Trade', Review of Economic Studies.
[293] P. Diamond (1971) `A model of price adjustment', Journal of Economic Theory.
[294] Expert Group on European Insurance Contract Law, available at: http://ec.europa.eu/justice/contract/files/expert_groups/renewal_en.pdf, accessed 13/07/2016.

4.2.2. Behavioural economics in consumer demand for insurance

Behavioural economics acknowledges that consumers often do not behave in predictable and consistent ways as the rational/classical consumer theory describes. Instead, so called **behavioural biases**, i.e. systematic behavioural patterns which deviate behaviour from the rational benchmark, can influence decision making at every stage of the decision-making framework.

The most important biases in relation to consumer decision-making in non-life insurance markets are set out below according to the different stages of the consumer decision-making framework.

Biases affecting the way in which individuals access information:

Behavioural biases can influence the type of information consumers search for. They can cause consumers to **neglect important information** they would need to take into account in order to identify the most appropriate products given their personal situation. Biases at this stage of the consumer decision-making process could be especially harmful, as they could trigger effects on all subsequent stages of the purchasing process.

- **Limited attention**: Individuals' attention span is not unlimited. Human brains are said to function with two systems: a spontaneous system which is active in intuitive decisions (System 1) and a more deliberative system which requires effort to analyse more complex decisions (System 2).[295] Because System 2 requires more effort and analytic resources, we often try to simplify complex tasks such that we can rely on the easier System 1 to find solutions. This can influence the way consumers search for and access information. Consumers may tend to focus on products and product features that capture their attention.[296] Consequently, individuals' may be more interested in purchasing a travel cancellation policy while booking a trip abroad, than in insuring their home contents. While the latter is of greater importance, in terms of possibly harmful economic effects, its value is oftentimes less present and less salient during the insurance purchasing process. Moreover, the information about the potential loss (e.g. the value of the holiday) is more obvious in the decision to purchase travel cancellation than home contents insurance. This bias can influence consumers' motivation for buying insurance as well as how they access information regarding specific products.
- **Framing effects:** The way information is presented to consumers can affect how information is accessed and searched for. For example, in order to save €10, individuals may compare prices for a low-value good (e.g. a pair of headphones) that includes insurance worth €10, but not search for a €10 discount on a comprehensive car insurance worth €500 per year. While the potential amount saved is the same, consumers may only find it worth exerting the additional effort in the first contingency as it represents a larger share of the total price.[297]
- **Probability weighting:** Individuals are said to be poor statisticians as they tend to misinterpret probabilities.[298] The misinterpretation in the context for non-life insurance is twofold: First, consumers find it difficult to correctly interpret the meaning of given probabilities (i.e. what does it mean if there is a 1 in 100 chance of suffering a damage due to flood).[299] Second, they find it difficult to assess the

[295] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.
[296] Cutler, Zeckhauser (2004) 'Extending the Theory to Meet the Practice of Insurance', Brookings-Wharton Papers on Financial Services.
[297] Tversky, Kahneman (1981) 'The framing of decisions and the psychology of choice', Science.
[298] Tversky and Kahnemann (1992) `Advances in prospect theory: Cumulative representation of uncertainty', Journal of Risk and Uncertainty, Volume 5, Issue 4.
[299] Kunreuther, Pauly (2014) 'Behavioral Economics and Insurance: Principles and Solutions', Risk Management and Decision Processes Center, Working Paper.

likelihood of certain risks in the absence of objective data (i.e. what is the chance of a flood occurring in a specific area). Both difficulties lead consumers to **over- or underestimate** the occurrence of uncertain events and may influence the types of insurance consumers search for.

Biases affecting the way individuals assess information

Several findings from behavioural economics can influence the way consumers perceive and digest information on non-life insurance. The most important concepts are listed below:

- **Salience[300]:** Salience is a physiological concept which is related to the way our brains notice stimuli of different intensities. In behavioural economics it is commonly linked to limited attention. If a feature of a product is attention grabbing, i.e. salient, consumers tend to focus more easily on it and may in turn overweight its importance. This may lead to consumers focusing only on highlighted products on a comparison website, such as the first listed products. This particular behaviour is also known as the "listing bias".[301]
- **Timing of information:** In addition to framing effects described above, also the timing at which information is presented can have a powerful influence on the way consumers analyse and understand information.[302] If attention is focused on the choice of the main insurance product, the attention paid to additional decisions surrounding this main purchase may be lower. In an insurance context this can, for example, mean that consumers do not appreciate the **importance of insuring additional, substantial risks** such as natural hazards in their buildings insurance if the information about such add-ons becomes available after the choice of the main product is made. This could lead to **underinsurance**. Similarly, offering insurance at very salient moment, for example at the point of sale, can increase attention paid to additional, irrelevant risks, which could lead to **overinsurance**.
- **Drip pricing:** Also related to the timing of information is the practice called 'drip pricing'. Products may be advertised with cheap up front prices for basic coverage, and during the purchasing process additional prices are 'dripped' through add-ons, and payment methods. For example, consumers may be shown a flat-fee for a household contents insurance, but later on offered additional cover such as emergency home assistance, key insurance, coverage for legal expenses, and bicycle insurance. Such add-ons are commonly priced well above actuarial value.[303] Consumers may choose a provider based on the cheap up-front price and fail to compare total product packages. Drip pricing has been identified as one of the most powerful price frames in behavioural experiments.[304]

[300] Della Vigna (2009) `Psychology and Economics: Evidence from the Field'. Bordalo, Shleifer and Gennaioli (2012) `Salience Theory of Choice Under Risk', The Quarterly Journal of Economics 127 (3).

[301] European Commission (2013) `Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools'. IVASS (2014) `Indagine sui siti comparativi nel mercato assicurativo italiano'.

[302] Financial Conduct Authority (2014) `Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?', https://www.fca.org.uk/news/occasional-paper-no-3; Office for Fair Trading (2010) `The impact of price frames on consumer decision making', http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/economic_research/OFT1226.pdf.

[303] Baker, Siegelmann (2013) ''You Want Insurance with That?' Using Behavioral Economics to Protect Consumers from Add-on Insurance Products', Connecticut Insurance Law Journal.

[304] Office for Fair Trading (2010) `The impact of price frames on consumer decision making', available at : http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/economic_research/OFT1226.pdf, accessed 10.02.2016.

Financial Conduct Authority (2014) `How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation?', available at : https://www.fca.org.uk/news/occasional-paper-no-3, accessed 10.02.2016.

- **Teaser rates:** Another harmful market practice uses teaser rates to target consumers. With teaser rates, the timing of information is not constrained to the moment of purchase, but is important during the lifetime of a product. Teaser rates, most commonly used in credit card sales, are used to attract consumers with very attractive offers which expire after an initial period. Follow-up rates are often worse than market average, or are coupled with other high, hidden charges, but consumers often tend to stick with providers due to inertia (see below).[305] Similar practices can be seen in the insurance market when renewal premiums are higher compared to premiums offered to new customers, or compared to the premium paid previously (in absence of any claims).[306]
- **Preference for the familiar**: Individuals tend to simplify complex decisions by focusing on familiar aspects or products.[307] It has been shown that individuals disproportionately invest in stocks issued in their home country or home state, violating rules of diversification.[308] This heuristic is likely to **deter also cross-border purchases of insurance**. Since consumers are less likely to be familiar with the contracts offered by foreign providers, and may associate more complexity and uncertainty with such offers, they refrain from purchasing them. For example, consumers could be worried about the way claims are handled in case of damage. Such uncertainties may deter them from even evaluating offers from foreign providers and neglecting their potential upsides.

Biases affecting behaviour when purchasing insurance (acting upon information)

Numerous biases mentioned above can eventually influence product choice. The way information is presented and framed influences choice, especially when information is accessed through comparison tools.[309] Some additional behavioural drivers that can affect behaviour at the moment at which consumers act upon information are:

- **Overconfidence:** Overconfident individuals have a biased picture of some of their capabilities.[310] Overconfidence is a fairly widespread behaviour and has been observed in a number of different contexts within the behavioural literature. For example, a person may believe she is a better driver than she actually is and therefore purchase too low coverage for her car.[311] In addition, consumers can overestimate their performance in tasks requiring ability, including the precision of their information.[312] This could lead to underinsurance if individuals incorrectly assess the level of coverage they actually require.
- **Present bias:** Individuals tend to be present biased, meaning that they focus excessively on the present and fail to appreciate events happening in the future.[313] This bias may, among other things, explain why many consumers

[305] See for example: FCA (2013) 'Applying behavioural economics at the Financial Conduct Authority'.
[306] The FCA has tested improved renewal notices including the previously paid premium to make increases in insurance premiums more salient and encourage switching: FCA (2015) 'Occasional Paper No. 12: Encouraging consumers to act at renewal: Evidence from field trials in the home and motor insurance markets'.
[307] DellaVigna (2009) `Psychology and Economics: Evidence from the Field', The Journal of Economic Literature, Vol. 47, No. 2.
[308] Karlsson, Norden (2007) 'Home sweet home: Home bias and international diversification among individual investors', Journal of Banking & Finance; Tesar, Werner (1995) 'Home bias and high turnover', Journal of International Money and Finance.
[309] IVASS (2014) `Indagine sui siti comparativi nel mercato assicurativo italiano'; European Commission (2013) `Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools'.
[310] Svenson (1981) `Are we all less risky and more skilful than our fellow drivers?', Acta Psychologica 47. Odean (1999) `Do Investors Trade Too Much?', The American Economic Review, Vol. 89, No. 5. Barber, Odean (2001) `Boys will be Boys: Gender, Overconfidence, and Common Stock Investment', The Quarterly Journal of Economics.
[311] Sandroni and Squintani (2007) `Overconfidence, Insurance, and Paternalism', The American Economic Review, Vol. 97, No. 5.
[312] DellaVigna (2009) `Psychology and Economics: Evidence from the Field', The Journal of Economic Literature, Vol. 47, No. 2.
[313] Laibson (1997) 'Golden Eggs And Hyperbolic Discounting', Quarterly Journal of Economics.

purchase insurance with too low excess than would be optimal given their personal risk profile. At the moment of purchase, they may focus too much on this up-front cost of a claim and disregard the potential long term savings due to lower monthly premiums if a claim does not occur.

- **Peace of mind:** Consumers may purchase products without giving their decision too much thought for motivations relating to 'peace of mind'. This is the main driver in decisions leading to **overinsurance** and to **payment of premiums** which are too expensive for the cover they offer.[314] This motivation is linked to loss and regret aversion. Consumers may fear a potential loss to an extent that makes them willing to pay a high premium to insure against it. Moreover, they may fear the regret they would feel in case they did not purchase the insurance cover and a claim arose.
- **Persuasion and social influences:** Consumers may substitute professionalism and trustworthiness with likeability. If they find their insurance advisor or retailer sympathetic, it may lead them to trust his or her advice even if it is of poor quality. This bias is particularly worrisome as intermediaries may rather easily exploit it through specific sales training.[315]
- **Trust:** Consumers may make decisions based on feelings of trust, whether towards a sales person or advisor, or towards a specific firm or brand. Classical economic theory assumes fully rational and self-interested decision making. Therefore, within the classical framework trust is not part of decision-making, and mis-trust which leads individuals to cautious behaviours would thus be fully in line with the classical model. Trust on the other hand, can be a heuristic and help reduce transaction costs, especially search costs, as individuals may rely on the advice and expertise of others.

  Furthermore, trust may play a particular role in insurance purchases due to the product characteristics as **credence goods**. By nature of the product, a customer will only fully experience the product's quality in case a claim arises. The customer must therefore trust that the insurer will provide effective cover in case of a claim prior to purchasing the insurance policy.
- **Economics of scarcity:** It has been shown that individuals' decision making can be heavily impaired when facing scarce resources. Scarcity can, for example, relate to poverty in terms of available money, food, or time. With scarce resources, individuals face more trade-offs about how to use the precious resources. Because such continuous trade-offs can be depleting for cognitive capacities, decision making ability can deteriorate, for example by increased impulsivity and intuitive thinking.[316] In insurance purchases, scarcity becomes important when decisions are taken under time pressure, but also in relation to general (money) poverty. Less financially able individuals have been shown to take worse decisions[317] in complex situations compared to the more affluent. For example, it is possible that some individuals choose too high an excess for their financial ability which would put them under pressure if a claim occurs.

[314] Schwarcz (2010) 'Regulating Consumer Demand in Insurance Markets' Erasmus Law Review; Baker, Siegelmann (2013) '"You Want Insurance with That?" Using Behavioral Economics to Protect Consumers from Add-on Insurance Products' Connecticut Insurance Law Journal.

[315] Cain et al. (2005) `The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest', Journal of Legal Studies, vol. 34. ; S. DellaVigna and M. Gentzow (2009) `Persuasion: Empirical Evidence', Annual Review of Economics, Vol. 2.

[316] See seminal papers on the economics of scarcity: Mani, Mullainathan, Shafir, Zhao (2013) 'Poverty Impedes Cognitive Function', Science. Shah, Mullainathan, Shafir (2015) 'Scarcity Frames Value', Psychological Science.

[317] In this context "worse decisions" could mean several things: e.g. buying insurance when it is not required, not buying when insurance is required, or buying an inappropriate cover.

Biases affecting behaviour during the lifetime of insurance contracts (post-sales)

- **Hindsight bias**[318]: Consumers often regret not having purchased specific insurance following the occurrence of an event which can lead them to insure against future occurrences of similar events. For example, insurance against natural hazards has rapidly increased (by 83% in 10 years) following flooding of the Elbe in Germany in 2002.[319]
- **Narrow framing:** The literature speaks of narrow framing when individuals focus too much attention on single events instead of looking at the bigger picture.[320] In the context of non-life insurance this may lead consumers to cancel their insurance policy after a few years without making a claim. Consecutive non-damage years may give the impression that the risk of a damage has decreased, thus making insurance cover less important. However, most risks, for example natural disasters, have random recurrence intervals and are not at all linked to previous no-damage periods.
- **Waste aversion**: Another bias that could cause the same type of behaviour is waste aversion. Individuals have been shown to be waste averse with regards to insurance premiums.[321] They may get frustrated over an existing policy if a claim never occurred. Believing to have "wasted" the money spent on insurance may lead people to stop purchasing the same insurance in the future.
- **Pseudodeductibles**: The existence of 'pseudodeductibles' (i.e. 'pseudo-excess') can inhibit individuals from making claims for which they are eligible.[322] In addition to the contractually agreed excess, individuals may be reluctant to file claims for only marginally larger claims because they fear the complexity of the claims process and future increases in premiums.
- **Decision inertia and status quo bias**: Decision **inertia** is also known as 'choosing not to choose'[323] and is linked to the **status quo bias** due to which individuals tend to stick with their present choice fearing the potential losses they may incur if they switched to an alternative.[324] These biases are relevant for consumer behaviour in insurance especially in regards to switching behaviour. A study by the UK Financial Conduct Authority has examined switching behaviour and found that even renewal notices are not sufficient to overcome the behavioural drivers behind inertia.[325] Consequently, the Italian Insurance

[318] Hoffrage, Hertwig, Gigerenzer (2000) 'Hindsight bias: A by-product of knowledge updating?', Journal of Experimental Psychology: Learning, Memory and Cognition.

[319] GDV – The German Insurers 'Zahlen und Fakten' available at: http://www.gdv.de/2013/06/wo-die-meisten-haeuser-gegen-hochwasser-versichert-sind/, accessed 25/08/2016. According to the GDV, across Germany 3 million households had natural hazards cover in 2002 (Elementarschäden). This number rose to 5.5 in 2010, which represents an increase of 83%. The source does not give information on whether the increase is fully attributable to the Elbe flooding. Similarly, in the US, many families were devastated because they were insured against hurricane winds but not against the flooding caused by hurricane. See Kunreuther, Pauly (2005) 'Rules rather than discretion: Lessons from Hurricane Katrina', Journal of Risk and Uncertainty.

[320] S. Benartzi and R. Thaler (1995), `Myopic Loss Aversion and the Equity Premium Puzzle', The Quarterly Journal of Economics 110. U. Gneezy and J. Potters (1997) `An Experiment on Risk Taking and Evaluation Periods', The Quarterly Journal of Economics.

[321] de Meza and Diane Reyniers (2015) `Evidence that waste aversion begets insurance aversion', Economics Letters 126.

[322] Braun et al. (2006) 'Modeling the "Pseudodeductible" in Insurance Claims Decisions', Management Science; Kerr (2012) 'Exploring the Role of Pseudodeductibles in Auto Insurance Claims Reporting', Journal of Insurance Issues.

[323] Thaler (1980) 'Toward a positive theory of consumer choice', Journal of Economic Behavior & Organization.

[324] Kahneman, Knetsch, Thaler (1990) 'Experimental Tests of the Endowment Effect and the Coase Theorem', Journal of Political Economy; Kahneman, Knetsch, Thaler (1991) 'Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias', Journal of Economic Perspectives.

[325] FCA (2015) `Encouraging consumers to act at renewal: Evidence from field trials in the home and motor insurance markets', available at: https://www.fca.org.uk/news/occasional-paper-no-12, accessed 09.02.2016.

Supervisory Authority (IVASS) has banned the use of automatic renewals in the market for motor insurance in 2013.[326]

4.3. Situations in which consumers decide to buy or renew insurance

This section examines evidence from the literature review, focus groups and online consumer survey regarding the following key issues in relation to situations in which consumers decide to buy or renew insurance.

- General motivations for purchasing or renewing insurance.
- Specific situations that prompt consumers to buy insurance.
- Reasons behind switching insurance providers.
- Willingness to buy car rental and add-on insurance

As previously mentioned (Section 4.1), from the classical economics perspective of the fully rational consumer, individuals should be particularly interested in insuring **large risks**, such as **low-probability, high-consequence risks** in which a consumer's personal situation and overall wealth would be severely impacted by the occurrence of an adverse event. This contrasts to **small risks** of high probability and low impact for which consumers are more able to self-insure.

Consumers' purchasing behaviour is however also influenced by behavioural biases (section 4.2), which include overconfidence, present bias, peace of mind, persuasion and social influence, trust and economic scarcity. The presence of these biases in consumer decision making mean that the classical framework prediction that consumers would only buy insurance in situations in which the financial and personal costs of an adverse event is not bearable, may not always hold.

The same principles also apply to **insurance renewal**. However, renewal is often not an active decision. In fact, it is common practice in many EU Member States to 'silently' renew contracts at the end of the term (e.g. Bulgaria, Germany, Finland, Croatia, Spain).[327] Automatic renewal can benefit consumers as it ensures continuous risk cover. This can be particularly important for mandatory cover such as motor third party liability. However, it may also obscure any prompts to consider the attributes of the product and whether renewing the same contract is the best approach or to search and possibly switch provider.

4.3.1. General motivations for purchasing or renewing insurance

This subsection presents evidence on consumers' general motivations for purchasing or renewing insurance. The key findings from all strands of research are summarised up front, with more in-depth findings presented in dedicated boxes below.

- According to the findings from the focus groups and the literature, consumers across Member States decide to purchase insurance because it is mandatory, or otherwise required in certain situations (e.g. third party liability insurance is mandatory for driving a car, lenders often require buildings insurance for mortgage approval). When a particular type of insurance is mandatory, it can also motivate the purchase of additional cover (e.g. comprehensive motor cover is purchased by the majority of UK consumers), or it can lead consumers to just insure the legal minimum (e.g. this was the case for many consumers in Italy and Romania).

[326] IVASS (2013) `Decreto legge "Sviluppo bis": nuove norme a favore dei consumatori', available at : http://www.ivass.it/ivass_cms/docs/F16302/scheda%20sviluppo%20bis.pdf, accessed 09.02.2016.

[327] Expert Group on European Insurance Contract Law, available at: http://ec.europa.eu/justice/contract/files/expert_groups/renewal_en.pdf, accessed 13/07/2016.

- Another key motivator for purchasing insurance that emerged from the focus groups was safety and the wish to feel 'protected' in moments of crisis.

- The most common general motivation reported by respondents to the consumer survey for purchasing insurance across all product categories included in the study was for peace of mind. This ranged from 29% for home insurance to 62% for home assistance.

- In regard to situational drivers for purchasing insurance, advice by a commercial party was found to be the most common driver across all products except for motor insurance where advice from a friend or family was most common.

- In terms of motivations for renewing insurance, the most common reason across all products for which this question was asked (buildings and contents, comprehensive car insurance and home assistance), was that the respondent had looked at alternatives but considered their current provider offered the best deal. This was 53% for comprehensive car insurance, and 45% for both home assistance and buildings and contents insurance.

Box 1 : Evidence from the focus groups

In the focus groups, insurance products were generally perceived, first of all, as a **necessity**. In **all countries**, insurance was associated with consumers' need to feel protected, and to protect their family and their belongings. Insurance is something that is needed "in order to feel safe".

> *"I want to feel safe. That whatever happens, it will work out. I want to sleep well at night. If anything happens to me it will be a crisis situation anyway, it helps to know that at least I'm covered by insurance."* (Woman, 47, lower education, Stockholm)

Views on insurance varied by country, as in **Romania** and, to some extent, in **Italy**, participants also brought up the mandatory aspect of home and motor insurance, perceiving it primarily as a "**legal obligation"**.

Some "older" (40+) participants in Italy had overall negative attitudes towards the insurance sector, mainly due to past negative experience (with regards to the risks covered and those which are not covered), as well as due to a certain lack of understanding of insurance products. These participants considered home insurance and motor insurance mainly as an obligation:

> *"As far as I am concerned, it is an obligation, I would avoid it if I could, but I can't!"* (Man, 42, lower education, Milan)

"Younger" participants in Italy, on the other hand, were more open towards the sector, and they also felt more need for safety. These participants were also more informed and more pro-active, i.e. selecting their insurance products more carefully and trying to understand them.

In **Slovakia**, participants acknowledged the need for insurance in order to protect their belongings from potential risks (natural disasters, theft), but were not willing to pay "a lot of money" for insurance. The type of insurance products they typically owned were home and motor insurance.

Finally, in **Germany, Sweden and the UK**, participants' needs in terms of insurance products were most diverse. Apart from the "basic" home insurance and motor insurance, participants mentioned having (or having had in the past) various other types of insurance, such as accident insurance, liability insurance, but also travel insurance, pet insurance, wedding insurance or phone insurance.

Box 2 : Evidence from the literature

One of the main motivations for consumers to buy non-life insurance products is that it is **mandatory**. Indeed, the EU Directive 2009/103/EC[328], relating to insurance against civil liability in respect of the use of motor vehicles, states that all motor vehicle owners must have motor third party liability insurance for their vehicle. By extension, car rental companies must also provide third party liability insurance for rented vehicles. In addition, household insurance is compulsory in some Member States. In France, tenants must subscribe to an insurance covering rental liability for the property in line with Law n°89-462[329], while homeowners must have civil liability insurance for their household according to Law n° 2014-366[330]. In Luxembourg, the law of 21 September 2006[331] and the Civil Code[332] indicate that tenants have an obligation to subscribe to a household insurance against rental risks such as fire, water damage, theft, glass breakage and storm. In Romania, it is compulsory for homeowners to have building insurance under Law 248/2010[333], the compulsory insurance covers the risks of earthquakes, landslides and floods, allowing people to receive up to EUR 20,000 in damage claims. In Spain, pursuant to Law 14/2007[334], new house owners, if they have taken a mortgage, are obliged to have a household insurance in case of fire. In the UK, banks require buildings insurance for homeowners to obtain a mortgage, and it must be at least enough to cover the outstanding mortgage. Furthermore, banks can reject the homeowner's choice of insurer, however they cannot request them to use their own insurance policy[335]. In Germany, household contents and building insurance is currently not compulsory. Fire insurance for homeowners was mandatory in the past, and several companies were dominating the market at regional level. The obligation to insure ended in 1994 due to the EC deregulation of the insurance sector.

Box 3 : Evidence from the survey

Respondents to the consumer survey were asked about their motivations for buying the types of insurance that they indicated they had purchased in the past. The different motivations can be divided into *general motives* and *situational drivers*.

- *General motives* refer to underlying perceptions and opinions towards insurance including beliefs that it is likely they will make a claim, that the insurance provides peace of mind, that it is important to cover the relevant risks, or that the insurance is mandatory (whether or not this is in fact the case).

[328] Directive 2009/103/EC - Civil liability insurance for motor vehicles. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0103&from=EN

[329] Loi n° 89-462 du 6 juillet 1989 tendant à améliorer les rapports locatifs et portant modification de la loi n° 86-1290 du 23 décembre 1986 https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000509310

[330] Loi n° 2014-366 du 24 mars 2014 pour l'accès au logement et un urbanisme rénové. Available at: https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000028772256&categorieLien=id

[331] Loi du 21 septembre 2006 sur le bail à usage d'habitation et modifiant certaines dispositions du Code civil. Available at: http://www.legilux.public.lu/leg/a/archives/2006/0175/a175.pdf

[332] Code Civil. Available at: http://www.legilux.public.lu/leg/textescoordonnes/codes/code_civil/CodeCivil_PageAccueil.pdf

[333] AvocatNet.Ro, 2011, Ce modificari s-au adus legii nr. 260/2008 privind asigurarile obligatorii ale locuintelor. Available at: http://www.avocatnet.ro/content/forum%7CdisplayTopicPage/topicID_183776/CE-MODIFICARI-S-AU-ADUS-LEGII-NR-260-2008-PRIVIND-ASIGURARILE-OBLIGATORII-ALE-LOCUINTELOR.html

[334] Ley 41/2007, de 7 de diciembre, por la que se modifica la Ley 2/1981, de 25 de marzo, de Regulación del Mercado Hipotecario y otras normas del sistema hipotecario y financiero, de regulación de las hipotecas inversas y el seguro de dependencia y por la que se establece determinada norma tributaria. Available at: https://www.boe.es/buscar/doc.php?id=BOE-A-2007-21086

[335] https://www.citizensadvice.org.uk/debt-and-money/insurance/types-of-insurance/buildings-insurance/

- Situational drivers, on the other hand, refer to consumers' specific experiences that have prompted them to purchase insurance, including having experienced a loss or being advised to buy insurance by someone else.

The results relating to consumers' general motives for buying insurance are presented in this box. Box 6 in section 4.3.2 reports on the situational drivers of insurance purchases.

The most popular general motivation behind purchasing insurance, across almost all product categories, is that it 'provides me with peace of mind' (the exception being home insurance, where the most popular motive is 'It's important to cover the risk'). This ranged from 29% for home insurance to 62% for home assistance (see Table 27). This answer was the most frequent or second most frequent response across all products, among both the general and situational driver motives. The highest incidences of this answer were for home assistance (62%) and travel (56%) insurance.

The response that they bought insurance because it was mandatory ranged from 28% for motor and car rental insurance to 21% for home insurance. While 51% of respondents who had or had previously purchased home insurance reported that they considered it was important to cover the risk.

Table 27: General motives for buying insurance (% of respondents)

Motive	Home	Motor[1]	Car rental	Travel	Add-on[2]	Home assist
The insurance was mandatory[3]	21.4	28.2	28.4	-	-	-
I believe it is likely I may need to file a claim	5.0	11.6	11.7	22.4	19.8	11.7
It provides me with peace of mind	29.1	48.9	34.4	55.6	53.2	61.5
It's important to cover the risk	50.8	-	-	-	-	-
Sample size (N)	1,548	717	295	732	700	268

Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 22). The options presented in the table were not relevant/provided for all different insurance types, and where this was the case a '-' is displayed in the table.
1. Comprehensive motor insurance. 2. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
3. Different reasons why the insurance may be mandatory were offered as answers, depending on the type of insurance in question, including in order to 'buy or rent my home', 'register and drive my car/lease my car' and 'rent the car', in case of home, motor and car rental insurance respectively.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q2, "Why did you buy this insurance?"

The country-level results (Table 28) show that a similar pattern is observed across countries, with peace of mind being a particularly common reason for purchasing insurance. This is particularly the case in Sweden and the UK. In Sweden this was highest for comprehensive car insurance with 71% of respondents selecting this reason, followed by home assistance with 52%, and car rental with 50%. In the UK this was particularly high for travel, add-on and home assistance, with 70%, 68% and 79% respectively of UK respondents selecting this reason.

Across countries, there is a large variation in the proportion of respondents that purchased home insurance because they thought it was important to cover the risk. In Germany and the UK the proportions were 56% and 60% respectively, whereas in Italy and Slovakia this is 33% and 37% respectively. This could be due to cultural differences affecting perceptions of risk and the importance of precautionary coverage.

Table 28: General motives for buying insurance by country (% of respondents)

		Home	Motor[1]	Car	Travel	Add-	Home

				rental		on[2]	assist
DE	The insurance was mandatory[3]	19.1	19.2	27.4	-	-	-
	I believe it is likely I may need to file a claim	9.9	22.1	15.3	31.1	42.6	23.2
	It provides me with peace of mind	20.9	51.9	31.3	45.6	42.4	27.0
	It's important to cover the risk	55.7	-	-	-	-	-
	Sample size (N)	294	148	67	149	94	12
IT	The insurance was mandatory[3]	30.5	26.8	34.2	-	-	-
	I believe it is likely I may need to file a claim	0.5	7.3	9.9	11.9	10.8	4.3
	It provides me with peace of mind	24.5	43.2	26.0	54.2	51.2	45.5
	It's important to cover the risk	32.5	-	-	-	-	-
	Sample size (N)	192	90	76	90	145	55
RO	The insurance was mandatory[3]	20.2	45.1	42.6	-	-	-
	I believe it is likely I may need to file a claim	0.0	4.0	16.4	26.9	4.3	7.5
	It provides me with peace of mind	26.0	36.6	22.2	56.5	59.2	57.4
	It's important to cover the risk	43.1	-	-	-	-	-
	Sample size (N)	221	119	26	121	115	25
SK	The insurance was mandatory[3]	17.7	46.3	21.6	-	-	-
	I believe it is likely I may need to file a claim	3.7	16.4	15.2	1.6	15.7	11.6
	It provides me with peace of mind	27.6	40.9	18.7	70.8	59.0	48.4
	It's important to cover the risk	37.0	-	-	-	-	-
	Sample size (N)	260	130	11	130	105	74
SE	The insurance was mandatory[3]	24.8	13.4	11.8	-	-	-
	I believe it is likely I may need to file a claim	2.3	2.7	5.5	11.2	8.4	20.5
	It provides me with peace of mind	41.0	71.4	50.0	47.6	48.2	52.4
	It's important to cover the risk	42.7	-	-	-	-	-
	Sample size (N)	298	88	49	101	153	18
UK	The insurance was mandatory[3]	19.6	35.7	24.9	-	-	-
	I believe it is likely I may need to file a claim	3.0	2.5	9.3	18.0	12.5	14.0
	It provides me with peace of mind	41.7	50.3	45.7	70.2	68.1	79.4
	It's important to cover the risk	59.9	-	-	-	-	-
	Sample size (N)	283	142	66	141	88	84

Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 23). The options presented in the table were not relevant/provided for all different insurance types, and where this was the case a '-' is displayed in the table.
1. Comprehensive motor insurance. 2. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
3. Different reasons why the insurance may be mandatory were offered as answers, depending on the type of insurance in question, including in order to 'buy or rent my home', 'register and drive my car/lease my car' and 'rent the car', in case of home, motor and car rental insurance respectively.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q2, "Why did you buy this insurance?".

4.3.2. Specific situations that prompt consumers to buy or renew insurance

This section explores in more detail specific situations that prompt consumers to buy or renew insurance. In addition to some broad insights gained from existing literature (Box

5), the information presented is based on targeted discussions during the focus groups (Box 4). The following points summarise the main findings:

- The focus groups and the literature reveal that life events, such as moving home, or the purchase of a new vehicle, usually trigger insurance purchases. These triggers are in line with the classical economic rationale of insurance purchases which are linked to emergence of new or substantial change of existing risks.
- Purchases of add-on or car rental insurance are usually initiated at the point-of-sale when such policies are presented by ancillary sellers such as car rental agents or retailers.
- Finally, the occurrence of a damage can be a powerful reminder for consumers to close gaps in their existing insurance portfolio.
- Evidence from the consumer survey indicates that the most common situational driver for the purchase of insurance is advice. In the case of car rental insurance, home insurance, car insurance and travel insurance, advice from a commercial party was the most common source, while in the case of motor insurance advice from friends or family was most common.
- Respondents to the consumer survey who had renewed their insurance with the same provider in the past, reported that the most common reason was because they had considered alternatives but considered that their current provider had the best offer.
- For respondents who had switched provider in the past the most common reason was the new provider offered a better deal in terms of premium/excess. 54% for buildings and contents insurance, 60% for comprehensive motor insurance, and 57% for home assistance (see table 31).

Box 4 : Evidence from the focus groups

The group discussions showed that the means of selecting and purchasing insurance differ from one type of product to another. **Home insurance** (building and/or contents) is typically bought when moving into a flat or house, and held for a long period of time. Switching home insurance is not very common, and mainly occurs when moving house, or when purchasing additional goods for the house, which may be rational if the benefits from switching are low. Across the six countries, many participants have had their home insurance for several years, and some find it difficult to remember the exact details of the selection process.

Focus group participants stressed the importance of having a long-standing relationship with their home insurance provider, even if the cost of their insurance was higher compared to other alternatives. Switching insurance companies is seen as a risk, for two main reasons; firstly, people feel it is important for the insurance company to have a track record of their claims, in order to build trust:

> *"I think it is good to have a longer relationship. They can see that I have not made so many claims on insurance, so it is less likely to be a problem when I actually have to make a claim. They can see that I'm a normal customer and not trying to use the system."* (Woman, 29, higher education, Stockholm)

Secondly, a different company might provide less quality service:

> *"It feels somewhat risky to switch insurance. The amount of money does not differ too much between insurance, and if I know the conditions of my current insurance and it works well, it saves me the trouble to read about other insurance. It is comfortable to stick with the one I have."* (Woman, 48, higher education, Stockholm)

The tendency to keep the same home insurance provider for a long period of time is strong in most countries. Switching and comparing offers is somewhat more common

in the UK compared to the other countries, although here as well, most focus group participants have had the same home insurance provider for a long time.

Participants were generally more experienced with switching **motor insurance**, and therefore had been more pro-active when selecting and switching this type of insurance product. This was particularly the case in **the UK**, where participants found that it was easier to compare and understand offers for motor insurance than it was for home insurance. This attitude can be explained, on the one hand, by the fact that motor insurance is mandatory, and, on the other hand, by the fact that respondents were more likely to have made a claim on their motor insurance than on their home insurance. All focus group participants in the UK had bought fully comprehensive covers.

> *"You can't drive, it's illegal to drive without car insurance, while don't have to have house insurance. That's what makes you more aware of it."* (Woman, 37, higher education, London)

In **Italy** and **Romania**, some participants have previously bought basic motor insurance, while others have bought more comprehensive ones. The need for comprehensive insurance is driven by various factors, such as the type of car (if new or more expensive), the fact of not having a private garage, the area of residence (in terms of perceived likelihood of vandalism or theft), the frequency of use of a vehicle, or the "trust" towards the person driving it.

Generally, **add-on insurance and car rental insurance** are bought at the point of sale, i.e. at the same time as the product purchase or when picking up the car. Participants therefore had little time to decide whether or not to buy the additional insurance, and what type of cover they wanted, or to go through all the information in detail. Confusion was highest in the case of car rental insurance (particularly in Germany, Slovakia and Italy), where participants were unsure about what was covered by the additional insurance, and what was included in the basic cover. Participants in Romania believed that the basic car rental insurance, along with other types of insurance (e.g. travel insurance) covered most risks.

> *"We have travel insurances that cover everything so the extra ones from the car rental company are useless because they cover for the same risks, so no, I wouldn't pay for one."* (Man, 39, higher education, Bucharest)

Box 5 : Evidence from the literature

Literature shows that purchases of insurance are often linked to specific life events, which influence individuals' risk aversion or risk perception. It has, for example, been found that the degree of risk aversion heavily increases following the birth of a child.[336] Individuals also decide to purchase insurance at occasions which are not necessarily linked to the emergence of a new risk. For example, surges in insurance demand have regularly been observed following media coverage on natural disasters and terrorist attacks.[337] Such behaviour is linked to the 'salience bias' which lets individuals focus on information that is readily available.

In regards to add-on, travel, and car rental insurance, consumers are often prompted

[336] Görlitz and Tamm (2015) `Parenthood and Risk Preferences', IZA Discussion Paper No. 8947.
[337] Kunreuther (1996) `Mitigating disaster losses through insurance', Journal of Risk and Uncertainty, Volume 12, Issue 2. GDV – The German Insurers 'Zahlen und Fakten' available at: http://www.gdv.de/2013/06/wo-die-meisten-haeuser-gegen-hochwasser-versichert-sind/, accessed 25/08/2016.

to purchase such products in combination with the purchase of the main product or service.[338] When purchasing a new, and potentially expensive product, such as a mobile phone, consumers may feel affection[339] for the particular good which lets them seek protection for this good. Similarly, sales practices, such as point-of-sale offers[340], try to use the momentum to draw consumers' attention to the potential risks relating to the product, and benefit of insurance. Finally, the occurrence of a damage tends to trigger interest in insuring the same, or similar risks in the future.[341]

Box 6 : Evidence from the survey

Situational drivers of insurance purchases

As explained previously in Box 3, participants were asked about their motivations behind purchasing the types of insurance products that they indicated that they had purchased in the past. These motivations were split into the categories of general motives and situational drivers. This box considers situational drivers.

As shown in Table 29 the most frequently cited situational driver of insurance purchases was that respondents were advised to do so by a commercial party or 'professional' (e.g. a financial advisor or bank, car rental agency, travel agent, sales assistant, retailer, or insurer). This ranged from 43% for car rental insurance to 5% for comprehensive car insurance. Advice was also the most common driver for purchasing motor insurance but it was advice from friends or family that was the most prevalent at 13%.

In the case of car rental insurance 43% of respondents reported that they purchased insurance because they were advised to buy by a commercial party, namely the car rental agency or the travel agency. In the case of add-on insurance 34% of respondents reported they had been advised by the sales assistant or retailer at the time they were purchasing the original/primary product. The motivation for purchasing insurance due to advice from a commercial party was highest in Romania in the case of add-on insurance (49%). For car rental this motivation was most prevalent amongst respondents in the UK (50%).

In the behavioural experiment (section 5.2), the add-on purchase process and the purchase of car rental insurance was simulated. Time pressure was introduced in the experiment to proxy the presence of sales pressure. Observations found that when time pressure on how long the respondent had to make a choice was introduced, the quality of respondents' decisions declined. These findings, combined with the observations from the consumer survey, indicate that when consumers' motivation for purchasing insurance is due to sales advice or pressure consumers can be made worse off.

When comparing Table 27 on general motives with Table 29 on situational drivers, it appears that general motives are the more common reason for taking out insurance compared to the situational motives amongst respondents. On average across the six insurance products, 47% of respondents selected the most popular general motive, 'It

[338] Financial Conduct Authority (2014) `Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?', https://www.fca.org.uk/news/occasional-paper-no-3
[339] Hsee, Kunreuther (2000) 'The Affection Effect in Insurance Decisions', Journal of Risk and Uncertainty.
[340] Baker, Siegelmann (2013) ''You Want Insurance with That?' Using Behavioral Economics to Protect Consumers from Add-on Insurance Products', Connecticut Insurance Law Journal. FCA (2014) 'General Insurance Add-Ons: Final Report – Confirmed Findings of the Market Study' and FCA (2014) 'How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation'.
[341] Kunreuther, Pauly (2005) 'Rules rather than discretion: Lessons from Hurricane Katrina', Journal of Risk and Uncertainty.

provides me with peace of mind', compared with 23% for the most popular situational motive, 'Was advised to do so by a commercial party'.

Table 29: Situational drivers behind purchasing insurance (% of respondents)

	Home	Motor [1]	Car rental	Travel	Add-on[2]	Home assist
Experienced damage, loss, emergency, etc.[3]	9.6	7.9	12.0	8.2	14.1	17.8
Was advised to do so by friends or family	9.0	13.3	11.6	12.8	10.9	11.7
Was advised to do so by a commercial party[4]	-	-	42.8	24.7	33.7	21.1
Sample size (N)	1,548	717	295	732	700	268

Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 24). The options presented in the table were not provided for all different insurance types, and where this was the case a '-' is displayed in the table.
1. Comprehensive motor insurance.
2. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
3. Different types of experiences that may be expected to prompt insurance purchases were offered as answers depending on the type of insurance in question, such as experiencing loss or damaged to one's home, car, rental car or personal property, loss or health issues when travelling, or a home assistance emergency. See the survey script annex to see the full wording of the questions.
4. Different types of commercial party were mentioned among the answer options depending on the type of insurance in question, such as a financial advisor or bank, car rental agency, travel agent, sales assistant, retailer, or insurer. See the survey script annex to see the full wording of the questions.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q2, "Why did you buy this insurance?".

Table 30: Situational drivers behind purchasing insurance by country (% of respondents)

		Home	Motor	Car rental	Travel	Add-on[3]	Home assist
DE	Experienced damage, loss, emergency, etc.[1]	9.9	9.9	12.7	9.8	10.8	0.0
	Was advised to do so by friends or family	6.6	10.3	3.5	13.0	13.3	13.6
	Was advised to do so by a commercial party[2]	-	-	39.1	25.4	23.9	42.0
	Sample size (N)	294	148	67	149	94	12
IT	Experienced damage, loss, emergency, etc.[1]	6.9	7.5	11.4	6.6	18.7	11.0
	Was advised to do so by friends or family	9.5	19.9	17.3	8.4	8.8	19.7
	Was advised to do so by a commercial party[2]	-	-	41.4	41.8	45.1	31.8
	Sample size (N)	192	90	76	90	145	55
RO	Experienced damage, loss, emergency, etc.[1]	9.2	11.9	0.0	5.1	14.9	29.3
	Was advised to do so by friends or family	19.7	14.8	35.7	14.5	17.0	19.2
	Was advised to do so by a commercial party[2]	-	-	42.4	21.8	48.8	45.2
	Sample size (N)	221	119	26	121	115	25
SK	Experienced damage, loss, emergency, etc.[1]	11.4	14.2	11.4	7.7	18.7	17.9
	Was advised to do so by friends or	13.5	14.4	13.6	12.4	20.3	12.7

	family						
	Was advised to do so by a commercial party[2]	-	-	23.7	23.6	19.8	35.4
	Sample size (N)	260	130	11	130	105	74
SE	Experienced damage, loss, emergency, etc.[1]	4.1	14.4	3.8	15.2	11.0	20.0
	Was advised to do so by friends or family	13.4	4.6	4.4	15.9	10.8	13.8
	Was advised to do so by a commercial party[2]	-	-	34.6	14.5	19.9	13.2
	Sample size (N)	298	88	49	101	153	18
UK	Experienced damage, loss, emergency, etc.[1]	11.7	2.9	14.1	6.9	12.3	23.9
	Was advised to do so by friends or family	7.5	14.0	14.3	13.8	6.6	5.8
	Was advised to do so by a commercial party[2]	-	-	50.0	16.5	30.8	7.7
	Sample size (N)	283	142	66	141	88	84

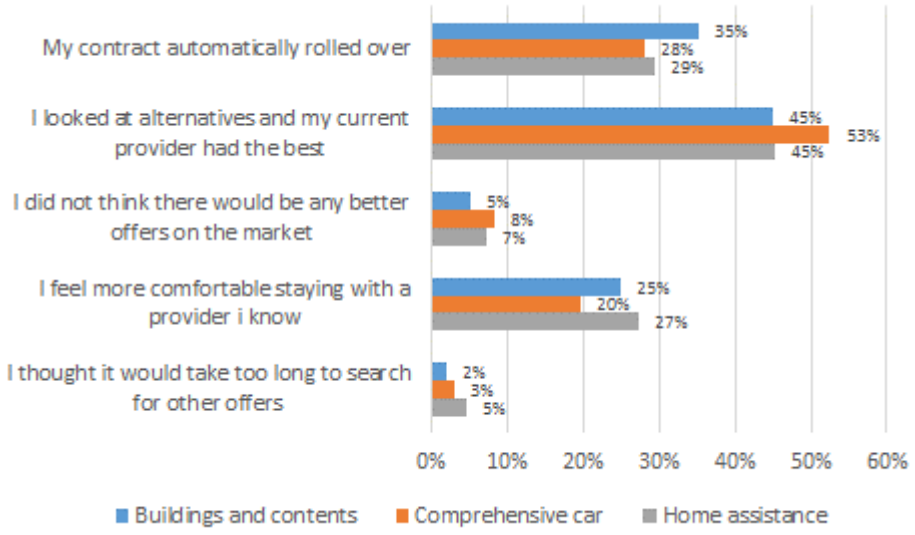
Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 25). The options presented in the table were not provided for all different insurance types, and where this was the case a '-' is displayed in the table. This was a multiple answer selection question; hence percentages may not sum to 100

1. Different types of experiences that may be expected to prompt insurance purchases were offered as answers depending on the type of insurance in question, such as experiencing loss or damaged to one's home, car, rental car or personal property, loss or health issues when travelling, or a home assistance emergency. See the survey script annex (Annex 7) to see the full wording of the answer options.
2. Different types of commercial party were mentioned among the answer options depending on the type of insurance in question, such as a financial advisor or bank, car rental agency, travel agent, sales assistant, retailer, or insurer. See the survey script annex to see the full wording of the questions.
3. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)Source: London Economics analysis of survey and experiment data (online and lab data combined).

Survey question S2Q2, *"Why did you buy this insurance?".*

Around half (49%) of survey respondents reported they had renewed with the same provider in the past (high: 63% in Romania, low: 37% in the UK), and 15% indicated they had both renewed with the same provider and switched provider (high: 28% in the UK, low: 6% in Slovakia). Survey respondents who indicated that they had **renewed** an insurance product in the past with the same provider were asked about their reasons for doing so. The results from this question are presented in the figure below.

Figure 1: Reasons for renewing with the same provider, by insurance product



Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 26). Buildings and contents were two separate categories in the question which have been combined for reporting. N=1,003 for buildings and contents, N=463 for comprehensive motor, and N=162 for home assistance
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q4, "Why did you decide to renew with the same provider?"

When renewing an insurance policy with the same provider, the type of consumer behaviour that is most likely to lead to positive outcomes for consumers is to examine alternatives in the market to ensure that their current provider has the best offer. This was the most cited reason for renewing with the same provider across all types of insurance. This answer was given by 45-53% of respondents (depending on the type of insurance). However, this still implies that many consumers (a majority in the cases of home and home assistance) did not compare the market when renewing their insurance, which may lead to these consumers not getting the best deal. It can be the case that even those who compare their current insurance with other offers from other providers may still not be getting the best deal. Comparing insurance offers is a difficult multidimensional comparison exercise, which many find too hard and thus stick with their current provider.

The other reasons for renewing insurance with the same provider (among those presented in the relevant survey question) are more likely to lead to suboptimal outcomes for consumers, and may be related to various behavioural biases. Two of these in particular were cited by significant numbers of respondents:

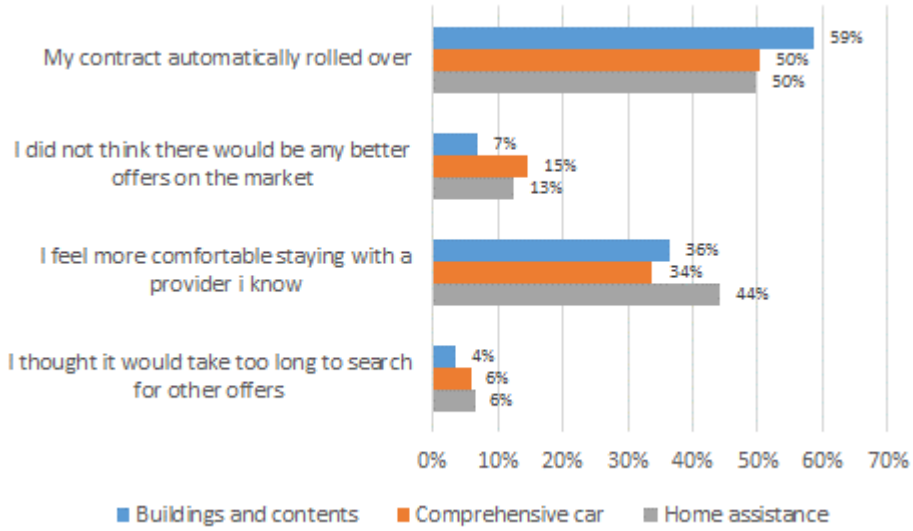
- 20% (comprehensive car) to 27% (home assistance) reported that they feel more comfortable staying with a provider they already know. This could potentially have a negative impact on welfare if consumers are as a result missing out on potentially better insurance offers, which require regular switching for consumers to make use of them. This is also a behavioural bias, **preference for the familiar.** Individuals tend to simplify complex decisions by focusing on familiar aspects or products.[342]
- 28% (motor) to 35% (home) said that their contract automatically rolled over, which could have implications for consumer welfare if the auto-enrolment of the contract was not understood in advance by consumers. This is in line with the finding that it is still common practice in many EU Member States to 'silently' renew contracts at the end of the term (e.g. Bulgaria, Germany, Finland, Croatia, and Spain).[343]
- Across all insurance types there is a low incidence of respondents consciously renewing with the same provider based on the assumption that they thought there wouldn't be any better offers on the market (between 8% for comprehensive car insurance and 3% for buildings and content insurance), or because they thought it would take too long to search for other offers (5% for home assistance and 2% for buildings and contents). These results are reassuring because procrastination of consumers can be exploited by firms; if consumers are known to not search for the best products or stop searching too quickly, or not reassessing whether the policies they hold still offer them the best value for money, or not cancel products that they intend to (e.g. after an initial teaser rate), then they may be on a policy which is suboptimal for them given their individual circumstances.

Amongst the sub-sample of respondents who reported that they did not look for alternatives in the market when renewing their insurance (Figure 2), the most common reason was that their insurance automatically rolled over. This was 59% for

[342] DellaVigna (2009) `Psychology and Economics: Evidence from the Field', The Journal of Economic Literature, Vol. 47, No. 2.
[343] Expert Group on European Insurance Contract Law, available at: http://ec.europa.eu/justice/contract/files/expert_groups/renewal_en.pdf, accessed 13/07/2016.

buildings and contents insurance, and 50% for both comprehensive car insurance and home assistance. The second most common reason was that the felt comfortable staying with a provider they knew. Comparing Figure 1 and Figure 2, it is possible to observe that respondents who did not compare alternative offers and simply renewed with their current provider, the main reason for doing so was that their contract rolled over, while those respondents who did compare alternatives but chose to stay with their current provider reported that their current provider had the best offer. This illustrates that staying with the familiar, or inaction due to status quo bias is present in consumers' behaviour in the insurance market.

Figure 2: Reasons for renewing with the same provider, by insurance product (excluding those who looked at alternatives)



Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 26). Buildings and contents were two separate categories in the question which have been combined for reporting. N=553 for buildings and contents, N=227 for comprehensive motor, and N=92 for home assistance

Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q4, "Why did you decide to renew with the same provider?".

Across countries similar responses are observed (although the small sample sizes at country level, for home assistance in particular, should be noted). A few differences across countries are potentially noteworthy (see Table 31 below):

- For buildings and contents insurance, the UK had the highest proportion of respondents compared to the average across the six countries renewing with the same provider due to looking at alternatives and finding their current provider had the best offer (67% against the average of 45%), with a correspondingly low proportion renewing due to automatic contract renewal (23% against 35%). Romania had the second highest proportion of respondents renewing due to their current provider having the best offer (53%), combined with the lowest proportion across the six countries renewing due to automatic roll-over (22%).
- For comprehensive car insurance, Slovakia had the lowest proportion compared to the average of respondents renewing their insurance due to their contract automatically rolling over (17% against 28%), however for home assistance the proportion renewing due to automatic enrolment is considerably higher than average (54% against 29%). Similarly to buildings and contents insurance, the UK also has in comprehensive motor insurance the highest proportion of respondents across the sample countries looking at alternatives and renewing with the same provider as they had the best offer (72%).
- In the UK, for buildings and contents and comprehensive motor insurance, a lower than average proportion automatically renewed their insurance, and this

is due to a higher than average proportion saying they looked at alternatives and found their current provider had the best offer (67% for home, 72% for motor, and 60% for home assistance, relative to cross-country averages of 45%, 53% and 45% respectively). However the more striking finding about the UK is the very low proportion of respondents across each insurance product who say they feel more comfortable staying with a provider they know (15% against a 25% average for buildings and contents, 6% against a 20% average for comprehensive motor, and 13% against an average of 27% for home assistance). This may suggest a discontentment with their current deals, and possibly the UK insurance market as a whole.

- The costs of search, or more importantly, the perceived costs of search, are low across all countries, with a very small proportion of respondents renewing with the same provider because they thought it would take too long to search for other offers. The cross-country shares are 2% for buildings and contents 3% for comprehensive motor, and 5% for home assistance.

Table 31: Reasons for renewing with the same provider, by insurance product and country (% of respondents)[344]

	DE	IT	RO	SK	SE	UK	Total
Buildings and contents							
My contract automatically rolled over	45.4	41.6	21.9	34.3	38.9	23.2	35.2
I looked at alternatives and my current provider had the best	33.9	29.4	53.2	40.9	34.3	66.6	44.9
I did not think there would be any better offers on the market	4.9	4.7	4.5	6.8	3.8	6.2	5.2
I feel more comfortable staying with a provider I know	27.6	29.3	32.8	26.0	30.5	15.0	24.8
I thought it would take too long to search for other offers	2.1	1.3	2.3	2.2	3.7	2.2	2.0
Sample size (N)	165	138	172	160	179	189	1,003
Comprehensive motor							
My contract automatically rolled over	34.7	25.8	39.0	17.4	29.3	19.0	28.1
I looked at alternatives and my current provider had the best	46.4	41.4	34.1	55.0	47.5	71.5	52.5
I did not think there would be any better offers on the market	9.7	14.3	6.6	5.6	5.6	3.8	8.2
I feel more comfortable staying with a provider I know	24.5	26.1	27.8	24.1	31.9	6.1	19.7
I thought it would take too long to search for other offers	5.5	1.5	1.7	0.6	5.6	1.3	3.1
Sample size (N)	96	61	76	74	61	95	463
Home assistance							
My contract automatically rolled over	36.5	13.1	23.7	53.7	39.2	36.1	29.3
I looked at alternatives and my current provider had the	16.2	37.2	52.0	37.9	18.4	59.4	45.3

[344] See section 5.3.1 for a discussion on the weighting procedure used in the analysis.

best							
I did not think there would be any better offers on the market	6.6	12.0	8.4	5.6	15.8	3.9	7.2
I feel more comfortable staying with a provider I know	40.7	39.9	28.8	39.7	35.0	13.4	27.2
I thought it would take too long to search for other offers	6.6	5.5	0.0	6.7	8.3	3.6	4.6
Sample size (N)	10	36	18	39	10	49	162

Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 26). Buildings and contents were two separate categories in the question which have been combined for reporting. This was a multiple answer selection question; hence percentages may not sum to 100.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q4, "Why did you decide to renew with the same provider?".

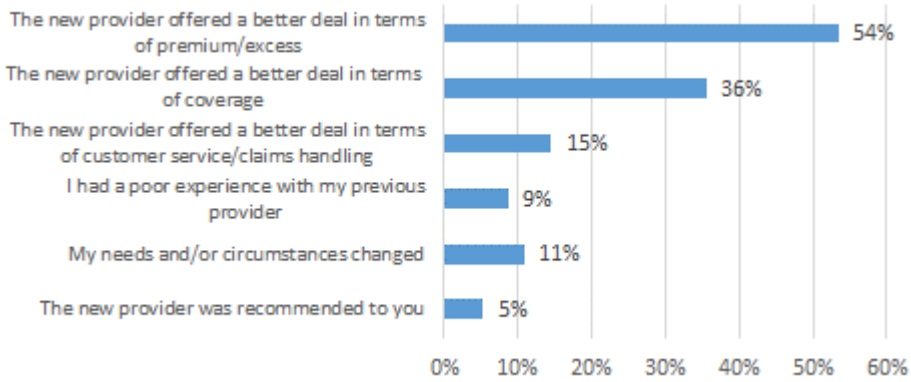
Reasons for switching insurance policies

16% of survey respondents reported they had switched insurance provider in the past (high: 21% in the UK, low: 9% in Romania), and 15% indicated they had both renewed with the same provider and switched provider (high: 28% in the UK, low: 6% in Slovakia). Survey respondents who indicated that they had previously **switched** providers were asked about their reasons for doing so. The figures below present the results from this question.

Consistent with the literature and findings from the other research strands, which show that prices and premiums are among the most important factors to consumers, the most common response across insurance products was that the new provider offered a better deal in terms of premium/excess (see Figure 3 to Figure 5). This was reported by approximately 60% of respondents across countries and products. For buildings and contents this response was most common in the UK, with 79% of respondents giving this answer against a cross country average of 54%. For comprehensive motor this answer was most popular in Sweden, with 83% selecting it against an average of 60%, and for home assistance this reason was selected the most in Germany and the UK (67% and 68% respectively, against a cross-country average of 57%). Results by country are displayed in Table 32.

The second most frequently cited reason for switching was that the new provider offered a better deal in terms of coverage, particularly in the case of home assistance. The least common reasons, across both products and countries, stated by less than 10% of respondents on average, were that they had a poor experience with their previous provider, their needs/circumstances changed, and that a new provider was recommended.

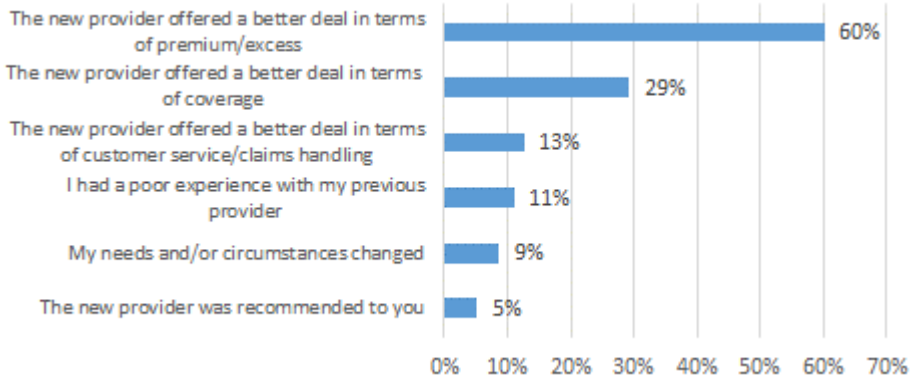
Figure 3: Reasons for switching – Buildings and contents



Note 1: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 27). Buildings and contents were two separate categories which have been

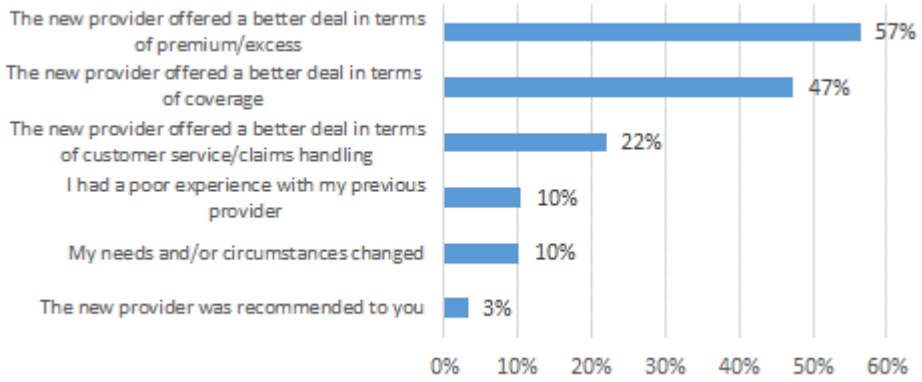
combined for reporting. N=451
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q5, "Why did you decide to switch to another provider?".

Figure 4: Reasons for switching – Comprehensive motor



Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 27). N=259
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q5, "Why did you decide to switch to another provider?".

Figure 5: Reasons for switching – Home assistance



Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 27). N=66
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q5, "Why did you decide to switch to another provider?".

Table 32: Reasons for switching, by insurance product and country (% of respondents)

	DE	IT	RO	SK	SE	UK	Total
Buildings and contents							
The new provider offered a better deal in terms of premium/excess	31.5	27.9	32.9	23.8	59.4	78.7	53.5
The new provider offered a better deal in terms of coverage	34.5	45.0	33.3	44.3	18.1	36.4	35.6
The new provider offered a better deal in terms of service/claims handling	21.1	23.5	25.7	14.1	4.2	7.5	14.5
I had a poor experience with my previous provider	9.7	10.6	14.3	20.7	15.0	5.6	8.7
My needs and/or circumstances changed	17.1	14.4	17.3	20.4	7.6	4.5	10.8
The new provider was recommended to you	9.1	7.7	5.2	2.2	6.5	2.0	5.3
Sample size (N)	82	37	44	53	95	140	451

Comprehensive motor							
The new provider offered a better deal in terms of premium/excess	47.1	42.4	64.7	47.0	82.7	75.5	60.2
The new provider offered a better deal in terms of coverage	25.9	46.6	35.2	37.1	5.7	27.8	29.3
The new provider offered a better deal in terms of service/claims handling	15.7	13.9	47.1	23.2	2.2	6.9	12.6
I had a poor experience with my previous provider	13.9	15.8	25.0	24.8	6.4	5.4	11.0
My needs and/or circumstances changed	13.2	7.8	0.0	1.5	6.0	6.7	8.7
The new provider was recommended to you	8.6	9.5	3.7	10.9	2.2	1.0	5.2
Sample size (N)	51	28	22	35	43	80	259
Home assistance							
The new provider offered a better deal in terms of premium/excess	67.1	26.7	25.3	45.2	0.0	67.6	56.5
The new provider offered a better deal in terms of coverage	60.7	47.0	25.3	26.0	36.5	47.3	47.4
The new provider offered a better deal in terms of service/claims handling	77.3	14.8	41.9	19.9	0.0	15.6	21.9
I had a poor experience with my previous provider	0.0	21.7	83.3	20.6	36.5	5.1	10.4
My needs and/or circumstances changed	0.0	7.3	25.3	18.9	27.0	11.7	10.2
The new provider was recommended to you	0.0	5.1	0.0	17.8	0.0	2.5	3.2
Sample size (N)	4	12	3	12	3	32	66

Note: 'Other' and 'Don't Know' categories have been excluded (the shares who gave these answers can be seen in Annex 13, Table 27).
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q5, "Why did you decide to switch to another provider?".

4.3.3. Willingness to buy car rental and add-on insurance

As outlined above, according to rational consumer theory, depending on their ability to self-insure consumers may be expected to have a limited willingness to buy car rental and add-on insurance. To investigate consumers' motives for purchasing these products in practice, the focus group discussions sought participants' views regarding these products specifically.

Most focus group participants expressed the need to buy **additional car rental insurance** (including those who had bought this type of cover in the past). For some of them, this was unconditional: on the one hand, they perceived the risk of potential damage to be high, and additional insurance provided peace of mind; on the other hand, they considered that this type of cover was affordable in terms of price, "easy" to purchase (in terms of the process being quick and straightforward), and offered a satisfactory coverage. Others, however, felt that they would only need to buy additional car rental insurance in certain situations, such as when having children in the car, or when driving on "dangerous" roads.

> *"Depends what kind of holiday as well, and depends where you're going. We've spoken about Spain, there are certain parts of Spain where... if I'm going to Madrid then probably no, but if I'm going to like south – bit more deserty, bit more rugged and there aren't really kerbs, the road just stops…"* (Man, 41, lower education, London).

In the UK, purchasing the additional car rental insurance cover was part of participants' "habits" when hiring a car. Their main reasons for this were the need to feel safe, the high price of car repairs, and the relatively low price of the insurance. Pressure from sales staff, along with time pressure were also factors of influence – although, on the other hand, participants appreciated a time-efficient process, and were not willing to spend too much time going through information about insurance at the moment when hiring the car.

In Germany, Slovakia and Romania, participants' willingness to buy additional car rental insurance depended also on its costs, the risks covered, and the perceived risks they would be exposed to during the rental period.

Participants were asked about their willingness to buy **add-on insurance** in two specific situations: when purchasing a new kitchen, and when buying a special holiday offer. In both cases, willingness to buy add-on insurance was generally low.

Most people would not consider purchasing **add-on insurance for a new kitchen**, especially if it would only cover furniture, as the risks associated with this type of product were perceived as not being too high. Some thought that this type of insurance may be interesting if it covered appliances, or special equipment. On the other hand, even if this were the case, its necessity was questioned. Some of the participants in Sweden argued that kitchen appliances often come with long guarantees when they are purchased, and that, together with the home insurance, they should be sufficiently covered. Among the participants in Slovakia, some also argued that a kitchen would be covered by home content insurance.

The two main situations in which add-on insurance covering kitchen furniture was considered interesting were: if the kitchen was very expensive, as well as fragile (Slovakia), and, if the insurance would cover any errors made by the builders (Sweden).

> *"If I have an expensive kitchen with a lot of glass… some premium quality… maybe yes."* (Woman, 48, lower education, Bratislava)

> *"Many aspects that can go wrong. If the add-on insurance does not cost too much, it can be worth it to pay extra"* (Man, 49, higher education, Stockholm)

Opinions varied when discussing the need for **add-on insurance when booking a holiday**. Participants in Sweden believed that the risks would be covered by their home insurance, however, they did not clearly state which risks they thought would also be covered by their home insurance. Rather, this was a general sentiment that was shared with respect to travel insurance and their expectation that there would be overlap with what is covered by home insurance (or by purchasing travel by credit card). Some Swedish participants referred to situations in which they might be interested in purchasing add-on insurance, such as insurance for more expensive holidays or for situations where they were also travelling with other people (not covered by own home insurance).

In Germany, some participants had heard of situations where people had claimed on their travel insurance, mostly without success, and involving complex, time consuming procedures (e.g. visits to several doctors and provision of specific certificates). Discussing these types of experiences within the group caused some participants to express concerns about purchasing this type of insurance in the future. In Slovakia, some would consider purchasing it, if preparing a longer, more expensive journey:

> *"It depends on the destination and the price of the holiday, you decide according the actual situation how risky and how probable is that something will happen..." (Woman, 34, higher education, Bratislava)*

In Sweden, some respondents found travel insurance helpful, particularly in the case of possible cancellations (if they were unsure about whether or not they would be able to travel), missing luggage or medical care. Many however argued that this type of

insurance was not needed as they felt that they would already be covered if the trip was purchased with a credit card. Therefore, when deciding whether or not to purchase this type of insurance, participants believed that the most important aspect was knowing what exactly was already covered by home insurance, or by paying with a credit card.

German participants did not perceive add-on insurance (including travel insurance) as being of great necessity. Some of the Slovak participants purchased travel insurance covering medical expenses, or envisaged purchasing add-on travel insurance for long distance journeys (as for example, when traveling by plane, when going on summer holiday, or on another continent):

> *"I would use this add-on travel insurance if I go to America. The flight tickets are too expensive so I'd rather insure them and also my luggage." (Woman, 35, Bratislava).*

4.4. Finding and using information when shopping for insurance

This section presents the evidence provided through the focus groups, academic literature, and the consumer survey in regard to the ways in which consumers search for and access information, what information is used by and is important to consumers, consumers' understanding of information, and how consumers use information to compare and choose between offers.

The survey results presented in this section cover the following topics:

- The main sources of information about different insurance providers and offers used when last purchasing or renewing an insurance product
- The pieces of information included in insurance policies which were most important when last purchasing or renewing an insurance product.

The rationale behind these questions reflects the fact that the behavioural economics literature has shown that individuals do not always act according to traditional economic theory when it comes to gathering and processing information to reach a rational decision.

According to the classical theory of consumer behaviour, individuals **search for information** about which product to purchase **until the marginal costs of additional search efforts exceed the marginal benefits** of finding a cheaper, or better quality product[345] (meaning it can therefore be a rational decision not to compare all available insurers and insurance products in the market). Furthermore, rational consumers would search for information by the most effective and efficient means available.

As set out in section 4.2.2, the behavioural economics literature shows however that individuals suffer from **limited attention**, which can influence the way consumers search for and access information, and they may focus on products and features of products which capture their attention.

Limited attention was also linked to the concept of **Salience[346]** in the context of information search, with consumers potentially focusing on features of a product which are attention-grabbing.

Finally, on the basis that consumers are using the advice of others when performing their searches and purchasing decisions, another behavioural factor which may be relevant to the decision making is **trust.** Consumers may make decisions based on feelings of trust, whether towards a sales person or advisor, or towards a specific firm or brand. Trust can

[345] P. Diamond (1971) `A model of price adjustment', Journal of Economic Theory.
[346] Della Vigna (2009) `Psychology and Economics: Evidence from the Field'. Bordalo, Shleifer and Gennaioli (2012) `Salience Theory of Choice Under Risk', The Quarterly Journal of Economics 127 (3).

be a heuristic and help reduce transaction costs, especially search costs, as individuals may rely on the advice and expertise of others.

4.4.1. How consumers search for and access information

This section combines evidence from all strands of research on the ways in which consumers search for and access information. A short summary of the main findings is provided first, then in-depth findings from the focus groups, the literature review, stakeholder consultations and the survey are presented in dedicated boxes below.

- According to the focus groups, when purchasing **home insurance**, consumers rely often on **advice**. This advice can come in the form of professional advice (e.g. banks, insurance companies, brokers, consumer associations and labour unions in SE), or be provided by family and friends.
- Consumers also appreciate information regarding the insurance company's **reputation** which can be based on testimonials by friends, or strangers on the internet.
- Consumers conduct research and seek to compare insurance offers. This can be done via the use of comparison websites and other sources.
- Search behaviour when purchasing **motor insurance** varies across Member States, though consumers largely used similar channels to home insurance (country level results are shown in Table 35.
- **Education** appears to be a factor influencing the search behaviour for information on motor insurance. The focus group highlighted that Romanian consumers with lower education were more inclined to call or visit insurance providers, while those with higher education made more use of online resources and brokers.
- Information on **add-on and car rental insurance** is merely communicated at the point-of-sale through sales staff.
- Stakeholder consultations confirmed the channels through which consumers access information found by the focus groups. Furthermore, the interviewees pointed out that the type of information that is available online differs across the Member States. In particular the diffusion of PCWs, as well as their content and product portfolio, seems to differ greatly, with the UK, Slovakia, Germany, Italy and Sweden being the most developed, and Slovakia and Romania being among the least developed markets in this respect.
- The literature review and stakeholder consultations showed that with the **growing use of online resources**, numerous **consumer associations** and **national supervisory authorities** are seeking to complement the information provided on comparison websites through **impartial information** via offering independent advice, publishing guidelines and reports on consumer behaviour and protection.
- The survey showed that the first most **important source of information** when purchasing or renewing insurance are **PCWs** followed by the **websites of insurers**. This highlights the importance of technology and comparison tools in helping consumer choices, and highlights the importance of transparency and trustworthiness of comparison tools as they play an ever increasing role in the consumer purchasing process.
- The **recommendations of friends and family** are important, particularly in the case of **travel insurance**, a finding based on the survey results.

Box 7 : Evidence from the focus groups

Evidence from the focus groups suggests that consumer behaviour with regards to looking for pre-contractual information varies by product type.

When selecting **home insurance**, focus group participants relied on "professional" guidance (from banks, insurance companies, brokers) as well as on advice from friends and family. The insurance company's reputation, as well as selecting the same "trusted" provider as for other types of insurance products also played an important part in participants' choice.

Participants looked for information on home insurance through various means:

- Advice from a bank, an insurance company or an independent broker;
- Advice from friends and family;
- Looking for testimonials and comments from other consumers (either on forums, or through word-of-mouth);
- Research, comparing – without using comparison websites;
- Comparison websites (mainly for the more contracts concluded recently);
- Through labour unions – in Sweden, in some cases, labour unions guided people towards certain insurance companies, by offering discounts.

Participants were generally more engaged when looking for information on **motor insurance**, and more aware of its functioning. Some acknowledged the multitude of offers, as well as the availability and usefulness of online comparison tools and various purchase channels.

Information channels varied by country:

- In the UK, comparison tools were considered a useful source of information, along with advice from friends and family.
- In Italy, two different types of behaviour were identified: some participants were more pro-active, frequently comparing offers and switching suppliers, relying mainly on online tools, while others were more conservative, preferring traditional channels and relying on family advice, or buying their insurance from the same company from which they had already purchased other insurance products.
- In Romania, the lower education group called or visited certain insurance companies and received offers from them, while the higher education group used comparison tools or had multiple offers presented to them by their broker. Advice and recommendations from friends and family were also considered to be an important information source.

For **add-on insurance** and **car rental insurance**, participants mainly received information at the point of sale/at the car hiring company, from documentation provided shortly before the purchase, and through verbal information from the sales staff.

Box 8 : Evidence from the literature

There is an increase in the use of insurance companies' websites and PCWs to look for information. According to national supervisory authorities, consumer associations and trade associations, consumers in France, Luxembourg or Germany still prefer personal advice through intermediaries, while in other countries (e.g. Sweden and the UK) PCWs are the most popular information channels. However, a study conducted by the UK Financial Conduct Authority (national supervisory authority) on non-life insurance

PCWs, demonstrated that they do not provide enough consistent and clear product information to allow consumers to make informed decisions[347]. Furthermore, the study pointed out that PCWs often did not disclose their business models, and those owned by insurance companies or brokers neglected to inform consumers on their conflicts of interest. The issues regarding the lack of transparency of the business model of PCWs and conflicts of interest were also raised in a study conducted by the Italian national supervisory authority (IVASS)[348].

In addition, there is evidence (e.g. websites, studies, initiatives) of consumer associations in the EU providing information and advice to consumers on insurance products and coverage, as well as reviews of insurance companies, as outlined in the table below.

Country	Initiatives by consumers associations
DE	Verbraucherzentrale Hamburg provides different type of services to consumers in relation to insurance products, such as seminars (e.g. "Properly insured - a lot of money to be saved"), information notes on specific products (i.e. travel insurance), and reports on specific topics (for a fee)[349].
ES	Information and guidelines on insurance products are available to members of consumer associations such as the Association of Consumers and Users (Organización de Consumidores y Usuarios)[350].
FR	UFC-que choisir published studies on add-on insurance[351], car rental[352] and extended warranty[353] highlighting the insurers' fraudulent practices. At cross-border level, the French-German ECC also proposes comparison of best practices across Member States on its website[354].
IT	Altroconsumo publishes information and guidelines on insurance products which are publicly available[355].
LU	UCL (Union des Consommateurs Luxembourgeois) published a study on motor insurance[356], comparing products and warranties offered by the main insurance provider. UCL also published a study[357] together with the Chambre des Salariés Luxembourg[358] (CSL - Employees Chamber) on travel insurance that seeks to better explain, outline and compare the different travel insurance products available on the market in 21

[347] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector. Available at: https://www.fca.org.uk/publication/thematic-reviews/tr14-11.pdf
[348] IVASS, 2014, INDAGINE SUI SITI COMPARATIVI NEL MERCATO ASSICURATIVO ITALIANO. Available at: http://www.ivass.it/ivass_cms/docs/F11160/Indagine_sui_siti_comparativi_nov_2014.pdf
[349] http://www.vzhh.de/versicherungen/30366/versicherungen-fuer-die-reise.aspx
[350] http://www.ocu.org/dinero/seguros
[351] UFC-que choisir, 2013, Les grands défauts des petites assurances. Available at: https://www.quechoisir.org/dossier-de-presse-assurances-affinitaires-les-grands-defauts-des-petites-assurances-n12377/?dl=15871
[352] UFC-que choisir, 2015, Location automobile : Tarifs et pratiques toujours aussi peu louables ! Available at; http://image.quechoisir.org/var/ezflow_site/storage/original/application/5b4de06369634a491c554f5ab632708c.pdf
[353] UFC-que choisir, 2016, Extension à 2 ans de la garantie légale : Une information du consommateur loin d'être garantie ! Available at: https://www.quechoisir.org/dossier-de-presse-extension-a-2-ans-de-la-garantie-legale-une-information-du-consommateur-loin-d-etre-garantie-n12641/?dl=15939
[354] Franco-German ECC publications and best practices available at: http://www.cec-zev.eu/index.php?id=26
[355] http://www.altroconsumo.it/soldi/assicurazioni
[356] ULC, 2012, La RC-Automobile – Enquête sur une liberté retrouvée. Available at: https://www.ulc.lu/Uploads/Konsument/Doc/63_04_06-11.pdf
[357] ULC, 2016, Les assurances voyage au Luxembourg. Available at: http://www.csl.lu/index.php?option=com_rubberdoc&view=doc&id=3016&format=raw
[358] Chambre des Citoyens Luxembourg. Available at: http://www.csl.lu/

	points.
RO	AURSF and APPA have been running campaigns to familiarise consumers with the risks and rights they have when buying insurance products. These ranged from having caravans go through every major city spreading information, to spreading flyers in malls, to producing unbiased online content. In terms of content, online platforms such as CONSO.RO[359] also aim at guiding consumers in an unbiased way through market analyses.
SE	The Swedish Consumer Insurance Agency has been providing consumers independent advice regarding the insurance products available in Sweden, as well as running a comparison website[360]. Through a system of points assigned to different aspects of the product, the website gives the consumer an indication of which insurance product to purchase through a ranking. Various insurance categories are included (motor, children, household), as well as the 24 of the largest insurance companies in Sweden.
UK	Which[361] and Money Advice Service[362] provide information and advice on insurance products on their websites, and reviews of insurance companies.

National supervisory authorities also provide guidance documents to consumers on the insurance market in some Member States, as presented in the table below.

Country	Initiatives by national supervisory authorities
DE	The Federal Financial Supervisory Authority (BAFIN) has a webpage with detailed information on M3PL insurance products and a contact page where any stakeholder can provide a suggestion on how to improve insurance services[363]. Moreover, BAFIN publishes reports on consumer protection, regulatory changes and developments at national and international level.
ES	General information on the insurance sector is available on the website of the national authority (DG Seguros y Fondos de Pensiones)[364] and on the GASPAR Portal[365]. The portal, an initiative run by DG Seguros y Fondos de Pensiones, explains the main insurance concepts in a glossary, and provides guidelines and advice on how to buy insurance products and how to submit insurance claims.
IT	IVASS contributes to inform consumers by offering its own comparison tool[366], as well as by publishing guides[367], consumer info pages, FAQs

[359] http://www.conso.ro/asigurari
[360] Konsumenternas, Insurance comparison website. Available at : http://www.konsumenternas.se/forsakring/olika-forsakringar/om-hemforsakringar/jamfor-hemforsakringar
[361] www.which.co.uk
[362] https://www.moneyadviceservice.org.uk/en/categories/insurance
[363]https://www.bafin.de/DE/Verbraucher/Finanzwissen/VA/KfzHaftpflicht/Kfz_Haftpflichtversicherung_node.html
[364] Dirección General de Seguros y Fondos de Pensiones, 2008, Information about sectors. Available at: http://www.dgsfp.mineco.es/Gaspar/NEOglosario.asp#T
[365] Dirección General de Seguros y Fondos de Pensiones, 2008, Technical Glossary. Available at: http://www.dgsfp.mineco.es/Gaspar/NEOglosario.asp#T
[366] http://www.tuopreventivatore.it/prevrca/prvportal/index.php
[367] http://www.educazioneassicurativa.it/guide-pratiche/

	and reports targeting consumers. A specific section of its website is dedicated to communication with consumers[368]. The comparison tool covers all the products available on the market. The national authority also offers a contact centre specifically addressing consumers' needs.
LV	The FCMC launched the website "Clients School", providing educational materials for common financial services including insurance.
RO	The FSA provides guides and reports online and these include, for example, a motor third-party liability guide[369] or articles on insurance contractual issues[370].

In Romania, Italy, the UK, Spain and France rules have been introduced to help consumers find relevant information. For example, in Romania, the national supervisory authority, the FSA, has made it compulsory for insurance firms to publish on their website the number of claims made and the success rate of claims, to give consumers an overview of the company's performance. In Italy, following the new regulation (regulation ISVAP n24) from 2015, companies are obliged to forward to authorities and publish on their websites an overview of the consumer complaints, stating the total number, the type and the successful ratio of complaints received[371]. In the UK, all insurance firms regulated by the Financial Conduct Authority (FCA, national supervisory authority) must meet their conduct rules, set out in their Insurance Conduct of Business Sourcebook (ICOBS)[372]. These rules cover issues such as the suitability of the product, the disclosure of information to consumers and claim handling procedures. Indeed, under the ICOBS, firms must provide appropriate information about the policy so that the customer can make an informed decision. In addition, a firm must ensure that the advice given to consumers is suitable. In Spain, the Spanish government approved Orden ECC/2316/2015, de 4 de noviembre, relativa a las obligaciones de información y clasificación de productos financieros[373] (on information and classification of financial products), referring to the improvement of consumer conditions, which would be applied to all financial products to flag the degree of risk for the consumer. The risk indicator is in the form of a traffic light indicator (red for a high risk product). In France, the Decree 2016-505[374] imposes on PCWs to indicate the criteria of comparison, the existence of contractual links with referenced companies, the existence of a remuneration of the website, the variability of guarantees of the proposed products, the exhaustive nature of the compared products and the frequency of the comparison update.

Box 9 : Evidence from the stakeholder interviews

Interviews with various consumer associations, national supervisory authorities and trade associations across the EU have highlighted that while consumers are able to access information through direct communication with insurers and insurance intermediaries (e.g. agents and brokers) face-to-face or on the phone, there is a growing trend in the use of online means to access information. This was highlighted during stakeholder interviews, particularly in countries such as the UK, Slovakia,

[368] http://www.ivass.it/ivass/imprese_jsp/HomePageSezione.jsp?nomeSezione=PER_IL_CONSUMATORE&ObjId=90231&titolo=PER IL CONSUMATORE
[369] http://asfromania.ro/consumatori/consumatori-asigurari/ghidul-rca
[370] http://asfromania.ro/consumatori/consumatori-asigurari/informatii-utile
[371] IVASS data on claims (2016)
[372] https://www.the-fca.org.uk/firms/insurance-conduct-business-sourcebook-icobs
[373] https://www.boe.es/boe/dias/2015/11/05/pdfs/BOE-A-2015-11932.pdf
[374] Décret n° 2016-505 du 22 avril 2016 relatif aux obligations d'information sur les sites comparateurs en ligne. Available at: https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000032447402&categorieLien=id

Germany, Italy and Sweden. However, there are currently no neutral non-life insurance comparison websites in Slovakia and Romania, according to interviews conducted. Furthermore, not all types of insurance products are included in PCWs[375], and the types of products present differ across countries. Interviews have demonstrated that for instance in the UK, most PCWs concentrate on household, motor and travel insurance products, while in Latvia there are only PCWs for motor insurance products. Interviewees in Latvia justified this by indicating that the use of PCWs was more adapted to certain categories of non-life insurance products compared to others, depending on how easy it is for consumers to enter data about their history and general information (to calculate a quote) online.

PCWs allow consumers to access information on the range of insurance products available on the market, however some of these tools do not contain all products available, and are managed by large insurance groups, which can cause consumers to make misinformed decisions according to interviewees. In France, consumer associations and trade associations interviewed noted that comparison websites were not well adapted to the insurance sector, as they focus on prices and not enough on other elements such as the specific guarantee. According to a European business association interviewed, there are PCWs which are run independently by consumer associations in countries such as Norway or the Netherlands, however this is not standard practice. Overall on PCWs, consumers tend to favour price above the other product characteristics.

Box 10 : Evidence from the survey

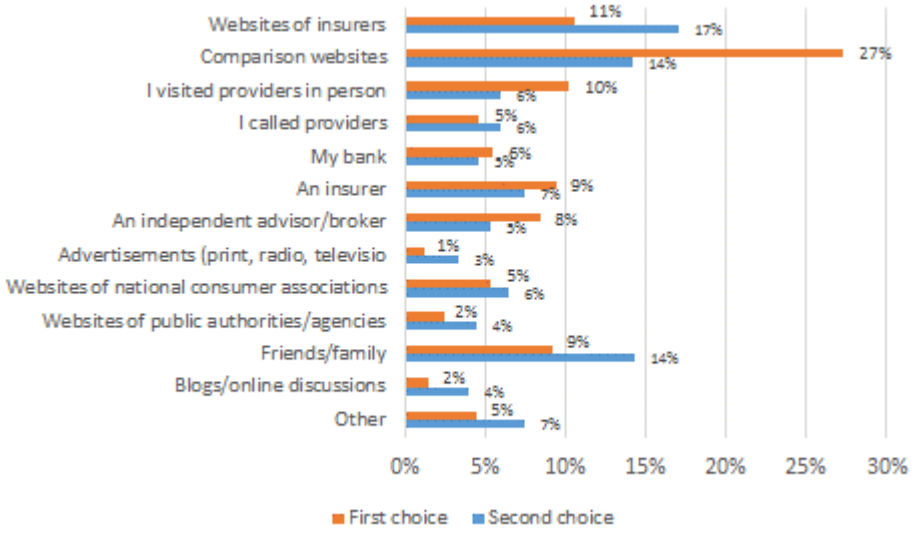
Survey respondents were asked about the main **sources of information** they used when they last purchased or renewed a particular type of insurance.[376] They were asked to identify, from a list of possible sources, the first and second most important sources of information that they used. Figure 6 below shows the overall results, averaging across types of insurance. This figure shows that comparison websites were most often identified as the *first* most important source (27% of respondents), followed (by some distance) by the websites of insurers (11%). This highlights the importance of technology and comparison tools in helping consumer choices, and highlights the importance of transparency and trustworthiness of comparison tools as they play an ever-increasing role in the consumer purchasing process.

The source most frequently identified as the *second* most important were the websites of insurers (17%), followed by friends and family (14%) and PCWs (14%). The least important sources of information were advertisements, blogs/online discussions, and websites of public authorities/agencies, which were identified as being the most important source of information by at most 2% of respondents.

Figure 6: Most important sources of information when buying/renewing insurance

[375] Regarding the four categories of products considered in the scope of the study, household insurance was not included in price comparison websites in Latvia, while motor insurance products were on PCWs in all countries studied except for Slovakia and Romania which do not use this tool. However, household insurance products feature on price comparison websites in the UK, Spain, Germany, Italy, France and Sweden. In addition, the German national authority BAFIN pointed out that travel and car rental insurance were commonly sold online due to their short-term duration and large switching rate. In Luxembourg, PCWs are not used often as regards insurance products according to consumer association.

[376] Respondents were asked this question specifically with respect to a single type of insurance, which they said they own or have previously purchased.



Note: N=4,260. Average results across multiple types of insurance including building and contents, comprehensive motor, car rental, travel, add-on and home assistance.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q7, "Which of the following were your main sources for information about different insurance providers and offers?".

The tables below show the main sources of information used by respondents in their purchases and renewals of insurance, by product. Similar patterns of results are found across products with respect to both the first and second most important sources of information. An exception is travel insurance, for which a relatively high share of respondents (13.7%) identified friends and family as being the first most important source of information, compared to the other insurance products. Finally, for car rental insurance the use of independent advisors/brokers is particularly low, with only 3.0% of respondents using this as there most important source of information.

Table 33: First most important sources of information, by product (% of respondents)

	Home[1]	Buildings only	Contents only	Motor[2]	Car rental	Travel	Add-on[3]	Home assist.
Websites of insurers	11.0	11.4	10.6	10.0	13.0	10.5	7.4	14.0
Comparison websites	23.8	25.4	22.2	35.7	26.0	28.7	24.5	28.3
Visited providers in person	10.1	8.1	12.0	10.7	12.9	9.9	11.3	3.5
Called providers	4.2	3.6	4.9	5.9	3.2	3.2	5.5	6.2
My bank	8.1	8.8	7.4	3.4	1.3	4.7	4.3	7.1
An insurer	12.4	12.5	12.3	9.3	7.1	7.3	6.9	6.5
Independent advisor/broker	10.9	13.2	8.6	7.2	3.0	6.0	7.8	11.6
Advertisements	1.1	0.6	1.7	0.4	2.6	1.1	1.3	1.5
Websites of national consumer associations	3.9	4.9	2.9	2.7	8.9	4.6	9.3	8.4
Websites of public authorities/ agencies	2.0	1.2	2.9	1.6	4.3	3.3	2.9	1.5
Friends/family	8.0	6.8	9.3	9.4	7.3	13.7	9.4	5.7
Blogs/online	1.1	0.8	1.3	1.8	2.9	0.9	2.3	1.3

discussions								
Other	3.3	2.8	3.9	2.0	7.6	5.9	7.1	4.3
N	1,548	684	864	717	295	732	700	268

Note: 1. Buildings and contents were two separate categories which are combined in this column.
2. Comprehensive motor insurance.
3. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q7, "Which were your main sources for information about different insurance providers and offers?".

Table 34: Second most important sources of information, by product (% of respondents)

	Home[1]	Buildings only	Contents only	Motor[2]	Car rental	Travel	Add-on[3]	Home assist.
Websites of insurers	16.2	17.1	15.2	22.2	13.4	19.2	11.3	20.3
Comparison websites	12.7	14.1	11.3	14.8	13.4	16.0	13.5	18.4
Visited providers in person	5.3	6.9	3.6	4.9	7.3	5.5	7.0	8.7
Called providers	6.9	5.7	8.0	7.3	8.9	3.7	3.9	4.3
My bank	6.0	6.7	5.3	3.5	4.4	1.9	6.0	3.1
An insurer	8.9	7.5	10.3	7.2	3.8	6.6	7.4	5.4
An independent advisor/broker	5.7	5.4	6.1	3.8	9.3	5.2	3.9	4.7
Advertisements	4.0	3.8	4.2	2.1	3.7	2.1	3.8	4.2
Websites of national consumer associations	6.6	5.4	7.7	5.4	6.5	5.3	7.7	7.6
Websites of public authorities/ agencies	4.1	3.3	4.9	3.8	2.3	6.6	5.8	2.1
Friends/family	12.7	13.1	12.2	15.9	12.5	15.1	17.7	12.1
Blogs/online discussions	2.9	2.9	3.0	2.6	7.0	4.4	4.9	5.0
Other	8.1	8.0	8.1	6.5	7.6	8.2	6.9	4.2
N	1,548	684	864	717	295	732	700	268

Note: 1. Buildings and contents were two separate categories which are combined in this column. 2. Comprehensive motor insurance. 3. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q7, "Which of the following were your main sources for information about different insurance providers and offers?".

The table below shows the first most important source of information, across countries. The country results show that the overall results are influenced by very high uses of particular sources in certain countries; the use of comparison websites as the first most important source of information is 47.8% in the UK, and 24.7%, which is significantly higher than in other countries (Romania 6.9% and Slovakia 11.0%). For some of the less popular sources of information in the overall results, we find that in certain countries the use of these sources are higher than the aggregate results would imply; an independent advisor/broker is the second most popular first source, with 14.3% of Romanian respondents and 15.7% of Slovakian respondents selecting this, which compares to 8.4% overall across the countries.

Table 35: First most important sources of information, by country (% of respondents)

	DE	IT	RO	SK	SE	UK	Total
Websites of insurers	9.1	6.2	11.5	10.2	20.8	13.7	10.6
Comparison websites	24.7	16.3	6.9	11.0	12.3	47.8	27.3
I visited providers in person	9.0	18.3	19.3	16.3	6.4	3.4	10.2
I called providers	1.4	4.2	2.5	6.1	12	8.1	4.6
My bank	4.5	7.4	8.9	5.4	5.3	4.6	5.5
An insurer	13.6	10.9	13.6	13.4	7.6	1.8	9.4
An independent advisor/broker	11.8	9.0	14.3	15.7	3.3	2.0	8.4
Advertisements (print, radio, television)	0.7	2.4	2.1	0.7	0.3	0.8	1.2
Websites of national consumer associations	5.1	7.4	1.5	2	4.1	5.6	5.3
Websites of public authorities/ agencies	1.6	3.2	4.3	3.5	2.2	2.4	2.4
Friends/family	11.9	7.4	11.6	12.7	15.6	5.2	9.2
Blogs/online discussions	1.7	2.3	1.7	1.3	0.9	0.8	1.5
Other	4.9	5.0	1.9	1.7	9.2	4.0	4.5
Sample size (N)	764	648	627	710	707	804	4,260

Note: Results are aggregated over insurance products. Across products and countries, we find results which are consistent with the country results, but omit these tables in the interests of space. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q7, "Which of the following were your main sources for information about different insurance providers and offers?".*

4.4.2. Information that is important to and (not) used by consumers

As discussed in the introduction to this chapter, this section will explore the information consumers are interested in when shopping for insurance and the important information they neglect, but would need to understand the premium-setting mechanism, to identify the most appropriate products given their personal situation, and to apprehend their contractual rights and obligations.

Evidence on this was collected via the focus groups, findings from the literature, stakeholder interviews and the online survey. The key findings were:

- The focus groups and the literature have confirmed as expected that consumers mainly look for **low premium prices** when shopping for insurance cover. This is in part driven by comparison tools, such as price comparison websites, which put particular emphasis on price as a key parameter of comparison.
- The focus groups, literature review and survey results show that other features consumers are interested in are the **risks covered or** excluded, the excess, and the sum insured. Fewer consumers seem to specifically search for information regarding cancelation policies and information regarding claims handling prior to purchasing an insurance. However, consumers are interested in information regarding the reputation of an insurance company which is often acquired via friends and family, and often relate to their experiences with claims handling.
- Information regarding contract duration was mentioned as being used by focus group participants in regards to add-on insurance.
- The survey results showed that the **most important piece of information** contained in an insurance policy that consumers use to make insurance purchase and renewal choices are the **premium/price** (selected by approximately 60% of

respondents), followed by the **risks covered or not covered**, and then the **sum insured**. These findings are shown in Figure 7 to Figure 12.

- From a policy perspective, the possibly more interesting finding is the lack of interest consumers show in searching for information on **exclusions and obligations**. In the survey this information was reported as the most important piece of information by only approximately 30% of respondents across products. The focus groups highlighted that it appears that consumers most often fail to appreciate the importance of exclusions and their obligations, an important finding given the how large the potential consequences can be for an (inadequately) insured person.

Box 11 : Evidence from the focus groups

Price was generally the most important criteria when selecting insurance. When purchasing **home insurance and motor insurance**, other key aspects were the **risks covered, the risks NOT covered, the excess, and the sum insured**.

> *"I think sometimes things which aren't covered are just as important so you'd need to check those too."* (Woman, 53, higher education, London)

Views with regards to the importance of **cancelation policies and claims handling** procedures were less unanimous. Cancelation policies were mainly considered important in Italy and Romania. Participants in Romania also emphasised the importance of claims handling procedures, and of having a transparent relationship with the provider.

In addition to the characteristics of the insurance, it should also be noted that participants' decision-making was guided by the **reputation of the insurance company**.

> *"You have to take everything into account in order for everything to be alright. The price is higher for well-known companies, but at least you know what you pay for."* (Man, 47, higher education, Bucharest)

Some participants looked for testimonials and comments from other consumers before making their choice; this was done either by consulting online forums, or by seeking advice from friends and family. Some participants noted that the most important aspect of choosing (home) insurance is that "you will actually get the help, if you need to make a claim". Therefore, **recommendations from friends and family** also tended to be important in participants' decision-making.

> *"I had friends that were abroad. Several different things happened to them, same problems for both. One had no issues whatsoever to claim on insurance. For the other person it was a total disaster. Same troubles, different insurance companies. So in that way I know what insurance to choose and what not to choose"* (Woman, 47, lower education, Stockholm)

When talking about the selection process for **car rental insurance**, many participants noted that the amount of excess was the most important factor. Some participants noted that this, in fact, was the only element they were able to vary when buying the insurance (no alternative offers were provided). Other participants said they had not considered any of these specific elements, but had simply bought the car rental insurance for the "extra security".

> *"I would buy car rental insurance. For that extra security. You never know what the other drivers out there will do."* (Man, 34, lower education, Stockholm)

Participants' level of interest with regards to **add-on insurance** varied by country.

Participants in Slovakia and Sweden were somewhat more informed compared to those in Germany. Participants in Slovakia mainly looked for details on price, sum insured, risks covered, excess, as well as claims handling procedure (particularly in the case of **travel insurance**). Participants in Sweden looked into exclusions and duration, and verified whether or not the product wasn't already covered by their home insurance.

When deciding whether or not to buy add-on insurance, some compared the duration of the insurance against the average lifetime of the product, or took into account technological progress:

"It is not convenient for me to use it. I do not want to get the same TV five years from now. It will have no value in that perspective as technology development is so fast." (Man, 40, lower education, Bratislava)The focus groups found indirect evidence on the type of information that is neglected by consumers. Given the responses on the type of information consumers search for when shopping for insurance, it appears that they most often fail to appreciate the importance of exclusions and their obligations.

Box 12 : Evidence from the literature

The desk research determined that consumers mainly look for low prices when shopping for insurance cover. Indeed, they look for the best available deal in terms of price, above quality. This can lead consumers to make poor choices, as they may disregard aspects such as the level of cover, excess levels, main exclusions and limitations[377]. A study shows that the vast majority of consumers accept terms and conditions (T&Cs) without even reading them when buying products and services online, but not only within the insurance sector[378]. Consumers also tend to consider well-known brands of insurance companies as reliable sources[379]. This research corroborates the statements made in the focus group box above about the information that consumers place less importance on. It was found that when looking at the information related to an insurance policy, consumers fail to appreciate the importance of exclusions and their obligations. Behavioural drivers, such as the availability bias and cognitive limitations[380], may lead consumers to focus merely on information which is easily accessible, and most interesting to them at the decision making moment. This is reinforced by the growing use of PCWs which put increased emphasis on the premium and potentially leading to a situation in which consumers neglect other aspects, such as quality and coverage. Indeed, in Italy, IVASS's study on PCWs confirmed that the cheapest insurance policy may not be the most suitable product in relation to consumers' insurance needs. The comparison is currently based solely on the price of the policy, and does not take account of its contract terms, such as for example maximum covers, excess, recourse, exclusions and limitations of covers[381]. The study on PCWs by the Financial Conduct Authority in the UK noted that consumers "may buy products without understanding key features such as level of cover, excess levels, main exclusions and limitations" [382]. These aspects are therefore neglected by consumers when purchasing insurance products, as they cannot understand them from

[377] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector. Available at: Available at: https://www.fca.org.uk/publication/thematic-reviews/tr14-11.pdf

[378] European Commission, 2016, Study on consumers' attitudes towards Terms and Conditions (T&Cs). Available at: http://ec.europa.eu/consumers/consumer_evidence/behavioural_research/docs/terms_and_conditions_final_report_en.pdf

[379] Capgemini, 2015, World Insurance Report. Available at: https://www.be.capgemini.com/resources/world-insurance-report-2015-from-capgemini-and-efma

[380] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.

[381] IVASS (2014) 'Indagine sui siti comparativi nel mercato assicurativo italiano'.

[382] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector, UK

the information provided on the PCW.

Another study examined focussed on the most important pieces of information used by consumers. London Economics (2016) conducted a study for EIOPA, *IPID Consumer Testing and Design Work*[383], testing how the design of the pre-contractual summary document for non-life insurance products, which presents a summary of the key information from the insurance policy (such as main risks covered, main risks excluded, and main obligations), affected consumer comprehension of information, and aided comparison between insurance products. This study, which included qualitative focus groups followed by a quantitative survey is relevant to this project as it provides insights in regards to the information contained in non-life insurance policies which consumers use and believe is the most important when shopping for insurance[384].

Survey participants were asked to indicate which sections of the IPID (e.g. main risks covered, main risks not covered, main exclusions and restrictions) they perceived as being most important for helping them choose which insurance product to purchase. The IPIDs contained realistic summary information on non-life insurance policies (for motor, household and health insurance products) including legal liability limits, excess charges, claim limits, but the documents did not include the price of the insurance policy.

Participants were asked to rank the different sections of the IPID in terms of importance when searching for insurance, with the order as follows: Main risks covered; main risks not covered; main restrictions and exclusions; main obligations; and finally payment, contract term, and termination procedure.[385] The IPIDs tested in the EIOPA study did not include price/premium information, but from features included in the IPIDs the research findings are in line with the findings found from this study of the European Commission which shows the importance of risks covered or excluded. In the qualitative focus groups (which occurred before the quantitative testing), participants considered all the sections of the IPID as equally important when it came to their prominence in the document, and were confused by or disliked certain sections in a smaller font size because it reminded them of 'small print' in contracts, raising the issue of distrust. This research therefore provides information on the pieces of information which are used and are most important to consumers when they are told to explicitly rank them, but at the same time highlights the fact that consumers also consider all the sections to be equally important and do not like when certain information is given less prominence.

Box 13 : Evidence from the stakeholder interviews

According to national supervisory authorities and consumer associations interviewed, in eight countries of Task 1 (except Germany and Luxembourg), spanning across all products, consumers mainly focus on price when shopping for insurance products. They do not sufficiently focus on the terms and conditions and on the risks covered by the product.

[383] London Economics (2016), IPID Consumer Testing and Design Work, https://eiopa.europa.eu/Publications/Consultations/IPID%20Consumer%20Testing%20and%20Design%20Work%20FINAL.pdf

[384] Particular care was taken and information exchanged, between the project team, EIOPA and the Commission, to ensure complementarity in findings and evidence coming from the study and this project.

[385] However, it should be noted that respondent's perceptions of importance may have been influenced by the order in which the sections were presented to them in the sample IPIDs.

In Slovakia, interviewees from the national supervisory authority and consumer associations noted that consumers pay attention to the level of premium they will have to pay and the amount of compensation they will receive from a claim, instead of focusing on the quality or coverage of the insurance product.

In Romania, a consumer association reported that for third-party motor liability products, consumers tend to buy the cheapest option available, as the claim compensation is not addressed to them, but to the other damaged vehicle. Consumers therefore do not pay attention to the extent of coverage. However, for comprehensive motor insurance (CASCO) or household insurance, the buyers are the direct recipients of compensation in case of accident, and therefore they pay more attention to the coverage and quality of the product.

A trade association in France noted that consumers use comparison websites to look for information and compare the different products, but they usually end up contacting directly an agent or a broker to get personalised advice and sign an insurance contract. This shows that consumers also value advice from professionals such as insurance intermediaries when shopping for insurance cover.

Brand recognition is also an important aspect considered by consumers when shopping for insurance cover, which was raised by trade and consumer associations in the UK and Latvia. According to these stakeholders, consumers tend to be more interested in products from big well-known brands such as Aviva in the UK or AXA across the EU, as they feel that they are more trustworthy.

Box 14 : Evidence from the survey

Survey respondents were asked to think about the last time they purchased or renewed a particular type of insurance and to identify the **pieces of information** they had used to make their choice, given from a list.[386] Respondents were asked to select all items of information that they used. The results are shown by type of insurance in the figures below.

Across all types of insurance a similar pattern emerges. The premium/price is the most important piece of information for consumers, with 59% (in case of buildings or contents insurance) to 71% (for travel insurance) of respondents (i.e. around 62.5% on average across the different insurance products) identifying this as a piece of information they used the last time they bought or renewed insurance.

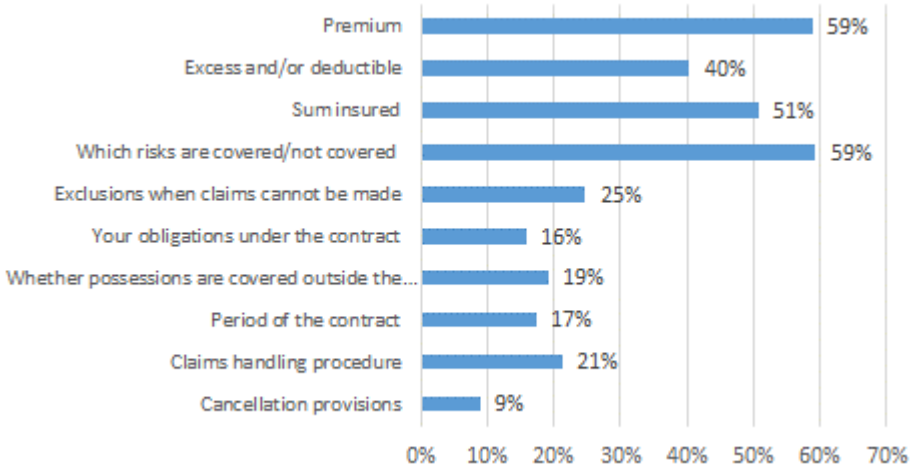
The second most important piece of information for consumers is the risks covered or not covered, which was used by a majority of respondents in their decision making for each type of insurance (ranging from 55% for motor insurance to 75% for add on insurance).

The next most important pieces of information were the excess and sum insured/ maximum amount the insurer will pay out. However, these figures for the sum insured are relatively low given the importance of the sum insured when taking out a policy, which is particularly important because underinsurance (i.e. selecting a sum insured that is too low) is a particular problem in the insurance market. Underinsurance can have potentially significant impacts on consumers in the case of a claim, and also on

[386] Respondents were asked this question specifically with respect to a single type of insurance, which they said they own or have previously purchased.

their satisfaction with their insurance provider and the insurance market if they do not correctly understand their policy before making such a claim.

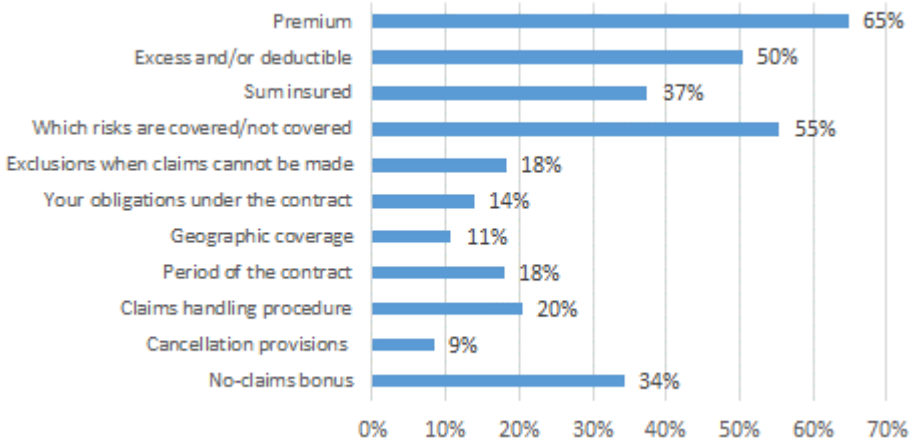
Figure 7: Information used in insurance purchase or renewal – Buildings and contents



Note: N=1,548

Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".

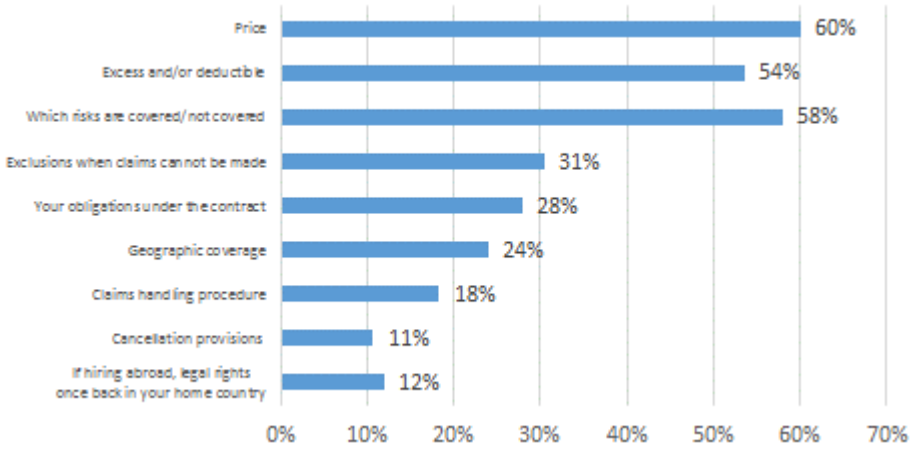
Figure 8: Information used in insurance purchase or renewal – Comprehensive motor



Note: N=717

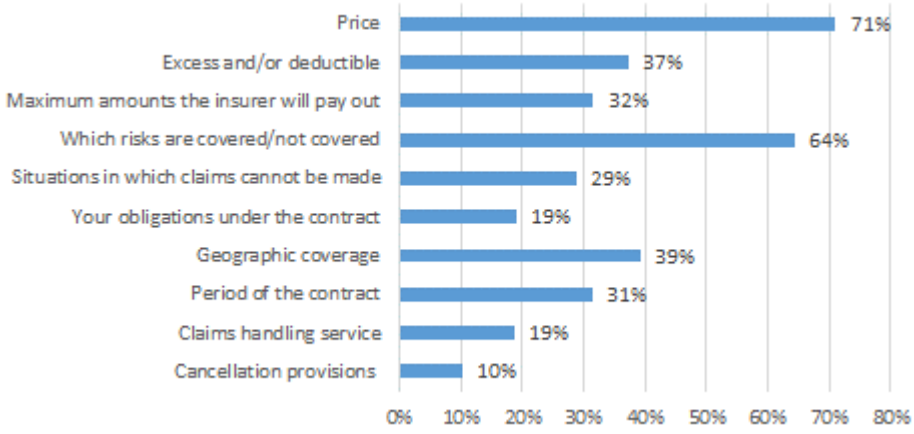
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".

Figure 9: Information used in insurance purchase or renewal – Car rental



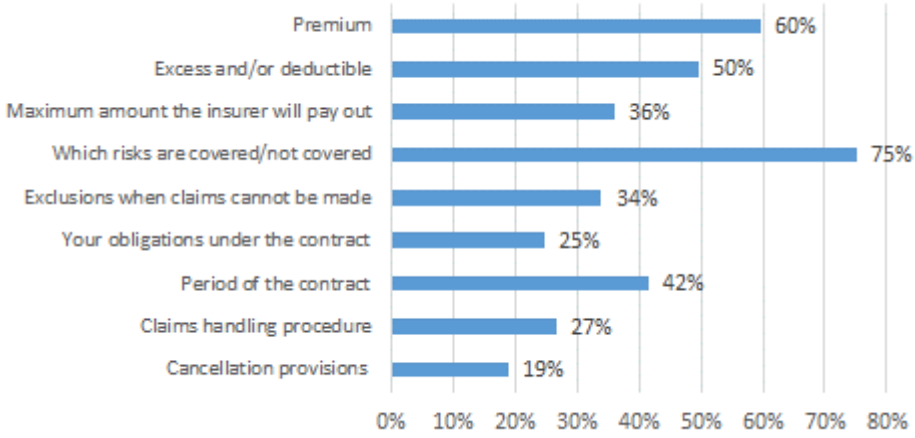
Note: N=295
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".

Figure 10: Information used in insurance purchase or renewal – Travel



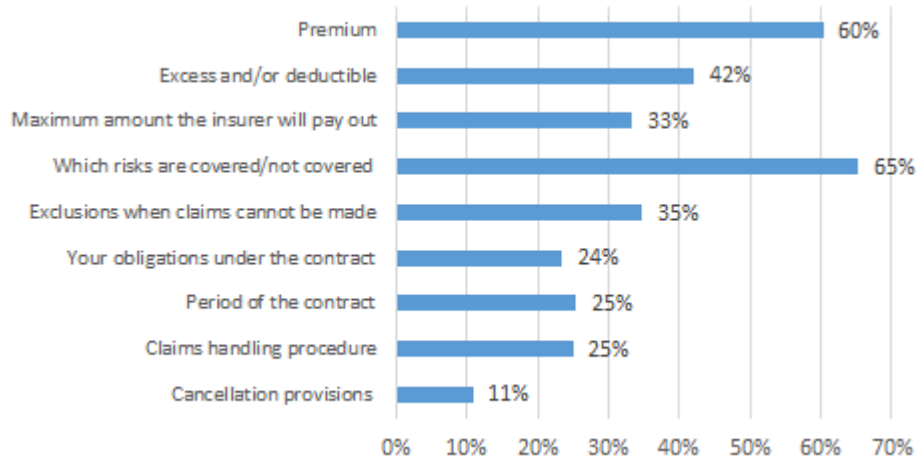
Note: N=732
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".

Figure 11: Information used in insurance purchase or renewal – Add-on insurance[1]



Note: N=700 1. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".

Figure 12: Information used in insurance purchase or renewal – Home assistance



Note: N=268
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".

The tables below present the information contained in the figures above, by Member State. As expected there is variation between countries in the information which is used. An interesting result is the proportion of consumers in Sweden using the pieces of information which were found to be less used overall across the sampled countries; for these pieces of information they are used by a much smaller proportion of Swedish respondents. This may imply differences in the information which consumers in different countries find important, or the amount of information which they think is important to look at, given the pieces of information which are used less generally appear towards the end of insurance policy documents.

Table 36: Information used in insurance purchase or renewal – Buildings and contents

	DE	IT	RO	SK	SE	UK
	%	%	%	%	%	%
Premium	51.7	52.6	62.9	62.3	51	72.1
Excess and/or deductible	38.1	35.9	22.2	31.5	28.9	54.4
Sum insured	51.0	40.1	60.6	67.7	34.2	54.8
Which risks are covered/not covered	68.4	47.9	60.6	49.2	41.3	56.2
Exclusions when claims cannot be made	22.1	20.3	20.8	30.4	7.0	34.3
Your obligations under the contract	14.3	15.1	29.0	25.8	4.0	15.9
Whether possessions are covered outside the home	15.6	16.1	12.7	17.3	10.7	31.4
Period of the contract	17.7	16.1	19.9	23.1	5.7	17.3
Claims handling procedure	28.9	11.5	23.5	39.6	6.7	15.9
Cancellation provisions	11.9	7.3	14.5	11.2	2.0	6.4
Sample size (N)	294	192	221	260	298	283

Note: This was a multiple answer selection question; hence percentages may not sum to 100. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".*

Table 37: Information used in insurance purchase or renewal – Comprehensive motor

	DE	IT	RO	SK	SE	UK
	%	%	%	%	%	%
Premium	60.8	54.4	49.6	60.0	69.3	77.5

Excess and/or deductible	53.4	35.6	31.9	56.9	36.4	61.3
Sum insured	43.2	42.2	58.0	66.2	18.2	23.2
Which risks are covered/not covered	55.4	54.4	64.7	53.1	43.2	50.7
Exclusions when claims cannot be made	20.3	13.3	21.0	25.4	5.7	19.0
Your obligations under the contract	12.2	11.1	23.5	27.7	3.4	14.8
Geographic coverage	10.8	8.9	13.4	20.0	4.5	7.7
Period of the contract	16.2	24.4	27.7	28.5	3.4	11.3
Claims handling procedure	31.8	11.1	16.0	38.5	9.1	11.3
Cancellation provisions	10.1	3.3	14.3	11.5	4.5	7.0
No-claims bonus	36.5	17.8	27.7	34.6	14.8	43.7
Sample size (N)	148	90	119	130	88	142

This was a multiple answer selection question; hence percentages may not sum to 100. Source*: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".*

Table 38: Information used in insurance purchase or renewal – Car rental

	DE	IT	RO	SK	SE	UK
	%	%	%	%	%	%
Price	61.2	64.5	73.1	63.6	55.1	62.1
Excess and/or deductible	59.7	46.1	38.5	45.5	30.6	60.6
Which risks are covered/not covered	64.2	52.6	42.3	36.4	46.9	59.1
Exclusions when claims cannot be made	34.3	19.7	23.1	45.5	8.2	33.3
Your obligations under the contract	28.4	25.0	34.6	27.3	24.5	33.3
Geographic coverage	25.4	25.0	19.2	36.4	8.2	24.2
Claims handling procedure	26.9	11.8	19.2	18.2	12.2	13.6
Cancellation provisions	17.9	3.9	15.4	9.1	2.0	9.1
If hiring abroad, legal rights once back in your home country	9.0	6.6	7.7	18.2	6.1	18.2
Sample size (N)	67	76	26	11	49	66

This was a multiple answer selection question; hence percentages may not sum to 100. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".*

Table 39: Information used in insurance purchase or renewal – Travel

	DE	IT	RO	SK	SE	UK
	%	%	%	%	%	%
Price	69.1	64.4	75.2	70.8	53.5	83.7
Excess and/or deductible	36.2	42.2	15.7	27.7	23.8	47.5
Maximum amounts the insurer will pay out	20.8	32.2	45.5	48.5	13.9	42.6
Which risks are covered/not covered	57.0	70.0	81.0	63.8	51.5	64.5
Situations in which claims cannot be made	22.8	22.2	29.8	30	10.9	39.0
Your obligations under the contract	12.1	24.4	31.4	23.8	10.9	20.6
Geographic coverage	28.9	31.1	61.2	41.5	19.8	50.4
Period of the contract	23.5	38.9	36.4	42.3	11.9	34.0
Claims handling service	25.5	11.1	15.7	40.8	17.8	7.8
Cancellation provisions	10.1	5.6	13.2	4.6	2.0	11.3
Sample size (N)	149	90	121	130	101	141

This was a multiple answer selection question; hence percentages may not sum to 100. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".*

Table 40: Information used in insurance purchase or renewal – Add-on insurance

	DE	IT	RO	SK	SE	UK
	%	%	%	%	%	%
Premium	55.3	64.8	64.3	66.7	41.2	60.2
Excess and/or deductible	50.0	53.1	36.5	41.9	32.7	56.8
Maximum amount the insurer will pay out	37.2	31.0	59.1	60.0	20.9	38.6
Which risks are covered/not covered	77.7	77.2	81.7	65.7	59.5	73.9
Exclusions when claims cannot be made	31.9	30.3	41.7	43.8	14.4	45.5
Your obligations under the contract	17.0	26.2	50.4	50.5	4.6	25
Period of the contract	44.7	33.1	50.4	51.4	15.7	46.6
Claims handling procedure	34.0	22.1	30.4	48.6	9.2	21.6
Cancellation provisions	26.6	13.1	31.3	21.9	5.9	13.6
Sample size (N)	94	145	115	105	153	88

This was a multiple answer selection question; hence percentages may not sum to 100. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".*

Table 41: Information used in insurance purchase or renewal – Home assistance

	DE	IT	RO	SK	SE	UK
	%	%	%	%	%	%
Premium	58.3	47.3	60.0	67.6	38.9	67.9
Excess and/or deductible	41.7	32.7	48.0	48.6	44.4	53.6
Maximum amount the insurer will pay out	16.7	32.7	48.0	54.1	22.2	36.9
Which risks are covered/not covered	66.7	54.5	56.0	59.5	27.8	73.8
Exclusions when claims cannot be made	41.7	16.4	32.0	47.3	33.3	40.5
Your obligations under the contract	16.7	21.8	36.0	40.5	16.7	25
Period of the contract	16.7	20.0	36.0	33.8	16.7	23.8
Claims handling procedure	41.7	14.5	32.0	50.0	11.1	20.2
Cancellation provisions	8.3	1.8	28.0	24.3	16.7	9.5
Sample size (N)	12	55	25	74	18	84

This was a multiple answer selection question; hence percentages may not sum to 100. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S2Q8, "Thinking about the last time you purchased or renewed, which of the following pieces of information did you use to make your choice?".*

4.4.3. Consumers' understanding of information

Previous sections have focussed on the way in which consumers access information on non-life insurance products. This section looks at consumers' understanding of the information they find. All research methodologies have informed this part. We present the key insights gained on consumers' understanding followed by in-depth reports by method (see the boxes below):

- All strands of research reveal that consumers are often challenged in understanding information regarding non-life insurance products.

- The level of understanding varied across Member States, which appears to be related to the experience with certain types of products.
- The focus groups revealed that the understanding and awareness of home insurance features are often low. This appears to be partly due to the fact that these policies are commonly held for long periods of time.
- Compared to home insurance, focus group participants felt that they had a better understanding of the general features of their motor insurance policies (such as third party liability, windscreen and windows, roadside assistance), though this understanding was challenged by questions in regards to more specific risk coverage (such as cover for theft, damage due to atmospheric events, or level of coverage when abroad).
- The literature review (namely studies carried out by the Italian and the UK national supervisory authorities) identified a gap in consumers' knowledge about add-on insurance products, and highlighted that consumers are not fully aware of the add-on insurance products they own and of their terms and conditions.
- Some focus group participants lacked understanding of basic terms of insurance policies such as the excess and the functioning of bonus policies (Romania).
- Stakeholders, the literature review and the focus groups all revealed difficulties in understanding information relating to the length and complexity of terms and conditions documents. Sometimes these difficulties related to the time that was available to assess pre-contractual information (add-on and car rental insurance), but more generally it was perceived that these documents were simply too lengthy and technical to go through (non-life insurance products in general, and home and motor insurance in particular).
- Focus group participants had little understanding of claims handling procedures due to a lack of information prior to having to actually make a claim. This was supported by the literature review, which revealed that most complaints to Ombudsmen and other alternative dispute resolution bodies regard claims. Many complaints in regards to the amount paid out in case of a claim are related to consumers' misunderstanding of the features of their insurance.
- Several interviewed stakeholders (national supervisory authorities in Italy, Spain, Slovakia and Latvia, a consumer association in France, and a trade association in Latvia) pointed out low levels of financial literacy among consumers which challenge their understanding of complex insurance products.
- The survey results showed that respondents have a **mixed understanding** of insurance information, performing strongly on some questions, but less well on others. When presented with an insurance policy and asked to identify from a list of risks those which would be, and would not be covered by the given policy, respondents on the whole performed well, with exceptions in particular cases such as for add-on insurance. There was also some evidence which could imply that respondents are **more aware of the risks their policies do not cover than those that they do**. For example, scenario test questions on limits to coverage for home insurance show that 63.4% of respondents in Germany and 50.9% of respondents in Romania displayed a very low awareness of the limits to coverage, by incorrectly believing they would not be able to claim at all on a given policy.
- Survey questions that tested consumers' underlying understanding of insurance and their intuition showed good understanding in some cases, such as 80% of respondents correctly identifying the meaning of the term 'excess'. However, in another question, which asked respondents to identify statements they would expect to find in a typical insurance policy, was answered less well (answered correctly by no more than 15% of respondents). Respondents were very good at identifying the statements that would not be included in a typical contract, however **they scored relatively poorly on those statements that are included in a typical policy**. This is an important finding in terms of policy, especially in the context of the Insurance Distribution Directive and the EIOPA

work on Product Information Documents, since it highlights the importance of providing clear product information that is easy to understand.

- A question asking survey respondents to identify from three alternative policies the one with the highest, and the one with the lowest premium also highlighted a **lack of understanding by consumers of the impact of the excess amount on the policy premium**.
- Finally, survey respondents were asked about whether they had answered the scenario based test questions in the survey using their own intuition, or the information contained in the policy documents they were given in the experiment. One third of respondents **relied on their intuition to answer, and consequently performed worse** than those using the information provided to them to answer the scenario questions.

Box 15 : Evidence from the focus groups

Information with regards to **home insurance** was not always well understood. Many participants have had their home insurance for a long time (having selected it before the availability of online comparison tools), and were not fully aware of its functioning. Their main difficulties were to identify **which risks were covered by their policy, and which ones were not**. Uncertainty with regards to these aspects was high among most participants, and was particularly worrying to those in Italy, who found home insurance to be the most ambiguous category:

> *"If thieves steal something in the garden, is it included or not? There are things which are hard to check when you buy the policy."* (Man, 43, higher education, Milan)

Confusion with regards to home insurance cover was also high in the other countries. In Germany and in the UK, despite initially claiming that the information was straightforward, participants realised that they were unaware of some of the risks covered by their policy:

> *"Thinking about it, things like lightning strike, I don't know whether I'm covered for things like that, I would hope that I am, but I don't really know, I haven't really checked that out."* (Man, 56, lower education, London)

For many participants, being able to speak to someone from the insurance company who can explain all the details was considered very important:

> *"You see, for me I kind of need to speak to someone, even when I've read something in depth, I still feel the need to call someone up just to clarify things. I would never actually choose an insurance company or anything unless I speak to someone, because it gives you peace of mind."* (Woman, 37, higher education, London)

> *"My agent had a lot of patience with me as it was really difficult for me to understand all different conditions. When you sign the contract you expect help as it is not a clear topic for people who do not work in this field to understand. For example, the sum insured is different for diverse things in content insurance. There are different limits for each group of things."* (Man, 47, lower education, Bratislava)

Information with regards to **motor insurance** was somewhat better understood. Participants in the UK said they were able to find the information they needed, and considered it straightforward.

In Italy, participants were aware of some of the general features of their motor insurance (such as personal liability, windscreen and windows, roadside assistance, remote assistance). However, aspects such as legal assistance, as well as cover for

theft, damage due to atmospheric events, or level of coverage when abroad were less well understood.

> *"The absurdity is that a friend of mine who got caught in the floods in Genoa has not received anything, because the policy only covered hail, it's crazy."* (Woman, 34, lower education, Milan)

In Romania, aspects such as excess levels, as well as bonus policies remained unclear to the participants:

> *"If you have no problems with the car, you have 5% discount next year. And next year, when I wanted to renew the policy, I saw that I had to pay the same amount and I asked the guy there what happened to the discount and he told me that the car is now one year older so the costs are higher, but he managed to offer me the same price as before"* (Man, 47, higher education, Bucharest)

For both **home insurance and motor insurance**, participants were unable to identify whether any information was missing. However, they admit not being able to read all the terms and conditions, due to the large amount of information and the complexity of the documents. Some believed that sensitive information is usually written in small font at the bottom of the page and in a legal jargon which makes it even more difficult to understand.

> *"The key points are very straightforward, but as we've all said who actually reads the 900 pages of something."* (Man, 41, lower education, London, referring to home insurance)

> *"Price is clear, excess is clear, what it covers is clear, those things are clear but everything else is all small print I think."* (Woman, 59, lower education, London, referring to home insurance)

For **car rental insurance** and **add-on insurance**, participants had a very limited amount of time to go through pre-contractual information, as these were mainly bought at the same time when the car was hired, or when the product was purchased.

> *"Usually they have some sort of manual, but you don't have the time or energy to read it when you stand there. What do I have to pay if anything happens. OK, fine, I pay extra for risk reduction."* (Woman, 29, higher education, Stockholm city, referring to car rental insurance)

> *"You have to decide the moment you buy, you cannot change your mind 30 minutes later."* (Woman, 51, higher education, Hamburg, referring to add-on insurance)

In addition to time pressure, participants often felt pressured by sales staff into buying car rental insurance or add-on insurance. Car hiring companies tend to emphasise possible risks; similarly, sales staff propose add-on insurance when a product is purchased, mentioning possible damages which may occur, and highlighting the benefits of the insurance (including its low price).

> *"Sales people and advertising can affect you. My children bought expensive mobile phones and considered add-on insurance for these. They would not have thought about it if the sales person hadn't put the idea in their head and given them the fear that something could happen to their phones."* (Woman, 48, higher education, Stockholm city)

> *"Because when I showed up to the desk they started going through all the things that could go terribly wrong. What if? It was in Ireland, and they said we've got really bad potholes in our road… What if? Something, a stone hits the windscreen? You won't be covered for that, so there's a lot of that, and by the*

end of it I was like: I'll take everything! They managed to make it sound really scary for me not to have it." (Woman, 33, higher education, London)

Although when first prompted, participants think of it as straightforward, awareness with regards to additional car rental insurance was generally low.

For add-on insurance, the level of understanding and interest varied by country. In Germany, awareness was low, and some participants relied mainly on verbal information provided by the sales staff. Slovak and Swedish participants were somewhat more informed. According to Slovak participants, information on claims handling procedure was the most difficult to find, and participants sometimes only realised how to use it once it was too late.

The need for add-on insurance was questioned in Germany and Slovakia, and particularly in Sweden, where the general feeling was that these types of insurance were rarely used, and that they lacked transparency.

"There are a lot of details and exclusions regarding specific components. Specific types of problems with the product that are excluded from insurance. This is very difficult to understand when you don't know the product that well." (Woman, 38, higher education, Stockholm city)

In the case of travel insurance, in both Germany and Slovakia, participants had little understanding of what was covered by this type of insurance, in terms of sum insured, risks covered, exclusions or documents required (medical certificates). Some of the Slovak participants reported experiences where they expected their luggage or tickets to be fully covered, and this had not been the case:

"I was angry when I did not get enough money when I lost my luggage during the holiday. They told me the sum insured was lower than the real value of things I had in the luggage." (Woman, 48, Bratislava).

Box 16 : Evidence from the literature

Across all EU countries investigated, the main complaints received by Ombudsmen, consumer associations, national supervisory authorities and other alternative dispute resolution (ADR) bodies regard claims, and more particularly the amount paid out. The dispute resolution activities carried out by Ombudsmen and ADR, which were gathered through annual reviews published by these bodies, have shown that the difference between what consumers expect to receive and what insurers pay out in reality is mostly not due to malpractice on the insurer's part, but to consumer misunderstanding.

The Italian and the UK national supervisory authorities both identified a gap in knowledge about add-on insurance products, and carried out studies to understand the problems encountered by consumers and determine where the inefficiencies lie, in order to propose relevant remedies[387,388]. Both studies have demonstrated that consumers do not fully understand the add-on insurance market.

As discussed earlier, a study by London Economics (2016) for EIOPA allowed conclusions to be drawn regarding how product information for non-life insurance products should be designed to facilitate adequate information to enable a level playing field across distribution channels, and how and to what extent visual tools

[387] FCA, 2014, General insurance add-ons: Provisional findings of market study and proposed remedies
[388] IVASS- You are insured and perhaps you have not realized it (2014)

enhance comprehension of complex information.

Alternative designs were shown to consumers in focus groups and the design elements that were identified as being important for understanding and comparison were:

- simple, clear format;
- appropriate use of colour to draw attention to the IPID;
- using text of a similar size throughout the document;
- symbols and icons for different sections of the document;
- use of two columns to present the text; and,
- underlined titles and section breaks.

These findings were used to modify the designs to create revised designs used in quantitative testing where participants were asked to answer objective questions to test their understanding of the content in the summary IPID documents presented to them.[389] The features of the design that performed best based on the quantitative testing included:

- the use of two columns to present text (particularly when main risks covered are beside main risks not covered to aid comparability);
- separating the different sections of the document (e.g. risks covered, risks not covered etc.) into individual boxes;
- using an icon to indicate what each section of the document is about (e.g. an exclamation mark to indicate a section on restrictions and exclusions);
- the use of traffic light coloured tick, cross or exclamation points as bullet points to indicate risks covered, not covered, or subject to restrictions; and
- a large blue title header.

The final design recommended is presented below[390].

[389] For example, a question asked respondents to correctly identify which of a list of risks were covered by the insurance product which the summary document related to.

[390] The final design can be found here: https://eiopa.europa.eu/Publications/Technical%20Standards/Insurance%20Product%20Information%20Document.pdf

Box 17 : Evidence from the stakeholder interviews

The issue regarding consumer misunderstanding was also raised during stakeholder interviews. Indeed, the majority of stakeholders interviewed – national supervisory authorities (in Germany, Slovakia, Sweden and the UK), consumer associations (France, Germany, Italy, Luxembourg, Romania, Slovakia, Spain and the UK) and trade associations (Latvia, Luxembourg, Spain and the UK) – in the context of the study agree that terms and conditions are often lengthy documents, which can reach over 60 pages and use technical terms that do not allow consumers to fully understand these terms. As a result, consumers do not understand the full extent of the cover of insurance products, as exclusions are not always clearly stated. This information is, in fact, presented in the terms and conditions, as it is required by national supervisory authorities, but it is not easily accessible to consumers, resulting in misunderstanding of the characteristics of insurance products. The lack of understanding of the terms and coverage of the insurance contracts also results in many cases of insurance duplications, for instance, between household insurance and private liability insurance, or between add-on insurance and the coverage included in premium credit cards, according to consumer associations.

In addition, to many interviewed stakeholders (national supervisory authorities in Italy, Slovakia, Spain and Latvia, a consumer association in France, and a trade association in Latvia), there is a general lack of financial literacy across the EU which leads to consumers having difficulties understanding the information given to them.

Box 18 : Evidence from the survey

The survey examined two main aspects of consumers' 'comprehension and awareness':

- Consumers' understanding of information relating to insurance offers, when this information is presented to them; and
- Consumers' underlying understanding of insurance (in absence of any

presented information)

The results relating to these two aspects are discussed in turn below.

Consumers' understanding policy information presented to them

The first question in the comprehension and awareness section of the survey instructed respondents to consider the insurance policy they had chosen during the choice task (which immediately preceded the comprehension and awareness questions), and from a list of risks and events, they were asked to select all those that would be covered by that policy.

The insurance policies shown to respondents and the answers they should have given to answer this question correctly were dependent on the policy chosen in the preceding choice task.

The figures below show the percentages of respondents who answered correctly for each risk/event presented in the question, for each type of insurance. These shares include those who correctly said that a particular risk/event was covered and those who correctly answered that a risk/event was not covered (depending on what was actually the case for the respondent's policy). By considering each specific risk/event in turn and observing which were correctly identified as being covered or not covered, we can examine which were the most common mistakes by respondents and identify issues in understanding.

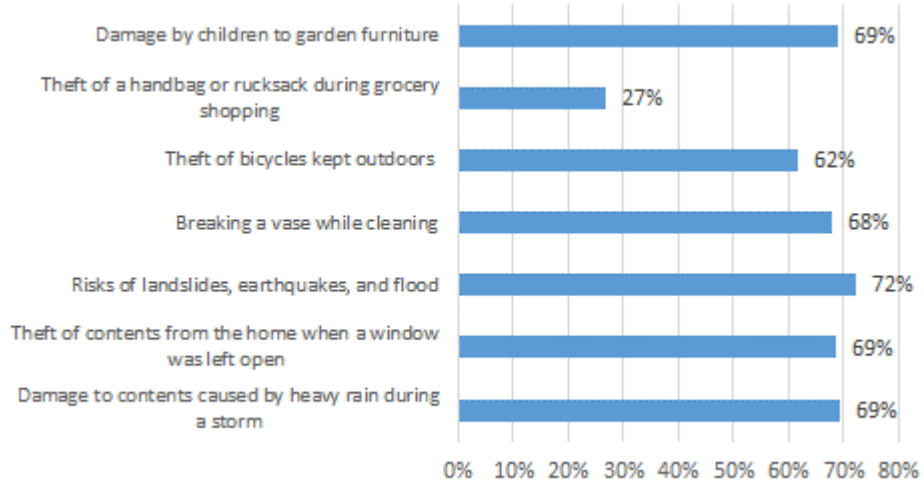
In this section incorrect answers could be caused by multiple factors, with the most likely being:

- Consumers not reading the information properly and making assumptions about what would be covered based on their intuition
- Consumers not being able to find the relevant information in the policy
- Consumers not being able to understand the information, even if they read it carefully
- Consumers' specific expectations and experience with particular insurance products

In the case of home contents insurance (see Figure 13), respondents performed reasonably well on this question, generally being able to understand the different risks and their inclusion or exclusion from the policy, in particular damage to contents caused by heavy rain during a storm (69% answered correctly for this risk).

The exception was the theft of a handbag or rucksack while grocery shopping; it seems respondents were not clear about the implications of an event occurring outside the home, with only 27% answering this question correctly. A potential explanation for this is that respondents may well have relied upon their intuition for this question, given it was a home insurance policy and a theft outside of the home may not have been a feature they focused on when selecting the policy. A possible consequence of a lack of awareness is a lack of reporting of insured claims, resulting in foregone compensation, though the study does not provide direct evidence of this causality.

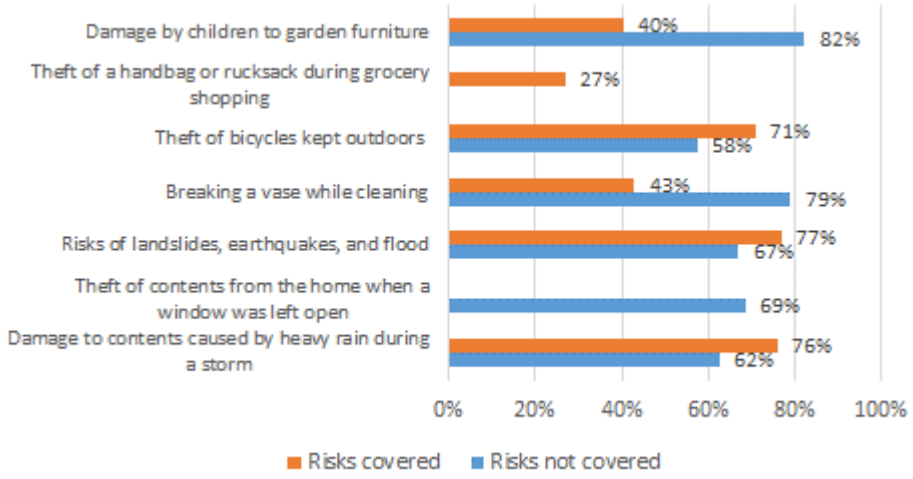
Figure 13: Risks correctly identified as covered/not covered – Home contents insurance



Note: The chart can be interpreted as follows: 69% of respondents correctly selected option 1 ("Damage by children to garden furniture") as a risk covered or not covered by the specific home insurance policy that they chose in the choice task, whereas 31% incorrectly thought that it was covered when it wasn't, or not covered when it was. Those incorrectly selecting 'Don't know' and 'None of the above' have been excluded. N=1,349
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".

The figure below presents the same data for home contents insurance, but splits the data depending on whether a respondent should have selected a risk as covered, or not covered. The striking results are the differences in performance for damage by children to garden furniture, and breaking a vase whilst cleaning. Respondents who had to identify those risks as not covered did far better than those that had to identify them as covered (82% vs 40%, and 79% vs 43% respectively). This suggests that consumers may be paying little attention to the policy documents themselves and answering based on intuition. People just using their intuition would explain the higher performance for when the risks are not covered, for it is more likely than not that these particular risks would be excluded by a given policy. The policy implication of this finding is to make this information in the insurance policy documentation more prominent so it is more likely to be read by consumers.

Figure 14: Risks correctly identified as covered/not covered – Home contents insurance (by risk coverage)



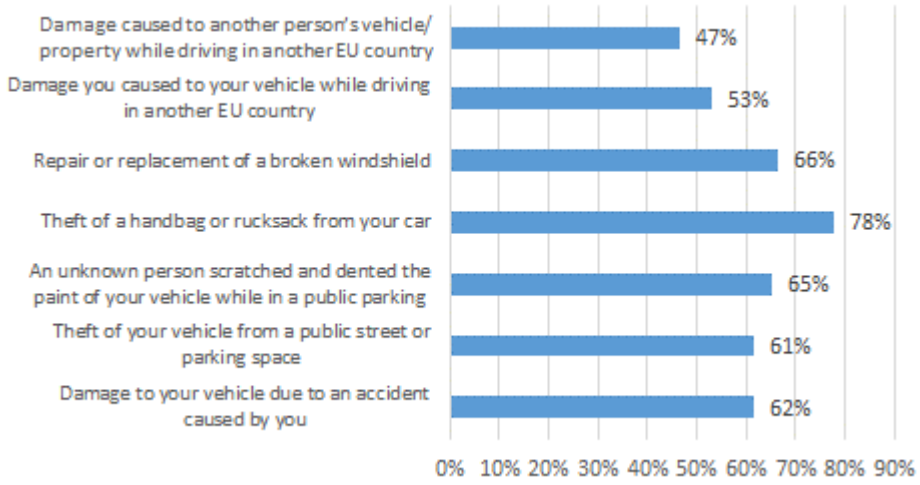
Note: The risks which were included and excluded varied by the offer respondents chose earlier in the survey. The risk covered series shows the results for those respondents which should have said a given risk was covered by the given insurance policy to answer the question correctly, and the risks not covered series shows the results for those respondents which should have said that a given risk was not covered by their given insurance policy to answer correctly. In cases where there is only 1 bar for a particular risk, it is because all respondents were required to give the same answer (e.g. a particular risk was covered) across all insurance policies. *Source: London Economics analysis of survey and experiment data (online and lab*

data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".

For comprehensive motor insurance (see Figure 15), respondents were usually able to identify whether damage due to an accident caused by the driver of the vehicle would be covered – 62% answered correctly with respect to this risk.

However, they answered less well with respect to damage caused to another person's vehicle/property while driving in another EU country, and damage caused by themselves whilst in another EU country (47% and 53% respectively). This relatively poor performance on this risk may be due to potential ambiguity in some cases. For example some policies said *"Geographic scope: The same cover applies while driving in other EU countries.* ***Minimum required by law in compliance with EU Directives****."*; or *"Geographic scope: The same cover applies while driving in other EU countries.* ***Up to 60 days comprehensive cover.****"* There may have been some confusion by respondents about the meaning of the wording of the first policy, which used wording inspired by an actual clause in a UK insurer's policy documentation.

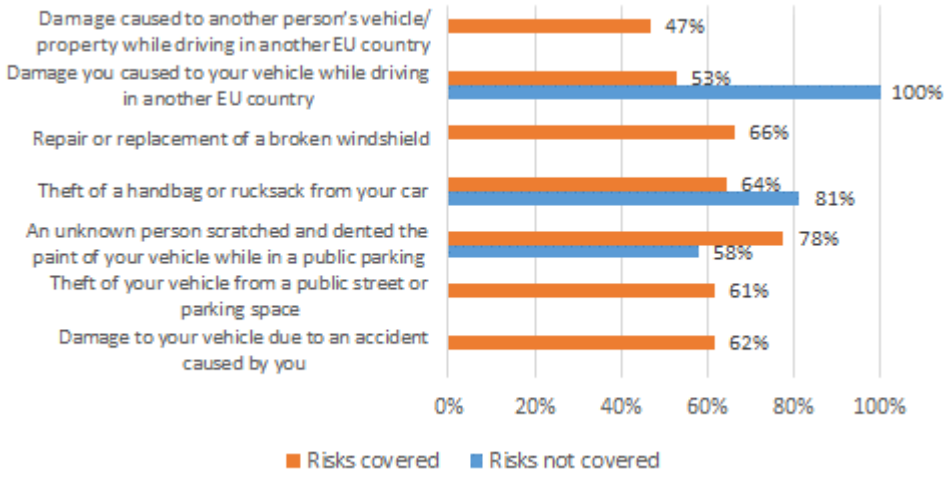
Figure 15: Risks correctly identified as covered/not covered – Comprehensive motor insurance



Note: The chart can be interpreted as follows: 47% of respondents correctly selected option 1 ("Damage caused to another person's vehicle or property whilst driving in another EU country") as a risk covered or not covered by the specific motor insurance policy that they chose in the choice task, whereas 53% incorrectly thought that it was covered when it wasn't, or not covered when it was. Those incorrectly selecting 'Don't know' and 'None of the above' have been excluded. N=1,553
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".

When presenting the data on whether a respondent should have selected a risk as covered or not covered, there was a divergence in performance for the 'Damage you caused to your vehicle while driving in another EU country'. Just over half of respondents answered correctly when the risk should have been covered, whereas 100% of respondents answered correctly when it should not have been covered. This could imply that respondents are more aware of the risks their policies do not cover than those that are covered.

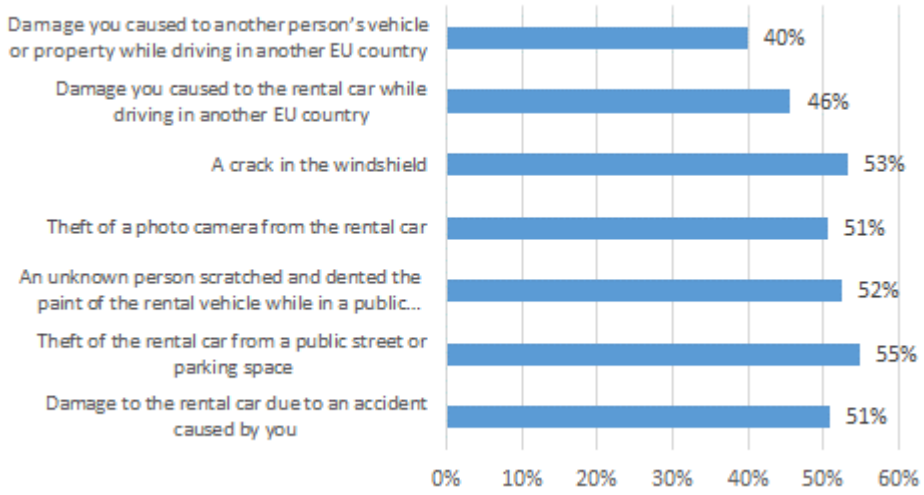
Figure 16: Risks correctly identified as covered/not covered – Comprehensive motor insurance (by risk coverage)



Note: The risks which were included and excluded varied by the offer respondents chose earlier in the survey. The risk covered series shows the results for those respondents which should have said a given risk was covered by the given insurance policy to answer the question correctly, and the risks not covered series shows the results for those respondents which should have said that a given risk was not covered by their given insurance policy to answer correctly. In cases where there is only 1 bar for a particular risk, it is because all respondents were required to give the same answer (e.g. a particular risk was covered) across all insurance policies. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".*

Respondents were generally more likely to answer correctly for car rental insurance (see Figure 17) than for comprehensive motor insurance, except with respect to whether damage to the vehicle caused by the driver was covered or not. As was the case for motor insurance, respondents' answers were poorest regarding damage caused to another person's vehicle or property while driving in another EU country, and damage caused to the rental car whilst in another EU country. In cases where these risks were not covered, this mistake could be explained by respondents intuitively thinking that such a risk is, or should be covered by this type of insurance product.

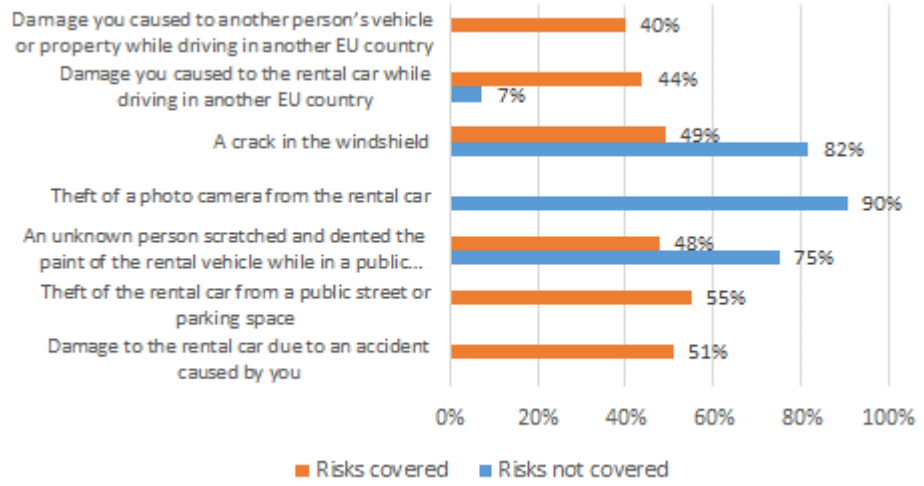
Figure 17: Risks correctly identified as covered/not covered – Car rental insurance



Note: The chart can be interpreted as follows: 40% of respondents correctly selected option 1 ("Damage you caused to another person's vehicle or property whilst driving in another EU country") as a risk covered or not covered by the specific car rental insurance policy that they chose in the choice task, whereas 60% incorrectly thought that it was covered when it wasn't, or not covered when it was. Those incorrectly selecting 'Don't know' and 'None of the above' have been excluded. N=1,350
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".

Figure 18 for car rental insurance provides some evidence for a result found in previous figures, which is that respondents tend to perform far better on risks which are not covered, than those covered. For a crack in the windshield, 82% of respondents answered correctly when the risk was not covered, against 49% when it was covered. Similarly for a scratch or dent by an unknown person, 75% answered correctly when it was not covered, against 48% when it was indeed covered.

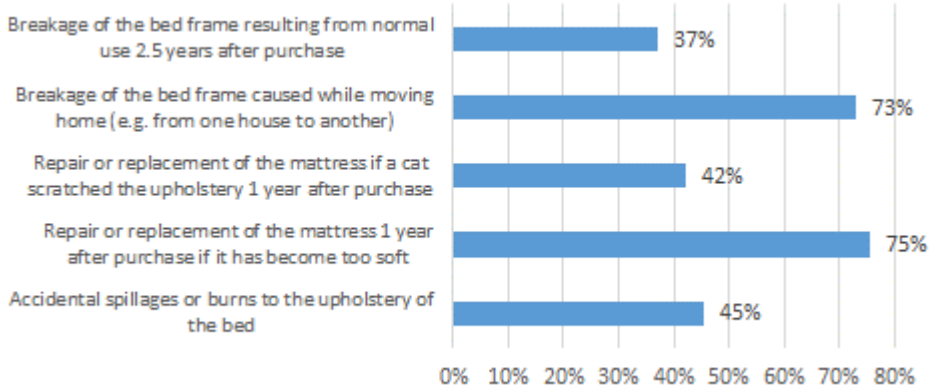
Figure 18: Risks correctly identified as covered/not covered – Car rental insurance (by risk coverage)



Note: The risks which were included and excluded varied by the offer respondents chose earlier in the experiment. The risk covered series shows the results for those respondents which should have said a given risk was covered by the given insurance policy to answer the question correctly, and the risks not covered series shows the results for those respondents which should have said that a given risk was not covered by their given insurance policy to answer correctly. In cases where there is only 1 bar for a particular risk, it is because all respondents were required to give the same answer (e.g. a particular risk was covered) across all insurance policies. *Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".*

For add-on insurance (see Figure 19) performance was mixed across the options presented, with some risks being understood much better than others. Performance on the whole was lower for add-on insurance than for the other insurance products.

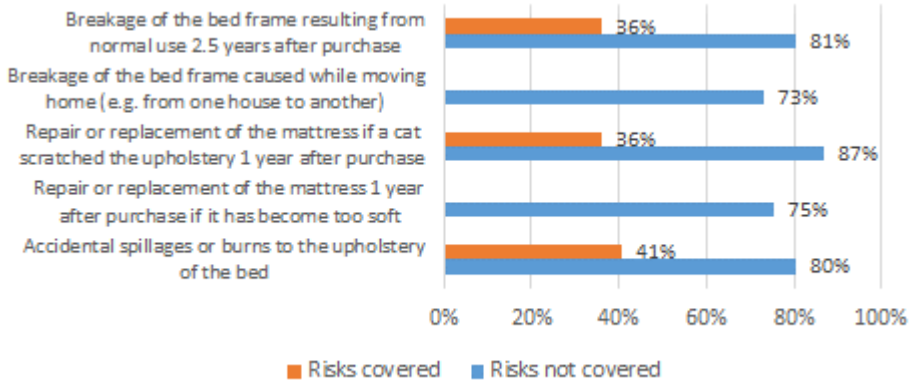
Figure 19: Risks correctly identified as covered/not covered – Add-on insurance[1]



Note: N=1,352. The chart can be interpreted as follows: 37% of respondents correctly selected option 1 ("Breakage of the bed frame resulting from normal use 2.5 years after purchase") as a risk covered or not covered by the specific add-on insurance policy that they chose in the choice task, whereas 63% incorrectly thought that it was covered when it wasn't, or not covered when it was. Those incorrectly selecting 'Don't know' and 'None of the above' have been excluded. 1. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".

Figure 20 shows that the relatively poor performance for add-on insurance was not uniform across respondents. For those respondents who had to identify risks as being covered by the insurance policy, their performance was substantially lower than those respondents who had to identify those same risks as being not covered, with correct response rates being less than half of those for risks not covered.

Figure 20: Risks correctly identified as covered/not covered – Add-on insurance[1] (by risk coverage)



Note: The risks which were included and excluded varied by the offer respondents chose earlier in the survey. The risk covered series shows the results for those respondents which should have said a given risk was covered by the given insurance policy to answer the question correctly, and the risks not covered series shows the results for those respondents which should have said that a given risk was not covered by their given insurance policy to answer correctly. In cases where there is only 1 bar for a particular risk, it is because all respondents were required to give the same answer (e.g. a particular risk was covered) across all insurance policies.
1. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q1, "Which of the following risks or events are covered by are covered by your chosen policy?".

In further questions, respondents were shown a particular insurance policy (of a different type to the one they had chosen in the preceding choice task) and were asked 'test questions', with correct and incorrect answers, regarding that policy. These test questions focussed on various different aspects of insurance policies (depending on the type of insurance in question), including coverage, excluded risks, exclusions,

under-insurance, geographic limits, and period of cover.[391]

- For household insurance, performance was mixed, with participants answering very well on the questions testing understanding of excluded risks and under-insurance (73% correct on each question), but poorly on the question on coverage (35% correct).
- Performance on the motor insurance questions was similarly mixed, with respondents answering well on the coverage question (64% correct), but very poorly on the question on geographic limits (10% correct). This may also have been due to ambiguity in the wording of the policy, which is discussed below. (It should be noted that the level of difficulty of the test questions varied across products.)
- For car rental insurance, 60% of respondents answered correctly to the question testing coverage of the policy.
- For add-on insurance, only 5% of respondents answered correctly. However, this was a particularly difficult question, with the majority of respondents selecting a risk which would have been covered by the manufacturer's guarantee, and thus was not relevant in the context of the add-on insurance. The specific wording of the question and potential misunderstanding of it by respondents is discussed below.

The tables below present the detail results for each question in turn, with breakdowns by answer option and country.

For those respondents asked about a home insurance policy, the average scores for the three questions were 73.3%, 35.2% and 73.4% respectively. For the first and third question, performance was generally high across all countries, with performance in the UK particularly high. The low score for the second question is due to Germany being an outlier with very low performance (only 4.4% of respondents answered this question correctly), and poor performance in Romania and Slovakia too. This stemmed from large proportions of respondents – 63.4% in Germany, 50.9% in Romania and approximately 40% in Italy and Slovakia – incorrectly believing that the person would not be able to claim anything at all.[392] These high shares for Germany, Romania, Italy and Slovakia contrast with the much lower proportions of respondents who gave this answer in other countries, such as Sweden and the UK (15.6% and 13.6% respectively). This result may have important policy implications, in terms of consumers incorrectly assuming that their damage would not be insured and as a result not claiming damages.

Table 42: Answers to test questions – Home insurance (%)

Answers	DE	IT	RO	SK	SE	UK	Total
Test question on excluded risks							
The policy would cover this in full	4.6	7.8	28.6	17.1	8.0	7.1	8.5
The policy would cover this if all items are located more than 1m above ground	4.2	5.8	7.8	7.8	3.2	4.0	4.9
The policy would only cover damage to the building, but not to the	5.2	5.2	6.4	10.4	3.4	2.2	4.6

[391] Respondents asked about a car rental or add-on insurance policy were asked one test question. Those asked about a home or motor insurance policy were asked multiple test questions, in order to address the variety of issues relating to these types of insurance.

[392] We cannot see a reason why this should be related to the typical home insurance offer in these countries. Penetration rates for household insurance in Romania, Italy and Slovakia (which all have high %s for this answer), though not Germany, are among the lowest of the studied countries. However, this does not give rise to a clear logical explanation. One could speculate that this may be due to a bias in these countries towards believing that home insurance would not cover damages, but we do not have evidence of that.

contents							
The policy does not cover these damages (CORRECT)	**76.8**	**69.6**	**52.5**	**57.3**	**75.7**	**80.2**	**73.3**
Don't Know	9.3	11.6	4.6	7.4	9.6	6.6	8.7
Test question on limits to coverage							
She would be able to claim [€2 000][1]	14.5	3.1	21.5	15.9	8.4	5.0	9.8
She would be able to claim [€1 000][1] (CORRECT)	**4.4**	**41.6**	**18.5**	**22.4**	**63.3**	**73.9**	**35.2**
She would be able to claim [€500][1]	2.9	5.0	1.5	14.5	2.8	1.5	3.3
She would not be able to claim at all	63.4	38.3	50.9	37.6	15.6	13.6	40.9
Don't Know	14.8	11.9	7.6	9.6	10.0	5.9	10.9
Test question on underinsurance							
She would be able to claim [€50 000][1]	8.3	8.3	21.6	24.9	7.6	7.4	9.7
She would be able to claim [€25 000][1] (CORRECT)	**76.4**	**66.8**	**61.9**	**55.3**	**79.4**	**80.6**	**73.4**
She would be able to claim [€26 000][1]	1.2	5.2	4.3	4.0	1.3	1.1	2.5
She would not be able to claim at all	5.8	7.6	4.5	7.0	0.8	4.3	5.6
Don't Know	8.2	12.2	7.7	8.8	10.9	6.6	8.8
Sample size (N)	238	238	213	212	212	237	1,350

Note: The questions asked: "Suppose a consumer bought this home insurance policy. Suppose the consumer suffered damage worth [€3 500] to the contents of her home due to flooding caused by heavy rain. Would she be able to make a successful claim on this policy?", "Suppose the consumer had her laptop computer, worth [€2 000], stolen while travelling on a bus. Would she be able to make a successful claim on this policy?", and "Suppose the consumers' property is destroyed by a fire. Replacing her contents costs more than €50 000. What could she claim with this policy? 1. We quote all prices in German/Italian Euro. Prices in other countries were adjusted to local currencies and purchasing power. Full details and all amounts used can be seen in the experiment script in the annexes.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q4_CR, S4Q5_CR, S4Q6_CR, "Would she be able to make a successful claim on this policy?".

Across the three motor insurance questions, the average scores followed a similar pattern to that of home insurance: 63.6%, 9.6% and 44.9%. For the second question which tested geographic limits, scores were low across all countries (Highest: Romania 16.3%, lowest: Sweden 3.5%). This was due to the majority of respondents in each country believing that the policy would cover both the driver's car and the other driver. This was by design a very difficult question. The wording of the example policy stated in broad terms under *'Geographic Scope'* that *`The same cover applies while driving in other EU countries'* then, policy specific, it was specified that *`Minimum required by law in compliance with EU Directives'.*[393] The policy content was formulated in accordance with policy wording found in the market. The latter part of the policy means that according to EU regulation, car insurances are obliged to provide as a minimum the mandatory third party liability cover also while driving abroad in other EU countries. Hence the wording of the policy was potentially ambiguous, which may have contributed to the poor performance of respondents.

Table 43: Answers to test questions – Motor insurance (%)

Answers	DE	IT	RO	SK	SE	UK	Total
Test question on coverage							
The policy covers her own car, the other driver's insurance will cover their car	11.2	9.1	9.9	17.2	9.0	6.5	9.4
The policy covers both her own	**62.9**	**61.5**	**44.9**	**50.2**	**69.2**	**72.5**	**63.6**

[393] Full details screenshots of the actual presentation of the example policy can be seen in the experiment script in the annexes document under Questions *S4Q4_CR, S4Q5_CR, S4Q6_CR*.

car and the other driver's car (CORRECT)							
The policy covers the other driver's car, but not her own car	6.4	7.1	17.1	8.2	5.2	4.6	6.9
The policy covers the other driver's car, and damages to her own car up to [€500][1]	9.1	9.8	15.3	14.0	3.5	9.1	9.7
Don't Know	10.4	12.5	12.8	10.4	13.1	7.4	10.4
Test question on geographic limits							
The policy covers her own car, the other driver's insurance will cover their car	10.9	7.8	8.9	14.6	9.1	6.4	8.8
The policy covers both her own car and the other driver	57.7	57.3	39.6	52.0	68.0	64.2	58.1
The policy covers the other driver's car, but not her own car (CORRECT)	**9.7**	**8.8**	**16.3**	**9.2**	**3.5**	**9.3**	**9.6**
The policy covers the other driver's car, and damages to her own car up to [€500][1]	10.2	8.1	19.2	11.8	5.0	8.9	9.9
Don't Know	11.7	18.0	16.1	12.4	14.4	11.2	13.6
Test question on exclusions							
The policy would cover the cost of any damage to her car	11.7	8.4	14.8	14.5	12.2	6.4	9.8
The policy would cover the cost of any damage to other peoples	18.3	29.1	24.1	29.4	11.2	8.4	18.7
The policy would cover the cost of any refunds to her passengers	10.6	9.9	9.2	11.3	2.5	4.1	8.3
The policy would not cover her at all (CORRECT)	**42.6**	**25.4**	**37.1**	**30.9**	**53.2**	**67.7**	**44.9**
Don't Know	16.9	27.1	14.8	13.8	20.9	13.4	18.3
Sample size (N)	238	238	213	212	212	237	1,350

Note: The questions asked: "Suppose a consumer bought this insurance policy. Suppose the consumer caused an accident while driving in her home town, in which both her own car and the other driver's car were damaged. Which of the following would best apply to her situation?", "Suppose the consumer caused an accident with her car while on a shopping weekend abroad in France, in which both her own car and the other driver's car were damaged. Which of the following would best apply to her situation?", and "Suppose the consumer decided to earn extra money by offering to carry passengers via an online app. If she caused an accident while carrying paying passengers, which of the following would apply to her situation?".
1. We quote all prices in German/Italian Euro. Prices in other countries were adjusted to local currencies and purchasing power. Full details and all amounts used can be seen in the experiment script in the annexes.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q4_AO, S4Q5_AO, S4Q6_AO, "Which of the following would best apply to her situation?".

For car rental insurance, 60% of respondents answered correctly, with fairly similar results across all countries (Table 44).

Table 44: Answers to test question on coverage – Car rental insurance (%)

Answer	DE	IT	RO	SK	SE	UK	Total
The insurer would cover the cost of all the damage to both cars (CORRECT ANSWER)	**58.9**	**65.1**	**54.8**	**58.3**	**58.6**	**57.1**	**59.6**
The consumer would have to pay for all the damage to the rental car	9.4	12.3	11.7	8.1	6.8	6.8	9.4
The consumer would have to pay for [€1 000][1] worth of damage to the rental	3.9	9.2	6.3	8.8	6.7	8.1	6.8
The consumer would have to pay for	15.7	4.6	17.3	11.8	11.1	12.5	12.0

all the damage to the other driver							
Don't Know	12.1	8.7	9.9	13.0	16.7	15.5	12.2
Sample size (N)	238	237	212	213	211	238	1,349

Note: The question asked: *"Please look at the insurance policy for a rental car described below. Suppose a consumer bought this insurance policy. Suppose the consumer caused an accident while driving the rental car, resulting in damage to the rental car of [€1.000] and damage to the other driver's car of [€800]. Which of the following would apply? Please select one answer"*.
1. The amount shown was equal to the excess of the policy (which was waived) and varied by country and currency. Full details and all amounts used can be seen in the experiment script in the annexes.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q4_H, "Which of the following would apply?".

The proportion of respondents who answered correctly to the test question for add-on insurance was very low across all countries, ranging from 3.2% in Germany to 7.6% in Romania, with 4.8% of all respondents answering correctly. Table 45 shows that the very low rate of correct responses is due to the majority of respondents making the same mistake; selecting 'faulty springs discovered by the consumer in September 2016' as the covered risk among those presented. Respondents did not realise that this would be covered by the manufacturer's guarantee, because the damage would have occurred during the guarantee period and the add-on insurance for structural damage would only begin after the guarantee had expired (the policy text stated "The Insurance for structural damage will start following the expiry of the manufacturer's guarantee. - *date given*"). It may also be possible that consumers think that these types of risks are covered by the add-on insurance policy, or covered by both guarantees.

Table 45: Answers to test question on coverage and exclusions – Add-on insurance[1] (%)

Answers	DE	IT	RO	SK	SE	UK	Total
Staining caused by wine spilt on New Year (CORRECT)	**3.2**	**5.5**	**7.6**	**3.9**	**3.6**	**5.5**	**4.8**
A cat scratched the upholstery in May 2019	16.8	7.7	9.3	8.8	9.2	9.4	11.2
Faulty springs discovered by the consumer in September 2016	63.7	73.2	65.9	66.9	70.2	73.4	69.3
Damaged caused by tenants if the consumer rented out her house	5.1	5.0	9.3	9.6	3.2	3.3	5.1
Don't Know	11.2	8.5	7.9	10.7	13.8	8.3	9.6
Sample size (N)	239	338	213	313	213	237	1,553

Note: The question asked: "Suppose a consumer purchased a new bed and also bought this insurance policy on 1st April 2016. Which of the following damages to the bed would be covered by the policy?".
1. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q4_M, "Which of the following damages to the bed would be covered by the policy?".

Consumers' underlying understanding of insurance

A further aspect of consumers' comprehension and awareness that was examined in the survey was their underlying understanding and 'intuition' regarding insurance. As opposed to assessing how well consumers can comprehend policy information that is presented to them, these questions examined respondents' unprompted understanding of insurance in absence of any presented information.

The first of these questions asked about the meaning of the term 'excess', with 80% of respondents on average able to identify the correct answer option. There is substantial variation across countries, however, with the highest shares giving the correct answer in Germany and Sweden (88.9% and 87.2% respectively) and the lowest in Romania (56.2%).

The table below presents the full breakdown of responses to this question. This shows that the most common mistake was to respond that the excess is 'an additional premium that must be paid', an answer given by between 6% (in Germany and Sweden) and 16.6% (in the UK) of respondents. One potential reason for the high figure in the UK may be due the similarity in meaning in the English language between 'excess' and 'addition'. The relatively high share of respondents who did not answer the question correctly in Romania is largely explained by the higher share who answered 'don't know' to the question.

Table 46: Answers to test question on meaning of excess (%)

Answers	DE	IT	RO	SK	SE	UK
An additional premium that must be paid	5.5	12.1	14.6	9.4	6.1	16.6
The commission that is paid to a broker for placing insurance with an insurer	1.9	4.4	7.8	2.5	2.5	2.1
The amount that the policy holder must pay towards costs/ damages when they make a claim (CORRECT)	**88.9**	**75.2**	**56.2**	**79.9**	**87.2**	**76.2**
A short period during which cover may be extended beyond its expiry date	0.5	2.4	5.3	2.2	0.4	0.8
Don't Know	3.2	5.9	16.0	6.0	3.7	4.4
Sample size (N)	952	1,050	850	952	850	950

Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q2, "What is the meaning of the term "excess"?".

A further question to assess respondents' underlying understanding of insurance asked them to identify from a set of statements all those that are true for a 'typical' insurance policy of a given type (i.e. for a typical home insurance policy, a typical motor insurance policy, etc.). Table 47 presents each statement and whether respondents should have answered true or false, along with performance on each statement, and across the question as a whole. The overall question performance relates to the proportion of respondents who answered correctly for all the statements they were shown, hence overall performance is in many cases substantially lower than performance on individual statements.

Table 47: Shares correctly identifying statements as either true or false (%)

Statement	True/ False[1]	DE	IT	RO	SK	SE	UK	Total
Home:								
The insured person must tell their insurer immediately if they extend their property	True	52.5	47.2	63.0	49.7	60.0	73.5	57.7
The insured person must tell their insurer immediately if they repaint or re-carpet their property	False	98.1	93.6	91.5	97.2	91.0	95.2	95.5
The insured person must tell their insurer immediately if their property is to be rented out	True	42.4	48.5	37.8	28.4	50.7	77.6	52.4
The insurer has a right to cancel the policy mid-term if the insured person makes more than one claim during policy term	False	81.6	90.8	85.1	90.5	95.1	86.3	86.1
The insurer has a right to cancel the policy mid-term if the insured person provided incorrect information regarding the size of the property	True	53.0	38.5	47.9	43.5	55.6	66.9	52.5
Overall question performance[2]		19.1	19.7	14.5	13.4	26.0	47.8	26.3

Sample size (N)		238	238	213	212	212	237	1,350
Comprehensive motor:								
The insured person must tell their insurer if a new driver is added to the insurance (e.g. teenager)	True	61.6	62.0	35.5	20.6	17.6	86.6	63.2
The insured person must tell their insurer if they repaint their vehicle in its original colour	False	96.6	93.4	77.0	75.5	97.4	79.5	89.0
The insured person must tell their insurer about any vehicle modifications (e.g. uprated brakes)	True	24.3	25.8	24.4	27.0	11.0	80.0	39.3
The insurer has a right to cancel the policy mid-term if the insured person makes more than one claim during policy term	False	70.7	90.6	80.2	84.6	93.0	85.8	81.7
The insurer has a right to cancel the policy mid-term if the insured person provided incorrect address information	True	39.6	36.0	33.3	31.8	7.1	75.5	46.3
Overall question performance		9.3	7.4	0.4	2.4	0.8	47.1	17.8
Sample size (N)		237	237	212	214	214	238	1,352
Car rental:								
The policy will cover damage caused to other peoples' vehicles	True	62.9	57.0	58.6	65.6	45.6	51.2	57.4
In the event of a collision, the customer would not have to pay for any damage to the rental car	False	53.3	59.0	45.1	58.8	44.4	63.4	56.6
If the rental car was stolen, the customer would not have to pay the cost of replacing the car	True	54.6	38.5	34.7	40.8	42.5	49.0	46.7
Overall question performance		13.8	9.8	1.6	7.3	1.9	11.7	10.6
Sample size (N)		238	237	212	213	211	238	1,349

Note: The question asked *"which of the following statements do you think are true of a typical [home/motor/ car rental] insurance policy [that is included in the car rental agreement]? Please select all that apply?"*
1. Indicates whether the statement should have been selected as True, or False.
2. The 'overall question performance' relates to the proportion of respondents who answered correctly for all the statements they were shown.
Source: London Economics analysis of survey and experiment data (online and lab data combined). Survey question S4Q3, "Which of the following statements do you think are true for a typical policy?".

For those asked about car rental insurance, 10.6% of respondents answered correctly. For those asked about motor insurance, 17.8% answered correctly, and for those asked about home insurance, 26.3% answered correctly.

These figures mask substantial variation between countries across the three questions. For car rental insurance, only 2% of respondents in Romania and Sweden answered correctly, whereas this was 13.8% in Germany.

For motor insurance the lowest score is again in Romania and Sweden, with 0% and 1% of respondents answering correctly, and the highest is in the UK with 47% answering correctly.

For home insurance, the lowest scores are in Slovakia and Romania (13.4% and 14.5% correct respectively) and the highest score is in the UK (47.8% correct responses).

As well as displaying information about the question as a whole, results are presented for each individual option included in the question. By considering each individual option in turn and examining which ones were answered correctly and incorrectly, it allows an examination of which were the most common mistakes by respondents, and identify issues in understanding.

The results show that those respondents answering about a car rental insurance product did well at identifying the statements that would be included in a typical policy (the proportion of respondents answering correctly for these statements ranges

between 35% and 66% across countries). However, a high proportion of respondents also thought that the incorrect option would also be included in a typical policy.

For motor and home insurance a different result was found. Respondents were very good at identifying the statements that would not be included in a typical policy (over 80% of respondents answered this correctly). However, they scored relatively poorly on those statements that are included in a typical policy approximately 50% of respondents answered this correctly).

In a further question, respondents were shown a table presenting the key characteristics of three different insurance policies of a given type (e.g. three home or motor insurance policies). The policy characteristics shown included the excess, whether or not coverage of specific risks is included, and the method of payment (monthly or annually). Approximately half of respondents saw the motor insurance policy (N=2,701), and the remainder were shown the home insurance policy (N=2,903). Respondents were then asked to identify the policy they would expect to have the lowest premium and the policy they would expect to have the highest premium. Figure 21 and Figure 22 show the three policies shown to respondents in the survey for home insurance and motor insurance.

Figure 21: Identifying highest/lowest premium policies - Home insurance policies shown to participants

	Policy A	Policy B	Policy C
Excess	£300 (UK) €300 (DE & IT) €210 (RO & SK) 3.000kr (SE)	£300 (UK) €300 (DE & IT) €300 (RO & SK) 3.000kr (SE)	£200 (UK) €200 (DE & IT) €140 (RO & SK) 2.000kr (SE)
Coverage for risk of flood	Included	Included	Included
Coverage for items outside the home	£1,000 (UK) €1.000 (DE & IT) €700 (RO & SK) 10.000kr (SE)	Excluded	£1,000 (UK) €1.000 (DE & IT) €700 (RO & SK) 10.000kr (SE)

Survey question S4Q7.

The policy that would be expected to have the lowest premium would be policy B, because it does not cover any items outside of the home unlike policies A and C, and also has the higher level of excess like A. Policy C would be expected to have the highest premium due to having the lowest excess levels, with the same coverage for items outside the home like policy A.

Figure 22: Identifying highest/lowest premium policies - Motor insurance policies shown to participants

	Policy A	Policy B	Policy C
Excess	£300 (UK) €300 (DE & IT) €210 (RO & SK) 3.000kr (SE)	£300 (UK) €300 (DE & IT) €210 (RO & SK) 3.000kr (SE)	£200 (UK) €200 (DE & IT) €140 (RO & SK) 2.000kr (SE)
Coverage for risk of vandalism	Included	Included	Included

Payment method	Monthly payment	Annual payment	Monthly payment

Survey question S4Q7.

For motor insurance, the policy with the lowest premium would be expected to be policy B, due to having the higher level of excess like policy A, but having an annual payment as the payment method unlike the monthly payment of policy A, which would be expected to bring the price down. Policy C would be expected to have the highest premium due to having the lower level of excess.

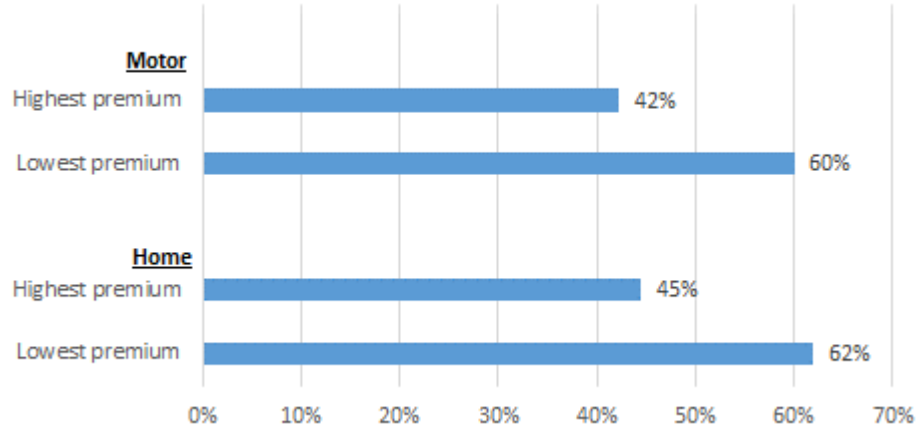
The purpose of this question was to assess whether respondents are able to understand the interaction between the price of an insurance policy and other non-price features of the policy.

For both products for which the question was asked, home and motor insurance, more respondents were able to identify the policy with the lowest premium than were able to identify the policy with the highest premium. In both cases the factor that was important to answering correctly about the highest premium was the level of excess, which suggests the interaction between excess and premium was not properly understood by respondents, which would fit in with the results in Table 46 which showed a non-negligible proportion of respondents who did not understand the meaning of the term 'excess'. This suggests that consumers may not be aware that a lower premium may be accompanied with a higher contribution later if they make a claim, with implications on satisfaction with their policy/provider if they do make a claim. On the other hand, the higher performance on the question about the lowest premium suggests the other non-price features of the policy, payment frequency and inclusion/exclusions, were better understood.

For motor insurance 60% of respondents answered correctly regarding the lowest premium (Highest: 67.7% in Germany, lowest: 31.8% in Romania), and 42% answered correctly regarding the highest premium (Highest: 49.4% in the UK, lowest: 17.6% in Romania). The overall results are shown below in Figure 23, with country breakdowns presented in Table 49.

For home insurance 62% of respondents answered correctly regarding the lowest premium (Highest: 66.0% in Italy, lowest: 39.1% in Romania), and 45% answered correctly regarding the highest premium (Highest: 51.2% in Germany, lowest: 23.8% in Romania).

Figure 23: Identifying the highest/lowest premium policies from a range of policies



Note: N=2,701 for motor, N=2,903 for home. Respondents were shown three different insurance policies for the same product, and asked to identify the policy with the highest premium, and that with the lowest premium.
Source: London Economics analysis of online and lab data of behavioural experiment. Survey question S4Q7, "Which of the three policies shown in the table below would you expect to have the lowest premium? And which would you expect to have the highest premium?".

Table 48: Identifying the highest/lowest premium policies from a range of policies (%)

	DE	IT	RO	SK	SE	UK
Motor:						
Highest	47.7	37.0	17.6	23.3	43.9	49.4
Lowest	67.7	55.4	31.8	58.7	52.9	64.0
Sample size (N)	475	474	424	427	425	476
Home:						
Highest	51.2	41.3	23.8	27.9	43.0	47.9
Lowest	65.5	66.0	39.1	47.4	61.2	62.5
Sample size (N)	477	576	426	525	425	474

Note: N=2,701 for motor, N=2,903 for home. Respondents were shown three different insurance policies for the same product, and asked to identify the policy with the highest premium, and that with the lowest premium.
Source: London Economics analysis of online and lab data of behavioural experiment. Survey question S4Q7, "Which of the three policies shown in the table below would you expect to have the lowest premium? And which would you expect to have the highest premium?".

Survey participants were asked a follow up question to the objective scenario-based questions in the previous comprehension and awareness section (questions S4Q4-S4Q6). This was to check whether participants were answering based on the information provided to them in the summary policy documents they were shown, or were relying on their own intuition, knowledge and experience. 65.7% of respondents reported that they had answered mainly based on the information provided to them during the survey. The percentage of respondents answering based on their own intuition, knowledge and experience was rather high in Slovakia, Romania and Italy (48.5%, 53.9%, 58.4% respectively). The responses are shown in Figure 24 and the table below.

Figure 24: Information/experience which participants used to answer comprehension and awareness questions

Note: N=5,604
Source: London Economics analysis of online and lab data of behavioural experiment.

Table 49: Information/experience which participants used to answer comprehension and awareness questions by country – Answer breakdown

	DE	IT	RO	SK	SE	UK	Total
	%	%	%	%	%	%	%

I answered mainly based on my intuition, knowledge and experience with insurance	29.7	41.6	46.1	51.5	32.3	27.5	34.3
I answered mainly based on the information provided in the summary policy document	70.3	58.4	53.9	48.5	67.7	72.5	65.7
Sample size (N)	952	1,050	850	952	850	950	5,604

Source: London Economics analysis of online and lab data of behavioural experiment. Survey question S4Q8, "Thinking about the question(s) you just answered about the insurance policy saw, did you answer these question(s) based mainly on your intuition, knowledge and experience, or based on the information that was provided in the summary policy document?".

The table below shows how the way people answered the comprehension and awareness scenario questions (see Table 44 to Table 46) depending on whether they answered mainly based on their intuition or mainly on the information given, affected their performance on the comprehension and awareness scenario questions. On all but one question, those that answered mainly based on the information they were provided in the summary policy document performed better than those that relied upon their intuition, knowledge and experience with insurance. This would corroborate findings in the research about the imperfect knowledge which consumers have about insurance policies and their accompanying documentation, and the well-established behavioural finding which shows the tendency for consumers to display overconfidence[394] in their abilities and knowledge. The stronger performance of those respondents using mainly information in the summary policy document against those mainly using their intuition, knowledge and experience was most pronounced for home insurance, where 86.1% answered correctly against 34.9% for Q1, 38.9% against 24.0% for Q2, and 84.1% against 41.5% for Q3. For car rental, 64.9% using the summary document answered correctly, against 51.8% relying on their intuition. For add-on insurance, performance was very similar for both groups of respondents (4.8% and 4.6%), but this is more likely to be due to the extremely poor performance on this question, which was discussed in detail in the text accompanying Table 45. Finally, for motor insurance those respondents using the information provided performed noticeably better than those relying on their intuition for Q1 and Q3, however for Q2 those answering mainly on their intuition, knowledge and experience performed better than those using the summary document (14.0% against 6.3%), although again this was a question where performance overall was particularly low.

Table 50: Information respondents used to answer questions against performance on comprehension and awareness scenario questions (%)

	I answered mainly based on my intuition, knowledge and experience with insurance	I answered mainly based on the information provided in the summary policy document	Total
Car rental:			
Incorrect	48.2	35.1	40.4
Correct	51.8	64.9	59.6

[394] Overconfident individuals have a biased picture of some of their capabilities. Over confidence is a fairly widespread behaviour and has been observed in a number of different contexts within the behavioural literature. For example, a person may believe she is a better driver than she actually is and therefore purchase too low coverage for her car. In addition, consumers can overestimate their performance in tasks requiring ability, including the precision of their information. This could lead to underinsurance if individuals incorrectly assess the level of coverage they actually require. See section 4.2.2 for full references.

Add-on insurance:			
Incorrect	95.4	95.2	95.4
Correct	4.6	4.8	4.6
Home Q1:			
Incorrect	65.1	13.9	26.7
Correct	34.9	86.1	73.3
Home Q2:			
Incorrect	76.0	61.1	64.8
Correct	24.0	38.9	35.2
Home Q3:			
Incorrect	58.5	15.9	26.6
Correct	41.5	84.1	73.4
Motor Q1:			
Incorrect	47.1	28.4	36.4
Correct	52.9	71.6	63.6
Motor Q2:			
Incorrect	86.0	93.7	90.4
Correct	14.0	6.3	9.6
Motor Q3:			
Incorrect	67.8	45.6	55.1
Correct	32.2	54.4	44.9

Source: London Economics analysis of online and lab data of behavioural experiment. Survey questions S4Q8 and S4Q4-S4Q6, "Which of the three policies shown in the table below would you expect to have the lowest premium? And which would you expect to have the highest premium?", and "Would she be able to make a successful claim on this policy?".

4.4.4. Comparing and choosing between offers

This section seeks to further understand the ways in which consumers compare and choose between non-life insurance offers. The evidence is based on findings from the literature review, stakeholder interviews, focus groups and the consumer survey. The key findings are presented upfront, in depth evidence is presented in the boxes below:

- The focus groups revealed that product comparison most commonly occurs in relation to home and motor insurance. Focus group participants had not compared add-on or car rental insurances, but merely focussed on comparing the main products or car rental agencies with which the insurance was bundled, not the accompanying insurance policies themselves.
- The focus groups also highlighted that in many cases comparison for home insurance is limited as consumers perceive the decision to be too important to use a PCW and not interact with an insurer with which they have built a trusted relationship.
- The survey highlighted the importance that PCWs play for consumers in searching for information and comparing between offers. However the survey as well as the focus groups showed that a range of more traditional methods are still used, including insurance providers, banks, brokers, recommendations from friends, families and online testimonials.
- On the one hand, focus group participants appreciated the assistance of PCWs and their simplicity and the ease of narrowing down the product choice based on the premium, but on the other hand, they found it difficult to compare products across other dimensions. This remained a challenge also when comparing insurance terms on insurer websites.

- Contact with an actual person seems to be the main driver for consumers' seeking to compare products directly via insurers and brokers, according to the focus group.
- The literature review showed that PCWs enable consumers to save time and money when comparing and purchasing insurance products. PCWs also allow to raise awareness about a large variety of providers and products.
- National Supervisory Authorities, Consumer Associations and Insurance Broker Associations raised in the stakeholder interviews the same issues, namely the importance given to the insurance premium on PCWs. They furthermore pointed out issues in the way PCWs disclose their business model such as the way insurers are selected to feature on their site, and how products are ranked.

- The survey showed that 41% of respondents did not compare insurance offers at all when purchasing or renewing, with the lowest incidence of comparison as expected for car rental, add-on insurance and travel. Comprehensive motor insurance had the highest incidence of comparison, with 38% of respondents comparing three or more offers, and 33% comparing two or three. Across countries and across all products, the highest incidence of comparison was in the UK (41% of respondents comparing three or more offers), with the lowest incidence in Sweden (12% comparing three or more, and 60% undertaking no comparison)

Box 19 : Evidence from the focus groups

When being asked about comparing offers for insurance, most discussion focussed on home insurance and motor insurance. Participants had not compared offers for **car rental insurance**. Some noted that they had compared car rental agencies, and prices of car rentals, but not the insurance policies offered by the car rental agencies. Others said they had not compared offers from different providers, but had considered different levels for the excess (for insurance from one provider). When it comes to **add-on insurance**, participants noted that they had not been offered a choice, or that the "insurance comes with the product", and that they tended to "compare the products, not the insurance".

Participants had a different view when it comes to comparing **home insurance and motor insurance**. Many participants had not compared offers before selecting their home insurance. This was partly due to the fact that, in many cases, home insurance was selected before online comparison tools were available. But, for other participants, this was because they considered home insurance "too important" and they prefer to contact a "trusted" insurance provider.

> *"I didn't compare offers, when insurance involves the house it's important to have an insurer to relate to; even though I spend more, if a problem occurs it's then his problem and not mine."* (Man, 49, higher education, Milan)

> *"The comparison tools are fine if you clear the stakes ... the house is larger, has more complex needs."* (Man, 41, lower education, Milan)

Across the six countries, participants mentioned the following ways to compare offers for home insurance:

- Calling several companies in order to ask for information. The main disadvantage of this type of search was the fact that only a limited number of offers could be compared:

  "There were some things were I thought I had to call up to confirm stuff, so I may not have been particularly thorough in the comparison. Because I didn't want to call each one of them, but once I was aware of how much it would cover than, yes, it was straightforward." (Man, 37, higher education, London)

- Having several offers presented by an insurance agent or a broker. The main advantage in this context was the possibility to receive personal advice and to ask questions. On the other hand, some people felt pressured into purchasing an insurance that was not necessarily suitable to their needs;
- Comparing testimonials and comments based on other consumers' experience (either on online forums, or through word of mouth);
- Consulting insurance companies' web pages;
- For more recent contracts – using comparison tools.

Use of comparison tools

Comparison tools were used in all countries, at least to some extent.

Participants in the UK were more likely to have relied on comparison tools when selecting motor insurance than when selecting home insurance. This was partly due to the fact that contracts were more recent, and partly to the multitude of offers:

> *"I think it is the most straightforward to compare, car insurance. [Moderator: easier than for home insurance?] Yes, definitely. There seem to be more options for car insurance".* (Woman, 33, higher education, London).

In Romania, for both home insurance and motor insurance, comparison tools were mainly employed by participants from the higher educational group, while those of lower educational level preferred comparing offers by calling different companies, or visiting them directly.

In Slovakia, participants used comparison tools, but also relied on company reputation and recommendations. Participants in Italy were more conservative in regards to comparison tools, as they mainly based their selection on guidance from trusted insurers, banks or friends and relatives, or on looking for information on insurance companies' websites.

Participants who used comparison tools found these to be straightforward and user-friendly. Participants in the UK were most positive about comparison tools:

> *"Honestly my husband did it while I just sat there and looked. It was fairly easy because he explained it to me. It looked quite easy. What we actually compared was final price."* (Woman, 37, higher education, London)

One of the aspects participants appreciated was the fact that comparison tools could register their information, making the overall process more time efficient:

> *"The first time I had to put my details in every single comparison website. There were about four or something that I used. And in each one I had to put all my details, so that was a long process. But now when I go back all my details are there."* (Woman, 59, lower education, London)

One of the perceived disadvantages was the fact that the comparison was based exclusively on price. This aspect was mainly emphasised in Romania, where participants would have appreciated the possibility of making more complex comparisons, using several criteria. Participants in Sweden highlighted the fact that contract terms and terminology used to describe the different policies were sometimes not consistent, and differed between insurance companies, which made comparisons more difficult. Some of the Italian participants believed that the range of offers was incomplete, and that some of the companies were missing.

Importance of reputation and recommendations when selecting/comparing insurance

Participants noted that, when comparing offers of insurance providers, information

about the providers' reputation is also important. For home insurance and motor insurance, **trust towards the provider was a crucial element**, often more important than price. Across the six countries, many participants relied on recommendations from friends and family, or, if possible, selected their provider because they knew someone who worked there:

> *"My mum works for a bank. So everything related to banking is through that because it's nice and simple and it has been that way since I was a kid, and they do nice deals for family members on home insurance and stuff like that."* (Woman, 33, higher education, London, referring to home insurance)

> *"I didn't (compare) because my insurance has always been pretty reasonable, I get it through a friend of my sister and… Whether it is competitive or not, whether there is something else out there that's a bit cheaper, I don't know... And it's peace of mind. I'd rather pay 500-600 rather than 300-400 and to know that everything is covered."* (Man, 41, lower education, London, referring to motor insurance)

Some participants noted that experiences shared by friends and family were more "familiar" and "more comparable" in terms of their needs and life situation. A participant noted recommendations from friends and family "give you a feeling for what insurance is the best in particular real life situations".

> *"We were going through the same experience with my friends, so the subject was fresh for all of us; so we compared each other's policies, the company chosen, how it works, how much it costs, etc."* (Woman, 32, higher education, Milan)

Box 20 : Evidence from the literature

As discussed in sections 4.4.2 and 4.4.3, London Economics (2016) conducted design and consumer testing for EIOPA of the Insurance Product Information Document, testing both consumers' comprehension of the information contained in the document, and their ability to effectively compare between different insurance offerings based on the document.

In the comparison task during this testing respondents were shown two alternative non-life insurance products of the same type (e.g. two home insurance offers), both of which were presented using the same PID format. The two products were potential substitutes for one another, such as a consumer might encounter when shopping around for a particular type of insurance. Respondents were then asked objective questions to test their ability to understand the key differences between the two products.[395] The document design that performed best on these objective questions was the same document that performed best on the comprehension task. See 4.4 for more details on the specific features of this design.

Studies carried out by national supervisory authorities in Italy[396] and the UK[397] show that consumers are increasingly comparing insurance offers on PCWs. According to the UK national supervisory authority study, consumers consider that PCWs enable them to

[395] For example, a consumer may be faced with offerings from two different providers who both meet certain criteria they are looking for, but may differ in specific areas such as the level of cover for certain activities, or differences in exclusions and restrictions. They may also be faced with two different product offerings from the same provider which have small differences.

[396] IVASS, 2014, indagine sui siti comparativi nel mercato assicurativo italiano

[397] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector, UK

achieve a number of positive outcomes:

- *"Save money / find the cheapest quote;*
- *Identify 'the right product for me';*
- *Compare products from the whole market;*
- *Get a boring job done quickly, easily and painlessly;*
- *Take the hard work out of shopping around;*
- *Keep the consumer in control (and the insurer at arm's length);*
- *Raise awareness of new brands/providers;*
- *Access complex information in an easy and accessible way"*.

Studies have also shown that consumers tend to turn to social media for information and advice on the products from their friends, acquaintances, online groups and even experts who frequent the same sites[398].

Box 21 : Evidence from the stakeholder interviews

Consumers are able to compare offers on insurance products through *inter alia* two means: insurance brokers and PCWs. Insurance brokers aim at finding the most suitable insurance cover for consumers, especially for those who have specific requirements and situations, such as an illness, a disability, etc. However, interviews have demonstrated that due to cultural aspects and internet penetration, consumers are increasingly turning to PCWs to compare offers. However, this results in a focus on price over quality and coverage, and while stakeholders have mentioned that this boosts competition, it can also cause consumers to make poor choices as they tend not to consider all aspects of the product. PCWs provide a wide overview of the offers available to consumers, however they may not give a full picture of the market according to consumer associations, since some companies do not feature on these websites for various reasons (e.g. differentiation strategy, need for an agreement between the company and those who run the website, etc.). For instance, in the UK the insurance company Direct Line[399], which provides *inter alia* motor, household and travel insurance, bases its differentiation strategy on being a direct insurer, i.e. not going through insurance intermediaries and not featuring on price comparison websites. Furthermore, the way that PCWs are run is not always transparent, and they can be owned by large insurance companies[400], thus creating a conflict of interest. European organisations as well a consumer associations agree that there is a need for more impartial and independent PCWs, allowing consumers to fully trust the information provided and thus effectively boost competition. So far independent PCWs have been developed by the national supervisory authority in Italy, by a consumer association in Sweden and by the Motor Insurance Bureau in Latvia.

Box 22 : Evidence from the survey and experiment

The survey provides evidence on the extent that consumers previously compared between offers when selecting their insurance policies. This is important because the

[398] Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf
[399] https://www.directline.com/
[400] The British BGL Group (www.bglgroup.co.uk/about-bgl) runs the comparison websites comparethemarket.com in the UK and lesfurets.com in France, while providing household, motor and life insurance to UK citizens.

rational framework (see section 4.2.1) suggests that consumers will search until the expected gains from further search are outweighed by the costs. However, in practice consumers are affected by a range of behavioural biases which affects behaviour in a way which deviates from the behaviour which is expected from the point of view of traditional economic theory (see section 4.2.2).

Respondents were asked to consider the last time they purchased or renewed a particular type of insurance and whether in doing so they compared alternative offers and, if so, how many offers they compared.

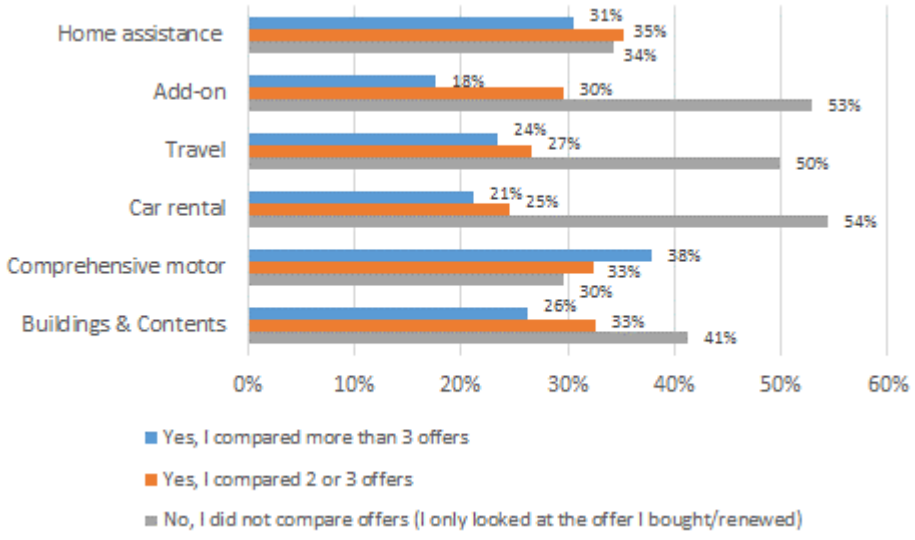
As shown in Table 51, the most common response to this question was for respondents not to compare alternative offers, with 41% of the sample selecting this option. 30% of respondents compared 2 or 3 alternatives, with the remaining 29% saying they compared more than 3 alternative insurance offers.

Across products (see Figure 25), the highest incidence of comparison was found for comprehensive motor (37.9% comparing 3 or more, 32.5% comparing 2 or 3). The next highest incidence was observed for buildings and contents insurance, with 26.3% of respondents comparing 3 or more offers, and 32.6% comparing 2 or 3, with the highest incidence of comparison in the UK (42.2% comparing 3 or more), and the lowest in Sweden (14.6% comparing 3 or more). Buildings and contents are then presented individually, with noticeable differences between the two in Italy (11.5% comparing 3 or more for buildings against 25.6% for contents), and Sweden (23.0% against 12.9%). In Romania, where buildings insurance is compulsory by law, 27.0% of respondents compared 3 or more offers for buildings insurance, which was lower than for contents insurance, where 34.3% compared 3 or more. In the UK and Sweden, where buildings insurance is not required by law, but is a common commercial requirement for mortgage holders, the incidence of comparison for buildings insurance was higher than for contents (47.5% and 23.0% comparing 3 of more for buildings, against 36.1% and 12.9% for contents).

Car rental, add-on insurance, and travel had the lowest incidence of comparison, with approximately 50% of respondents not comparing any offers for each of those products. This is not surprising, given these insurance products are presented in 'take it or leave it' circumstances, where it can be difficult to make comparisons.

Table 51 presents the full set of results by product and country.

Figure 25: Comparing alternative offers by product



Note: Respondents were asked about the particular type of insurance product to which they had been allocated earlier in the survey. N=1,548 for buildings and contents, N=717 for Comprehensive motor, N=295 for Car rental, N=732 for Travel, N=700 for Add-on, and N=268 for Home assistance. Add-on refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)

Source: London Economics analysis of online and lab data of behavioural experiment. Survey question S2Q6, "Thinking about the last time you purchased or renewed, did you compare alternative offers?".

Table 51: Comparing alternative providers – by product and country (%)

	DE	IT	RO	SK	SE	UK	Total
Overall across all products:							
Yes, I compared more than 3 offers	24.5	21.5	26.4	30.0	12.0	41.4	28.6
Yes, I compared 2 or 3 offers	27.9	33.6	32.5	33.7	28.2	29.2	30.0
No, I did not compare offers (I only looked at the offer I bought/renewed)	47.6	44.8	41.1	36.3	59.8	29.4	41.4
Sample size (N)	764	648	627	710	707	804	4,260
Buildings and contents[1]:							
Yes, I compared more than 3 offers	22.5	18.2	30.4	28.7	14.6	42.2	26.3
Yes, I compared 2 or 3 offers	29.9	32.3	31.8	33.8	34.7	32.9	32.6
No, I did not compare offers (I only looked at the offer I bought/renewed)	47.6	49.5	37.9	37.5	50.8	25.0	41.2
Sample size (N)	294	192	221	260	298	283	1,548
Buildings only:							
Yes, I compared more than 3 offers	25.0	11.5	27.0	28.3	23.0	47.5	28.7
Yes, I compared 2 or 3 offers	34.6	29.5	35.5	30.4	40.0	33.4	33.3
No, I did not compare offers (I only looked at the offer I bought/renewed)	40.3	59.1	37.6	41.2	37.0	19.1	37.9
Sample size (N)	146	99	122	130	45	142	684
Contents only:							
Yes, I compared more than 3 offers	19.9	25.6	34.3	29.1	12.9	36.1	24.2
Yes, I compared 2 or 3 offers	25.0	35.5	27.5	37.3	33.6	32.3	31.9
No, I did not compare offers (I only looked at the offer I bought/renewed)	55.1	38.9	38.2	33.6	53.5	31.6	43.9
Sample size (N)	148	93	99	130	253	141	864
Comprehensive motor:							
Yes, I compared more than 3 offers	35.3	29.2	24.8	40	18.6	68.7	37.9
Yes, I compared 2 or 3 offers	32.3	37.1	35.8	33	42.5	19.6	32.5
No, I did not compare offers (I only looked at the offer I bought/renewed)	32.4	33.7	39.4	27.1	38.9	11.7	29.6
Sample size (N)	148	90	119	130	88	142	717
Car rental:							
Yes, I compared more than 3 offers	25.2	23.7	10.1	20.8	7.2	26.8	21.1
Yes, I compared 2 or 3 offers	15.8	32.0	65.3	20.5	17.2	17.7	24.5
No, I did not compare offers (I only looked at the offer I bought/renewed)	59.0	44.3	24.7	58.7	75.5	55.4	54.4
Sample size (N)	67	76	26	11	49	66	295
Travel:							
Yes, I compared more than 3 offers	21.1	17	19.1	28.4	6.6	43.6	23.5
Yes, I compared 2 or 3 offers	24.7	29.6	27.6	29.5	17.3	30.7	26.6

No, I did not compare offers (I only looked at the offer I bought/renewed)	54.3	53.5	53.3	42.1	76.1	25.7	49.9
Sample size (N)	149	90	121	130	101	141	732
Add-on insurance[1]:							
Yes, I compared more than 3 offers	17.6	19.8	28.5	22.7	6.4	12.7	17.6
Yes, I compared 2 or 3 offers	27.1	34.7	29.8	44.8	18.5	25.6	29.6
No, I did not compare offers (I only looked at the offer I bought/renewed)	55.3	45.5	41.7	32.5	75.1	61.7	52.8
Sample size (N)	94	145	115	105	153	88	700
Home assistance:							
Yes, I compared more than 3 offers	28.9	27.5	38.9	31.5	26.7	30.5	30.5
Yes, I compared 2 or 3 offers	34.5	37.7	32.3	28.4	15.2	44.3	35.2
No, I did not compare offers (I only looked at the offer I bought/renewed)	36.6	34.7	28.8	40.1	58.1	25.2	34.3
Sample size (N)	12	55	25	74	18	84	268

Note: Add-on insurance refers to insurance bought at the same time as the main product insured (e.g. for a mobile phone, piece of furniture, etc.)
1. Buildings and contents insurance are combined here, but also shown separately in the rows which follow.
Source: London Economics analysis of online and lab data of behavioural experiment. Survey question S2Q6"Thinking about the last time you purchased or renewed, did you compare alternative offers?".

Across countries, the highest incidence of comparison was in the UK, with 41.4% of respondents comparing more than 3 offers, and 29.4% not comparing any offers. Sweden had the lowest incidence of comparison; 12.0% compared more than 3 offers, and 59.8% did not compare any offers.

Findings from the experimental results (see section 5.3) related to car rental and add-on insurance are in line with the findings from this question.

In the experiment respondents were presented with a single upfront offer which could be accepted or rejected (or they could compare different offers before being shown the confirmation screen again), and although most consumers opted to compare offers, a substantial proportion simply confirmed the offer shown upfront, even when this was a poor choice given the information provided to them in the experiment, without comparing at all. This behaviour could have been driven by default bias, according to which individuals remain with the status quo (i.e. presentation of a single insurance up-front may have caused this insurance to become the respondent's default/status quo).[401] The insurance that was shown up-front could also have been perceived as a recommendation, or as the only product that is available in conjunction with the primary product.

This finding is in line with other evidence. A previous study into the add-on insurance market for the UK Financial Conduct Authority showed that individuals are unlikely to compare the market unless alternatives are easily accessible.[402] In addition, according to findings from the focus groups, consumers are often unaware of the possibility to compare the market for car rental and add-on insurance. It is thus possible that

[401] This bias is also known as the 'status quo bias'. Johnson and Goldstein (2003) 'Do defaults save lives?', Science; Kahneman, Knetsch, Thaler (1990) 'Experimental Tests of the Endowment Effect and the Coase Theorem', Journal of Political Economy; Kahneman, Knetsch, Thaler (1991) 'Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias', Journal of Economic Perspectives.
[402] Financial Conduct Authority (2014) `Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?', https://www.fca.org.uk/news/occasional-paper-no-3.

respondents did not even realise the availability of alternative offers, in particular, if the attention they paid to the task was limited.[403]

4.5. Consumers' preferred sales channels

An objective of this study is to explore consumers' *rationale for access and preference of different sales channels*. This is addressed in this section with findings from the focus groups, the academic literature, and the survey.

The survey results presented in this section correspond to a question which asked respondents about the means through which they had last purchased insurance from any non-life insurance provider located in their home country or in another EU country. This section focuses on the sales channel, and the cross border aspect of the question is addressed later in chapter 6.

In section 4.2.2 which presented the information that is used by consumers when shopping for insurance, a behavioural factor which was identified as being important in influencing consumer behaviour was **trust**. Trust may also affect the channels that consumers chose to use, because the decisions they make may be based on feelings of trust, whether towards a sales person or advisor, or towards a specific firm or brand, may also apply to the channel which is used to complete a purchase. Classical economic theory assumes fully rational and self-interested decision making. Therefore, within the classical framework trust is not part of decision-making, and mistrust which leads individuals to cautious behaviours would thus be fully in line with the classical model. Trust on the other hand, can be a heuristic and help reduce transaction costs, especially search costs, as individuals may rely on the advice and expertise of others. Furthermore, trust may play a particular role in insurance purchases due to the product characteristics as **credence goods**. By nature of the product, a customer will only fully experience the product's quality in case a claim arises. The customer must therefore trust that the insurer will provide effective cover in case of a claim prior to purchasing the insurance policy.

A key interest of the study is to gain an understanding of consumers' rationale for accessing and preference for different sales channels. All strands of research conducted so far have collected evidence in this regard. We present the evidence from the focus groups in Box 23, followed by findings from the stakeholder consultations and desk research. The main findings can be summarised as follows:

- According to desk research and stakeholders, most consumers seem to conclude their insurance contracts directly with the insurance company, or via intermediaries such as banks, brokers and agents. In Sweden, labour unions and employers also play a role in insurance sales.
- However, the desk research and stakeholder interviews found that the preference for sales channels differs across Member States with some relying significantly more on brokers (e.g. Latvia, Romania, UK), while others prefer agents (e.g. Germany, France, Luxembourg, Slovakia and Italy). Overall, consumers preferred sales channel is via independent intermediaries (i.e. agents).
- The desk research and stakeholder consultations also confirmed that online sales are becoming increasingly popular especially among the younger population (e.g. in Latvia, Slovakia, Sweden and the UK). A main argument in favour of this channel appears to be the speed with which information can be accessed and contracts can be concluded online. However, online sales volumes remain below

[403] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.

their potential in other countries (e.g. France, Germany, Luxembourg, Italy, Spain and Romania), especially in countries (e.g. Luxembourg) where it is not yet possible to conclude contracts online.

- Stakeholder consultations and the literature have shown that the choice of sales channel seems also to depend on the complexity of the product or the amount of information that is required to conclude the contract. Insurances such as for travel, car rental and motor are more suitable for online sales, whereas consumers commonly resort to intermediated or direct sales channels for home insurance.
- Among focus group participants, add-on as well as car rental insurances were exclusively purchased via ancillary sellers such as car rental agencies, and retailers selling the main product.
- The survey showed that the most popular purchase channel for consumers is online via an insurer's website, followed by through a comparison website. PCWs were shown earlier (Figure 6) to be the most important source of information in the purchase and renewal of insurance, which indicates that consumers may use comparison sites for information, but then complete the transactions directly with the insurer. The least popular methods were via independent advisors or brokers (an interesting finding given the benefits of independent advice to consumers), via a bank, or by telephone from an insurer.
- The survey also showed consistency between the sources of information used by consumers and their preferred sales channel. If they used websites of insurers or comparison websites as their first most important source of information, they were much more likely to use these same channels to purchase the insurance product.
- The survey also illustrated considerable differences in the use of each purchase method across countries. For example in Romania and Slovakia, 36% of respondents in each country had purchased insurance from a branch of the insurer, whereas this was only 6% in Sweden, and 9% in the UK. These differences in the use of distribution channels reflect very different traditions and business models across Europe.

Box 23 : Evidence from the focus groups

Although the focus groups discussion guide contained a question for **home and motor insurance** whether insurance contracts were concluded with an insurance company directly or through an agent (insurer's agent, broker, bank or other), due to time constraints, this question was not addressed in a lot of detail. Nonetheless, some observations can be made:

- In the UK, participants had concluded their home insurance contract with insurance companies or banks; motor insurance was purchased exclusively from insurance companies.
- In Sweden, most participants had purchased their home insurance from insurance companies, while others accessed these through their labour union or through their employer, and were offered certain benefits or discounts.
- In Germany, participants purchased their home insurance from independent brokers and from insurance agents.
- In Italy, participants had purchased their insurance from insurance companies, banks, as well as independent brokers. Motor insurance was purchased by some participants through online channels.
- Participants in Slovakia had purchased their insurance primarily from insurance companies; some mentioned having purchased insurance from independent brokers or from insurance agents.
- In Romania, home and motor insurance was purchased from banks, insurance

companies, agents or through independent brokers.

In Italy and Romania, some participants noted that they had purchased their home insurance when getting their mortgage, from the same bank.

Purchasing insurance from independent brokers or from insurance agents was more common in Slovakia, Romania, Germany and Italy. Trust and word of mouth played an important role in this context, as consumers recommend their insurance agents and brokers to friends and family if satisfied with the service.

> *"I asked my friends for help. They advised me their insurance agent". (Woman, 35, Bratislava, referring to home insurance)*

Car rental insurance was purchased exclusively from car hiring companies. Participants typically bought this type of insurance when hiring the car. Similarly, **add-on insurance** was purchased through retailers, at the same time when the insured product was bought.

Box 24 : Evidence from the literature

For an in-depth analysis of the share of distribution channels in each studied country please refer to section 3.2.1, and for the trends regarding online purchasing please refer to section 3.1.2.

The data on distribution channels from the national supervisory authorities and national trade associations from 10 countries of Task 1 show that consumers more frequently purchase non-life insurance products via intermediaries (e.g. agents and brokers).

However, a study carried out by Swiss Re on digital distribution in insurance[404] points out that there is a general growing trend in online sales of insurance products, even if the rapidity of this growth is different from country to country.

In fact, in the UK, a study from the CMA[405] indicates online sales via companies' websites and PCWs already accounted for 44% of private motor insurance (B2C) sales in 2012.

According to a study carried out by Ernst and Young[406], in Germany, online sales for insurance products are becoming increasingly popular, especially for products without the need of consulting services, such as car rental insurance or motor insurance.

However, only a minor share of insurance products appears to be bought online (between 2.38% and 2.55% in 2013-2014) in Spain according to data published by the national authority, Ministry of Economy, Directorate general of Insurance and Pensions Funds[407].

[404] Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. Available at: http://media.swissre.com/documents/Swiss Re2_2014_en.pdf
[405] CMA, 2012, Private Motor Insurance Market Investigation. Available at: https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf
[406] EY, 2014, Global Insurance Outlook. Available at: http://www.ey.com/Publication/vwLUAssets/EY-2014-global-insurance-outlook/$FILE/EY-2014-Global-insurance-outlook.pdf
[407] Annual report, 2015, Spanish national authority, 2015. Available at: http://www.dgsfp.mineco.es/sector/documentos/Informes%202015/INFORME%20SECTOR%202015.pdf

Dalla Pozza, Heitz-Spahn and Texier[408] examine the multichannel behaviour of Generation Y consumers (those born between 1977 and 1994) providing evidence for insurance products in contrast to the perceived idea that younger consumers have a strong preference for as much information searching and purchasing as possible to be conducted online.

They find through qualitative interviews that generation Y consumers need to have some element of human contact when making purchasing decisions on a complex product like insurance. This does not have to be face to face however; these consumers are happy for this contact to be embodied through a distance relationship with traditional communication tools (e.g. telephone) and new digital communication tools (e.g. videoconference; chat; instant messaging). The issue which is important to them is to have some human contact which is personalised but is multichannel, allowing them the possibility of choosing their preferred communication mode – they are pushing for the digitalisation of human contact.

The research also finds that the advice of parents plays an important role for insurance products, and interestingly that social media channels are not used or particularly trusted in the context of decisions about complex products.

Box 25 : Evidence from the stakeholder interviews

Sections 3.2.1 and 3.1.2 provide a detailed analysis of distribution channels by country and trends regarding online purchasing respectively, including relevant insights provided by stakeholders.

There are differences between countries in terms of the means used to contact each type of distribution channel, according to data collected during interviews with trade and consumer associations. In particular, consumers in the North of the EU tend to favour online sales, while consumers in Member States in the South carry out their purchases mainly through phone calls or face-to-face. This also differs by age group, with a large proportion of young people using online sales due to cultural aspects.

The growth in online sales is mainly due to cultural reasons (explaining the geographic and demographic differences), as well as an improvement in broadband coverage across the EU according to trade and consumer associations interviewed in the UK, Germany and Latvia. All types of stakeholders in almost all countries predicted a growing trend in online sales for non-life insurance products in the next five years. Overall, trade associations interviewed have mentioned that some products were more adapted to online sales compared to others. In Latvia, trade associations interviewed mentioned that through the Motor Insurance Bureau and the car registration office's data, it is easy for consumers to enter the information required to purchase the product as part of it is already in the database. Furthermore, the insurer has rapid access to the driver's history to determine a quote. However, regarding household insurance, consumers have to enter all the information themselves, which is a time-consuming task. Therefore, consumers might prefer to resort to direct sale or insurance intermediary distribution channels when purchasing this type of product. In addition, out of the products considered in the scope of the study, the share of online sales was greatest for travel insurance according to interviewees in countries such as Latvia and Luxembourg, as consumers tend to book trips online and purchase the travel insurance proposed in their travel contract.

Using the internet to purchase non-life insurance is quicker than conducting the

[408] Generation Y multichannel behaviour for complex services: the need for human contact embodied through a distance relationship (Journal of Strategic Marketing, forthcoming)

interaction by phone or face to face according to information collected during the interviews with trade and consumer associations, and insurance companies are making it increasingly easy for consumers to purchase these products through this means. Indeed, consumers can enter the required information to purchase the product (e.g. accident history for motor insurance, information about the home for buildings insurance, etc.) from their own home, and the purchase can be concluded in a relatively short amount of time.

However, this growing trend in online sales was limited in Luxembourg according to the national authority, which declared during an interview that in the last years, online sales have only increased from 14% to 18%. The reason why it has not picked up in Luxembourg is that there is no offer to subscribe for an insurance online, even though it may be attractive for young customers. Rather, interviewees stated that sales are typically done by agents in Luxembourg. Furthermore, according to trade associations in Spain, Italy and France, consumers find information on insurance products online (either through comparison websites and / or consumer reviews), yet most purchases are made through agents and / or brokers, as consumers consider that PCWs do not offer sufficient information on the product other than price and still value personal professional advice.

Box 26 : Evidence from the survey

Survey respondents were asked whether in the past 2 years they had purchased or tried to purchase any non-life insurance product in any of the ways given in the question (note that this is different from an earlier question which asked where they had *searched for information,* and that multiple selection was permitted on this question).[409]

The most popular purchase method was 'Online from an insurer's website', selected by 23% of respondents. The next most popular method was 'Via a comparison website' (22%). This however masks substantial variation between countries; in the UK 32.9% of respondents reported using each of the methods, whereas in Germany 14.3% of respondents used an insurer's website, and in Sweden only 9.3% used a comparison website.

Although online methods were the most popular, traditional methods of purchasing were still relatively popular; 18.5% of respondents across the sample countries bought from an insurance company's agent, and 17.6% bought from the branch of an insurer.

The least popular purchase methods were 'an independent advisor or broker', 'a bank' and 'telephone from an insurer', with 13.2%, 13.4%, and 12.0% of respondents respectively using these methods in the previous 2 years. The least popular methods on the whole, also masked significant variations across countries; 34.6% of respondents in Romania used an independent advisor or broker, whereas in Sweden this figure was 5.7%. This variation in methods between countries may reflect the difference in traditions and business models across EU member states.

Table 52: Purchase method by country (%)

	DE	IT	RO	SK	SE	UK	Total
	%	%	%	%	%	%	%

[409] In this question a distinction was made between insurers located in the same country, and insurers located in another EU country to the respondent. This distinction has been omitted here, and is instead discussed in chapter 6 on factors limiting cross-border insurance purchases.

From a branch of an insurer	12.3	27.1	36.1	35.5	5.6	9.2	17.6
Online from an insurer's website	14.3	25.2	21.6	20.2	15.2	32.9	22.7
By telephone from an insurer	6.9	11.8	13.7	13.7	14.4	17.5	12.0
From an insurance company's agent	14.7	28.4	40.2	32.6	9.8	7.0	18.5
From an independent advisor or broker	10.7	14.0	34.6	25.4	5.7	8.9	13.2
From a bank	8.5	18.6	26.2	21.6	8.2	10.5	13.4
Via a comparison website	13.7	23.9	19.8	14.9	9.3	32.9	21.6
N	952	1,050	850	952	850	950	5,604

Note: This was a multiple answer selection question; hence percentages may not sum to 100. The 'Don't Know' category has been excluded from the table (the shares who gave these answers can be seen in Annex 13, Table 42)
Source: London Economics analysis of online and lab data of behavioural experiment. Survey question S1Q2, "In the past 2 years, have you purchased or tried to purchase any non-life insurance product located in your home country or in another EU country in any of the following ways?".

Table 53 below shows a cross tabulation of the number of respondents using each information source as their first most important source of information when looking to purchase or renew insurance, against the purchase methods used. This shows that for the two most popular purchase methods – insurer websites and via price comparison sites, there is consistency with the sources of information that consumers used. If they used websites of insurers or comparison websites as their first most important source of information, they were much more likely to use these same channels to purchase the insurance product.

Table 53: Sources of information used against purchase method

	Purchase method						
Most important source of information	Branch of an insurer	Online from an insurers website	By telephone from an insurer	Insurance company agent	Independent advisor or broker	Bank	Via a comparison website
Websites of insurers	97	179	70	101	73	78	106
Comparison websites	128	314	118	137	100	107	351
I visited providers in person	206	93	69	189	98	95	93
I called providers	47	48	54	44	32	38	41
My bank	63	63	41	70	58	100	45
An insurer	104	68	54	141	75	77	55
An independent advisor/broker	96	78	44	115	155	80	62
Advertisements (print, radio, television	18	18	12	20	16	12	19
Websites of national consumer associations	36	54	32	39	26	26	45
Websites of public authorities/agencies	41	46	28	39	32	33	37
Friends/family	109	99	76	111	87	86	74
Blogs/online discussions	26	25	19	25	27	22	25
Other	15	30	25	23	18	16	27
Sample size (N)	986	1,115	642	1,054	797	770	980

Note: The numbers shown in the table are absolute numbers of respondents.
Source: London Economics analysis of online and lab data of behavioural experiment. Survey questions S1Q2 and S2Q7, "In the past 2 years, have you purchased or tried to purchase any non-life insurance

product located in your home country or in another EU country in any of the following ways?" and "Thinking about the last time you purchased or renewed, which of the following were your main sources of information?".

4.6. Consumers' use of insurance post-sale

In addition to consumer behaviour during the pre-contractual phase of non-life insurance purchases, there are important issues from a behavioural perspective arising over the entire lifetime of an insurance contract. Therefore, focus group participants and stakeholders were asked about their post-sale experiences with non-life insurance products, questions were also included in the consumer survey to assess consumers understanding of post-sales requirements. These findings are complemented with insights from the literature, and from the online survey. A summary of the main findings is provided first, followed by more details from each research method in the boxes below. The main findings are:

- Among focus group participants the experiences with claims handling varied, from very positive to very negative experiences.
- Success in filing claims seems to be related to consumers' level of education.
- Experience with claims handling was mostly reported in regards to home and motor insurance.
- As mentioned previously, consumer understanding and awareness of their contractual rights and obligations seems to be limited until the point at which they need to actively file a claim. This is a main cause for dissatisfaction and complaints by consumers and was supported by evidence collected from all strands of research.
- The claims procedure is usually initiated by calling the insurer and asking for assistance regarding the necessary steps to take.
- According to focus group findings, when having to make a claim, consumers appreciate the assistance of large and trusted insurance firms as well as of trusted brokers helping them through the process.
- Attitudes towards insurance in post-sales varies across Member States and is largely governed by previous experiences which ranged from positive, negative, or were dominated by confusion and unawareness.
- The survey showed that understanding of the post-sale requirements of insurance policies could be improved. When asked to identify post-sale responsibilities which would be included in a typical policy, respondents were good at identifying those which would not be included, but less well at identifying those which would be included. This has policy relevant implications, namely that it is important to provide to consumers clear terms and conditions that are easy to understand.
- Across products the survey showed that there was a good understanding of use of post-sale obligations for buildings and contents insurance (69% of respondents answered this question correctly), but the understanding was poorer for motor and car rental insurance.

Box 27 : Evidence from the focus groups

Experiences with regards to claims handling varied, from very positive to very negative experiences. In Sweden and Germany, in most cases, participants were satisfied with the way in which their claims were handled. In Romania and the UK, participants from the higher educational level group had been more successful filing a claim than those of lower educational level. In Slovakia, experiences were more mixed, sometimes due

to participants' lack of awareness of their obligations.

Across the six countries, most claims were related to motor insurance and home insurance. In Italy and Romania, when discussing claims handling, participants referred exclusively to motor insurance.

Awareness of contract terms was low. People generally found out this type of information when trying to make a claim (once an incident already occurred). Their first reaction in these situations was to call the insurance company in order to report the incident and to find out the next steps towards making a claim. Being able to easily get in contact with someone was therefore considered highly important.

Overall attitudes towards the sector varied by country, and by participants' experience with claims handling. Views were more positive in the UK, Germany and Sweden. In Romania and Italy, attitudes were more mixed. Participants in Romania showed reluctance and disbelief towards the topic. These attitudes were mainly related to people's experiences with insurance companies. Participants believed that, in order to benefit from the service with regards to claim handling, it is important to choose a large, well-known company, and to have a trusted broker.

> *"It's a mob, a mix between everybody and if you don't know what to do or don't have someone you trust that can help you, you get nothing from the insurance company."* (Woman, 41, lower education, Bucharest)

Others mentioned the market's instability:

> *"The insurance market is not safe anymore since last year, you can buy your insurance policy from a very good company and then it goes bankrupt and you are not insured anymore."* (Man, 44, lower education, Bucharest)

In Italy, participants from the "older" age group (40+) had more negative attitudes towards the sector, mainly due to previous negative experience, as well as to a certain lack of understanding (particularly of the risks covered and those not covered).

In Slovakia, people's lack of familiarity with the contract terms was sometimes associated with confusion and dissatisfaction with regards to the way their claims were handled, as some were surprised to find out that the insurance company would not cover all the expenses claimed for.

Box 28 : Evidence from the literature

As the data on complaints across Ombudsmen and national supervisory authorities in all countries (except Slovakia and Romania which introduced ADR mechanisms in 2016 demonstrates, consumers often do not receive the amount they expected due to exclusions and conditions they had not understood when purchasing the insurance product. Across the EU Member States, the most common subjects of complaints relate to claim handling, in particular the amount of compensation and the delay in pay-out. A French survey carried out by the consumer association Consommation Logement et Cadre de Vie (Consumption, Housing and Living Environment, CLCV)[410] on the claims procedure for household and motor insurance, pointed out that only 31% of respondents had received guidance on the claim procedure from their insurer beforehand. 18% of respondents declared that they were made aware of exclusions only once they had started a claim procedure, due to the lack of clarity of the

[410] http://www.clcv.org/

insurance contract as well as the lack of advice and guidance provided to them by insurers when signing the contract (see French country fiche)[411]. In addition, the French Ombudsman and the Spanish national supervisory authority reported complaints on household and motor insurance relating to the estimation of claims by the experts.

The complaints related to the insurance contract refer mainly to the company not delivering adequately its service to the consumer (e.g. in Italy), to the extension of the contract and the notice period (e.g. in Germany and Spain) and to sales and advice (e.g. in the UK). In Spain, the national regulatory authority also received many cases related to discrepancies in the application and interpretation of the policy for motor, household and travel insurance, where the cause of the complaint turned out to be, most of the time, a lack of clarity in the policy wording.

Box 29 : Evidence from the stakeholder interviews

According to interviews with consumer associations in the UK, there are often issues during the claims procedure, in particular related to consumers sometimes not being aware of the information they must disclose when they wish to make a claim, making the process difficult. During the interview with the Consumer Insurance Agency (Konsumenternas), it was indicated that in Sweden, many of the complaints received about insurance are based on misunderstandings of the terms and conditions regarding what is actually covered and what is not. Therefore, a claim can be denied, which contributes to the lack of trust of consumers in the insurance sector.

The consumer association in France Consommation Logement et Cadre de Vie (Consumption, Housing and Living Environment, CLCV)[412] mentioned in an interview that lack of awareness of consumers about the conditions and exclusions of their insurance contract resulted in situations where consumers declare a claim for which they are not covered. For this interviewee, there are also recurrent complaints about the estimation of damages when consumers need to prove the value of products (e.g. sometimes they cannot find the original bills) or when the warranty is conditioned to the evidence of a break-in.

Box 30 : Evidence from the survey

Understanding of the correct use of insurance post-sale was examined through two sets of questions in the survey.

In the section of the that survey that tested consumers' underlying understanding of insurance (see 4.4.3), the first question required respondents to correctly identify whether certain risks would be covered or not by a given insurance policy, which they were shown prior to answering the question (see Figure 13, Figure 15 and Figure 17 in section 4.4.3). Some of these risks relate to the use of insurance post-sale, meaning that respondents' performance on this question provides insight on their understanding of post-sale responsibilities.

For home contents insurance, 69% of respondents answered correctly about the risk 'theft of contents from the home when a window was left open', which shows good

[411] CLCV, 2015, Enquête CLCV Assurances et sinistres. Available at: http://www.clcv.org/images/CLCV/fichiers/banqueassurancefinancier/DP-assurances-et-sinistres-janvier2015.pdf

[412] http://www.clcv.org/

understanding of the fact that locking windows would be a requirement on the consumer by the insurer.

However, for motor and car rental insurance, understanding of the post-sale requirements on consumers as a result of taking out the policies was low. These requirements related to incidents occurring if the consumer was driving in another EU country. For motor insurance, 47% of respondents answered correctly about the risk of 'damage caused to another person's vehicle/property while driving in another EU country', while the figure was 40% for car rental insurance. For motor insurance, 53% answered correctly about the risk of 'damage you caused to your vehicle while driving in another EU country', whereas this was 46% for car rental insurance. These results, as well as the results for the other risks asked about in these questions, are presented and discussed in detail in section 4.4.3 (Figure 13, Figure 15 and Figure 17).

Another question discussed in section 4.4.3 on consumers' understanding of information asked respondents to identify from a list of statements those that would be true for a 'typical' policy. This provides further information on respondents' understanding of responsibilities post-sale (see Table 47). For home and motor insurance, participants saw three statements each related to use of insurance post-sale, two of which would be true for a typical insurance policy and one which wouldn't. The statements were as follows:

- Motor: The insured person must tell their insurer if they repaint their vehicle in its original colour (False)
- Motor: The insured person must tell their insurer if a new driver is added to the insurance (e.g. teenager) (True)
- Motor: The insured person must tell their insurer about any vehicle modifications (e.g. uprated breaks) (True)
- Home: The insured person must tell their insurer immediately if they repaint or re-carpet their property (False)
- Home: The insured person must tell their insurer immediately if they extend their property (True)
- Home: The insured person must tell their insurer immediately if their property is to be rented out (True)

Respondents performed well at identifying responsibilities post-sale that would not be true for a typical policy, however they responded less well at identifying responsibilities post-sale which would be included.

For motor insurance, 95.5% of respondents correctly identified that the requirement to tell their insurer if they repaint their vehicle would not be true for a typical policy, and for home insurance, 89.0% correctly identified that the requirement to tell their insurer if they repaint or re-carpet their property would not be true for a typical policy).

For motor insurance, 57.7% of respondents answered correctly about the requirement to tell their insurer if a new driver is added to the insurance policy, and 52.2% answered correctly on the requirement to inform the insurer about vehicle modifications. For home insurance, 63.2% answered correctly about the requirement to inform their insurer immediately of an extension to their property, and 39.3% about the immediate requirement to inform the insurer about the property being rented out. These figures are presented in Table 46 in section 4.4.3.

4.7. Factors potentially leading to problems with consumer decision-making

This final section of chapter 4 briefly summarises the key insights from the focus groups, desk research, stakeholder interviews and consumer survey regarding the factors that

may be expected to cause problems in consumer decision-making, drawing on the discussion and analysis presented in this chapter and the previous chapter.

This allows us to identify the types of remedies that could be expected to be effective in improving consumer outcomes. The boxes below present relevant evidence from the focus groups, literature and stakeholder interviews. When survey results are cited cross-references to the relevant sections of chapter 4 are given in the footnotes. The key findings can be summarised as follows:

- The focus groups found that **passiveness and inertia**, manifested in a tendency for consumers to remain with their current insurer, and in some cases never even consider comparing offers, is a potential source of suboptimal decision making. This is driven by a **perception that switching is risky** and that it is important to maintain a longstanding relationship with an insurer, and in one country (Romania) even by concerns about the viability of insurers.
- Similarly, the survey found that 40% of respondents do not compare between offers. The survey also found that passiveness and **preference for the familiar** also leads to approximately half of consumers renewing their insurance with the same provider for reasons other than them offering the best deal; feeling more comfortable with a provider they already know was one of the main reasons.[413] It was also found that consumers who renewed with the same provider because they looked at alternatives and found that their current provider had the best offer performed better on questions asking about typical insurance policies, while those not searching performed worse.
- The focus groups found that **searching and comparing is very costly in terms of time**. This may be part of a rational assessment of the costs and benefits of comparing and switching (or it may also be a somewhat unjustified perception), but it nevertheless illustrates a problem in the market that understanding the terms and conditions is difficult and may create market frictions. This is supported by evidence from the stakeholder interviews and desk research where it is found that the **length and technicality of documentation** means that reading terms and conditions is time consuming.
- There is evidence from the focus groups as well as the stakeholder interviews and desk research that there is **low awareness** among consumers of the contract terms and conditions, for example awareness of obligations and what is covered. This is driven, at least in part, by the length and complexity (including the use of technical language) of documentation, i.e. an **'information overload'**. It is also likely linked to **the way information is disclosed**, for example during the purchasing process on PCWs. This can lead to dissatisfaction among consumers and disputes between the consumer and the insurer when a claim is made following an accident or event.
- As well as the potential problems of lack of understanding of terms in insurance documents, there also appears to be a significant proportion of consumers who do not read these documents properly, and **instead rely on their own intuition, knowledge and experience**, with adverse consequences. A third of survey respondents reported answering the scenario test questions in the survey based on their own intuition instead of the policy summary documents presented to them. Performance for these respondents was noticeably lower than those that used the given information, suggesting potential **overconfidence** by consumers in matters related to insurance (as has been observed in other domains).
- General consumer perceptions towards the insurance industry, coming out of the focus groups and stakeholder interviews, may be another source of decision making problems. In particular, the sector is perceived to lack transparency (according to the focus groups and, specifically with respect to PCWs, the

[413] See section 4.3.2, survey question S2Q4.

interviews) and is mistrusted (according to the interviews). Regarding PCWs specifically, the lack of transparency in terms of their management and funding and whether they cover the entire market is highlighted in particular. These potential concerns are important as the survey found that PCWs are the most important source of information about insurance products for consumers.[414]

- Evidence from interviews with national supervisory authorities and consumer associations suggests that a general **lack of financial literacy** among EU consumers is an issue affecting decision-making in the sector. Indeed, due to this low level of literacy, consumers often cannot understand the terms and conditions of insurance policies, which also leads to difficulties for consumers to compare products. In the survey respondents were shown multiple policies and asked to identify the policies which would have the highest and the lowest premium. The question about the highest premium tested understanding of the link between the excess of a policy and the premium, which was found to be poor among respondents.[415]
- Regarding the car rental and add-on insurance sectors in particular, the focus groups found that for these types of insurance decision-making problems may be caused by consumers having **limited time** to go through pre-contractual information, **pressure** from sales staff, consumers being **presented with only one type of insurance**, and **language difficulties**. Related to this, the survey found that the most frequent situational reason for purchasing insurance is being advised by a commercial party, which could potentially cause decision-making problems if the consumer follows their recommendations without comparing other products, or if sales staff utilise framing, time pressure, or the authority bias.[416] In the experiment (as reported below), respondents also tended to choose the offers they were presented with first upfront, without comparing alternatives.

These findings have clear and important implications regarding the **types of remedies** that would be expected to be beneficial for consumers:

- **Passiveness and inertia**, due to a **perception that switching is risky** and because **searching and comparing is costly in terms of time**, implies that interventions to resolve these behaviours and concerns would be beneficial. Such remedies might include, for example, establishing transparent and streamlined PCWs that allow comparison of all providers/offers. Independent intermediaries may also have a role to play here, in particular in alleviating consumer concerns the switching is risky.
- **Low awareness** among consumers due in part to **'information overload'** and **the way information is disclosed** suggests that providing carefully considered standardised information would help consumers. For example, an intended remedy in this area is the product information document introduced by the new Insurance Distribution Directive.
- The finding that a general **lack of financial literacy** adversely affects decision-making in the sector suggests that remedies to improve financial literacy, especially 'insurance-literacy', are important. As noted in the following section some measures to address this have been introduced in some countries.
- Finally, the finding that in the car rental and add-on insurance sectors **limited time**, **pressure from sales staff** and being **shown only one insurance offer** has a detrimental impact on consumer decision-making implies that remedies to address these practices would be positive for consumers. Examples of such remedies include rules to eliminate such practices and remedies that alter the purchasing process so that consumers have the opportunity to reflect on (and change) their decisions, such as cooling off periods.

[414] See section 4.4.1, survey question S2Q7.
[415] See section 4.4.3, survey question S4Q7.
[416] See section 4.3.1, survey question S2Q2.

Box 31 : Evidence from the focus groups

The consumer decision-making process when selecting insurance, as well as consumers' interaction with insurance services, differed by country, by type of service, as well as by consumers' level of awareness, understanding and experience. Some of the various factors that can make the overall process more difficult for consumers are related to participants' attitudes, beliefs and habits (particularly in the case of home insurance and motor insurance), while others are related to the sector and its complexities.

Factors related to consumers' attitudes, beliefs and habits

Across all six countries, **passiveness** is one of the factors preventing consumers from making more informed decisions, particularly with regards to home insurance. Many participants have had their home insurance for several years, having purchased it before comparison tools were available, and had not considered comparing offers or switching providers since then. Passiveness is also one of the factors that leads consumers to purchase several insurance products from the same provider.

> *"…and that's why we let it run, because we're so (…) lazy, we know it's coming and we let it run."* (Man, 56, lower education, London – referring to home insurance)

Some participants in Sweden believed that, along with the possibility of benefiting from a better offer in terms of price, switching insurance providers also involved a potential **risk of receiving a lower quality service** (in terms of type of cover, as well as customer service). This perception that switching is risky (which may or may not be warranted depending on the individual consumer's current policy and the alternatives available to them) could lead to suboptimal decision making since it may cause consumers to miss out on better deals.

In all countries, participants believed that it was important to have a **long lasting relationship with their insurance provider**, either for possible financial benefits (no-claims bonus, in the case of car insurance), as well as in order to build the insurer's trust (in the idea that the insurance company will keep a track record of their claims, and will not question their reasons when filing a claim).

The **time** element was also important, as some participants believed that searching for information and comparing between different offers would take too long compared to the advantages it would bring:

> *"It's not worth it to save 50 SEK per month to do the research and read different sites. Feels like it would take the whole day!"* (Woman, 38, higher education, Stockholm city)

Low awareness of contract terms (particularly **obligations**). Many participants do not look for information with regards to customers' obligations prior to selecting their insurance. Furthermore, during the contracts' duration, they often only find out about these once an incident has occurred, and when they need to file a claim. In some cases, unawareness of obligations led to dissatisfaction with regards to the way in which claims were handled.

Sector-related factors

Lengthy, complex documents, discouraging participants from reading all the information. Although participants did not report that any information was missing, most of them did not take the time to go through all the documents before selecting a service, or when filing a claim. This aspect was mainly brought up in the context of home insurance, add-on insurance and car rental insurance.

> *"I think there is just so much info that you just take out the bare minimum, I*

don't read a whole lot when it's 46 pages." (Woman, 37, higher education, London)

The sector's perceived **lack of transparency** discouraged some participants in their decision-making process, both in terms of insurance selection, as well as when interacting with providers; this aspect was mainly emphasised by participants in Italy and Romania.

Participants in Romania also emphasised the **market's instability** as a potential barrier; one of participants' main concerns is that the insurance company would go bankrupt. Therefore, many opt for large, well-known companies, even if this involves a higher price.

Some factors were specific to **car rental insurance** and **add-on insurance**:

Limited time to go through pre-contractual information. Across the different countries, participants mentioned that, due to the fact that this type of insurance is usually bought "on the spot", at the moment when purchasing the product, they often do not have the time to go through all the information, or to question the need for it.

Pressure from sales staff, who emphasise possible risks, as well as the benefits of this type of insurance (including its relatively low absolute cost) also influence consumers' behaviour, who purchase this type of insurance because they need to feel secure, as well as out of fear of possible damage.

Customers are presented with **only one type of insurance**. Participants were generally unaware that they could select other types of add-on insurance or car rental insurance than the one offered at the point of sale, or at the car hiring company. On the other hand, many admitted not wanting to have to compare between offers for car rental insurance, considering this to be too time consuming (given the fact that they already need to compare between car rental companies).

When renting a car abroad, some participants in Italy mentioned the fact that the information was written in the **national language**, which they could not understand.

Box 32 : Evidence from the literature

The 2016 Consumer Market Scoreboard[417] reports on consumer problems and personal and overall consumer detriment regarding motor and home insurance. The scope of personal detriment depends on the severity of problems encountered, while the scope of overall detriment is based on the prevalence of problems in the entire sector. One in twenty (5%) of the respondents experienced problems with motor insurance in 2015, a decrease of 1 percentage point compared to the 2013 Scoreboard. 5% of the respondents also experienced problems with home insurance in 2015, a decrease of 0.7 percentage points compared to 2013. In 2015, the respondents having experienced problems with motor and home insurance estimated the resultant detriment at 6.3 on a scale of 0-10. Therefore, personal detriment in case of a problem is considered high for these two categories of insurance. However, the overall consumer detriment for motor and home insurance remains low, which suggests that the number of problems encountered in the whole sector remains low.

Length and clarity of terms and conditions

Desk research identified as a main factor, consistently across all countries covered, the

[417] European Commission, 2016, The European Market Scoreboard: Making markets work for consumers.

fact that terms and conditions are not clear enough to consumers, mainly because of the technical language used and the length of the document. The Swedish Consumer Report found that, although consumers receive a reasonably large amount of information prior to purchasing an insurance product, in most cases they are not able to absorb it[418]. A study carried out by the UK supervisory authority[419] showed that this can lead to duplicate cover, especially for add-on insurance products, which are sold with another primary product, such as extended warranty for furniture and which can also be included in some household content insurance policies.

The lack of clarity of the terms and conditions in insurance contracts results in consumers misunderstanding the insurance product and their coverage. This aspect was also highlighted in the 2016 Consumer Market Scoreboard[420] and in a study carried out by a consumer association in France.[421]

Lack of communication between the consumer and the insurer

Mistrust in the insurance industry partly derives from a general lack of communication between the consumer and the insurer, as pointed out by a French study on insurance products and claims handling procedures[422]. The lack of communication was particularly mentioned after the purchase of the product. A study by Ernst and Young on the non-life insurance market in Europe found that consumers would like more frequent communication with their insurers regarding aspects such as their policies, special deals and promotions.[423] Information about the claims handling procedure is also not communicated to consumers during the purchasing process, resulting in difficulties for consumers filing claims after an incident.

Lack of transparency in the insurance sector

The 2016 Consumer Market Scoreboard[424] indicates that a concern of consumers is the transparency and the comparability of insurance products, in particular for motor and household insurance. As mentioned in previous sections, the lack of transparency in the way PCWs are managed and funded can deter consumers from using and trusting them. In addition, studies conducted by national authorities in Italy[425] and the UK[426] show that most PCWs do not cover the whole market, and consumers therefore cannot access all the products offered, which they are not always aware of.

Moreover, a study conducted by the national supervisory authority in the UK on non-life insurance add-ons identified a lack of transparency in the price of add-on products advertised, creating barriers for consumers to engage with the market effectively.[427] In France, a 2016 survey on add-on insurance conducted by Harris Interactive for FG2A[428] showed that half of the respondents report not feeling well informed and expecting more transparency and information on the prices and conditions of the warranties as well as

[418] Konsumentverket, 2013, The Swedish Consumer Report, Consumer Conditions in Sweden. Available at: http://www.konsumentverket.se/Global/Konsumentverket.se/Best%C3%A4lla%20och%20ladda%20ner/rapporter/2013/report-2013-8-swedish-consumer-report-2013.pdf
[419] FCA, 2014, General insurance add-ons: Provisional findings of market study and proposed remedies. Available at: https://www.fca.org.uk/publication/market-studies/ms14-01.pdf
[420] European Commission, 2016, The European Market Scoreboard: Making markets work for consumers.
[421] CLCV, 2015, Enquête CLCV Assurances et sinistres
[422] CLCV, 2015, Enquête CLCV Assurances et sinistres
[423] EY, 2015, Towards profitability - European general insurance
[424] European Commission, 2016, The European Market Scoreboard: Making markets work for consumers.
[425] IVASS, 2014, INDAGINE SUI SITI COMPARATIVI NEL MERCATO ASSICURATIVO ITALIANO
[426] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector, UK
[427] Financial Conduct Authority, 2014, How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation
[428] Harris Interactive, 2016, les Européens et les garanties et assurances affinitaires. Available at: http://harris-interactive.fr/opinion_polls/les-garanties-et-assurances-affinitaires-peuvent-elles-simplifier-la-vie-des-europeens/

on claims handling.

Additionally, according to answers provided by the German Insurance Association (GDV)[429] to the Green paper on retail financial services[430], the lack of transparency leads to consumers not being aware of transaction fees when purchasing non-life insurance products.

Box 33 : Evidence from the stakeholder interviews

Length and clarity of terms and conditions

Interviews with all types of stakeholders across the countries also highlighted the fact that terms and conditions are not clear enough to consumers, due to the technical language used and the length of the document. As mentioned in section 4.4.3, terms and conditions are often lengthy documents, often reaching over 60 pages, which use technical terms and result in consumers misunderstanding the coverage and exclusions of the product. This issue was raised across all types of products considered. Due to this, reading the terms and conditions can be time-consuming and confusing to consumers, who then do not fully understand what is covered in the product. This is the result of an information overload rather than a lack of information, according to interviews carried out in Sweden and the response of a French consumer association to the Green Paper on retail financial services consultation.[431] This can lead to disputes between the consumer and the insurer, as when an event or accident occurs consumers may not receive the claim pay-out they expected, which was reflected through interviews with complaints handling organisations across the countries studied.

Consumer associations in the UK, Slovakia, Germany, Italy and Luxembourg mentioned that the lack of clarity in the terms and conditions lead to consumers misunderstanding the insurance product. As highlighted by consumer associations in France, Germany and Luxembourg, the lack of understanding of the terms and conditions leads consumers to duplicate insurance coverage between several different contracts, (e.g. between add-on insurance included in premium credit cards and household or travel insurance) or between two similar contracts (e.g. when a couple moves in together and does not cancel one of the two household insurance contracts).

Interviewed national supervisory authorities and consumer associations in the UK, Latvia and Romania mentioned that the lack of consumer understanding due to the way terms and conditions are drafted leads to a lack of trust from consumers in the insurance sector. It was noted that the gap between the claim they expect to receive and what they actually receive can lead them to believe that the insurer is unwilling to pay out, when in fact this is mostly due to the fact that the consumers did not understand their cover.

Lack of trust from consumers in the insurance sector

An issue highlighted during interviews with national supervisory authorities and consumer associations across the EU is the overall mistrust consumers have in the insurance sector, which stems from the fact that they do not understand the market and the products fully. This was mentioned by several interviewees in the UK, who noted that it led consumers to sometimes choose to put the risk upon themselves and not purchase

[429] http://www.en.gdv.de/

[430] European Commission, 2015-2016, Green Paper on retail financial services: better products, more choice, and greater opportunities for consumers and businesses

[431] Insight from ACPR answer to the consultation on the Green Paper on retail financial services: better products, more choice, and greater opportunities for consumers and businesses. Available at: http://ec.europa.eu/finance/consultations/2015/retail-financial-services/index_en.htm

insurance coverage when it is not compulsory, because they believe that insurers will not pay out when a claim is made.

Lack of communication between the consumer and the insurer

The mistrust also stems from the lack of communication between the consumer and the insurer. Cases where consumers did not disclose information such as previous accidents to insurers when purchasing motor insurance were identified through interviews with complaints handling organisations in Latvia. As a result, claims were rejected by insurance companies, as the consumer did not in fact qualify for the type of coverage applied for. However, interviewees were not able to provide information on the specific reason why consumers did not disclose such information (i.e. whether it was intentional or due to a misunderstanding of the insurance contract terms on the consumer's part).

Financial literacy issues for consumers

There is a general lack of financial literacy across EU consumers, including in the insurance sector, according to national supervisory authorities and consumer associations in Slovakia, Latvia, Italy, Romania and Spain. This leads to consumers misunderstanding terms and conditions, the procedure to make a claim, and the amount of money they are entitled to after an accident. Consumers can also make misinformed decisions about insurance products due to a lack of knowledge in the sector.

5. Effectiveness of remedies in helping consumers to make better decisions

This chapter assesses the effectiveness of remedies in helping consumers to make better decisions in the non-life insurance market, thus addressing a number of key issues raised in the terms of reference (in particular in the first research question, see chapter 1):

- How effective remedies are in helping consumers to make better decisions;
- How product information should be designed in order to communicate product characteristics and enable better consumer choices; and
- Whether tools can enhance consumers' comprehension and awareness of complex information and the interaction between price and non-price parameters.

The chapter draws on the desk research, stakeholder interviews, focus groups, survey and, in particular, the behavioural experiment. The first section considers remedies that have been proposed or put in place in the Member States covered by the study, and the second section examines the effectiveness of remedies.

5.1. Remedies that have been proposed or put in place

The stakeholder interviews and desk research identified a number of remedies that have been proposed or put in place in Member States. The boxes below summarise the relevant evidence from these strands of the research (further detail can be found in the country fiches). In summary:

- Initiatives in a number of countries (Germany France, Italy, Latvia, Luxembourg, Romania, Spain, Sweden and the UK) aim to improve consumers' awareness and understanding of insurance products. For example, these include guidelines and advice provided by consumer associations or national supervisory authorities, and in Latvia collaborations between trade associations and schools as well as universities on the dissemination of awareness raising material (cartoons explaining motor insurance were created by the Latvian Insurers' Association[432] and shown to students in order to improve their financial literacy).
- In terms of EU wide regulation, the forthcoming introduction of the new Insurance Distribution Directive, especially the associated product information document, was also noted by national supervisory authorities as a legislation that is likely to improve understanding and decision making. The results of testing of the alternative formats of the information document are described below (see section 5.2.3)
- In Latvia, Spain, Romania and Slovakia, there have been initiatives to improve financial literacy among consumers. For instance, in Latvia there is an action aiming at creating a financial literacy trainer and advisory group through a multi-stakeholder approach, although this has yet to be implemented (meaning there are currently no further details). In Slovakia, a project is under development in which schools and financial institutions will promote and improve financial literacy education, through specific classes on this topic.
- Codes of conduct have been developed in Member States (e.g. Germany and the UK[433]), via collaborations between supervisory authorities, trade associations and consumer associations, to improve the conduct and performance of the sector for consumers.

[432] http://www.laa.lv/en/

[433] Insurance Conduct of Business Sourcebook (ICOBS) drafted by the Financial Conduct Authority. Available at: https://www.the-fca.org.uk/firms/insurance-conduct-business-sourcebook-icobs

- There have been initiatives to improve the transparency of the sector, especially with respect to PCWs. In Sweden, an independent PCW has been established in order to create a transparent platform without conflicts of interest. In Italy, the national supervisory authority IVASS runs its own price comparison website[434].
- Initiatives or rules have also been introduced by the insurance industry or by national supervisory authorities to improve sales practices. Mobile applications have been launched by insurers in Spain, France and Latvia to provide better access to information for their customers. The five biggest car rental companies have agreed to change their commercial practices to ensure transparent and clear information on what is included in the rental price and the additional insurance options[435].

Box 34 : Evidence from the literature

Initiatives to improve consumer awareness and understanding

In all countries covered by Task 1 (the data collection and interviews), initiatives have been carried out or are being prepared to better inform consumers in this field. In addition, national supervisory authorities also provide information to consumers to improve their understanding of the sector.

Country	Initiatives to improve consumer awareness and understanding
DE	The German Insurance Association (GVD) provides monthly reports, newsletter and facts on the insurance sector. The Federal Financial Supervisory Authority (BAFIN) has a webpage[436] providing detailed information on non-life insurance products and a contact page where any stakeholder can provide a suggestion on how to improve insurance services.
ES	The national supervisory authority DG Seguros y Fondos de Pensiones provides information on the insurance sector, including market studies, public registries, laws related to insurance, and a search engine to look for insurance companies and other stakeholders, on a single platform for consumers and the industry[437].
FR	The national trade association FFA created a webpage "l'Assurance Pratique"[438] ("insurance in practice") providing financial information to consumers with specific thematic fiches and section on frequently asked questions.
IT	The national supervisory authority IVASS publishes guidelines, studies, and tests for consumers to verify their level of understanding of the guidelines[439]. A specific section of its website is dedicated to

[434] Official IVASS price comparative platform: http://www.tuopreventivatore.it/prevrca/prvportal/index.php
[435] By providing the actual bill for the repair or a fair assessment of the cost of the repair to the customer in case of damage, before billing the account.
[436] BAFIN, 2015, Privathaftpflichtversicherung auf einen Blick. Available at: http://www.bafin.de/DE/Verbraucher/Finanzwissen/VA/Privathaftpflicht/privathaftpflichtversicherung_artikel.html
[437] http://www.dgsfp.mineco.es/sector/index.asp
[438] FFA, Assurance Pratique – Info Assurés. Available at: http://www.ffa-assurance.fr/infos-assures?parent=74&f[0]=field_infos_assures%253Aparents_all%3A74
[439] All guides are available at: http://www.educazioneassicurativa.it/guide-pratiche/

	communication with consumers[440]. Other sources of online information for consumers are consumers' associations such as Altroconsumo[441] and UNC[442], trade associations such as ANIA[443], and review websites[444].
LU	The consumer association UCL regularly prepares thematic studies on non-life insurance (travel, household insurance, etc.), which appear in the media, e.g. radio and television.
LV	In 2015, the Latvian Insurers Association created a cartoon for consumers explaining the basis of insurance, and disclosed it on the internet[445]. These were then used in an educational context, through collaboration with schools. In this vein, the Motor Insurers' Bureau of Latvia also generated a cartoon specific to motor insurance bonus-malus system[446].
RO	Consumer associations such as AURSF and APPA, have been running campaigns to familiarise consumers with the risks and rights they have when buying insurance products. These ranged from having caravans go through every major city spreading information, to spreading flyers in malls, to producing unbiased online content. In terms of content, online platforms such as CONSO.RO[447] also aim at guiding consumers in an unbiased way through market analyses. APPA organised national public information campaigns, covering non-life topics like motor insurance, household insurance, travel insurance, etc. The National Supervisory Authority (FSA) releases consumer guides and reports on third-party liability, health or household insurance policies[448].
SE	The Consumer Insurance Agency (Konsumenternas) provides consumers independent advice regarding the insurance products available in Sweden.

[440] Contact centre IVASS for consumers available at: http://www.ivass.it/ivass/imprese_jsp/HomePageSezione.jsp?nomeSezione=PER_IL_CONSUMATORE&ObjId=90231&titolo=PER IL CONSUMATORE
[441] https://www.altroconsumo.it/soldi/assicurazioni
[442] http://www.consumatori.it/auto-moto/assicurazione/
[443] http://www.ania.it/it/pubblicazioni/
[444] http://opinioniassicurazioni.com/
[445] https://www.youtube.com/watch?v=BGzksP8dz84
[446] https://www.youtube.com/watch?v=4GBdBf2rQ0c
[447] http://www.conso.ro/asigurari
[448] FSA, 2016, Asigurari. Available at: http://asfromania.ro/consumatori/consumatori-asigurari/ghidul-rca

UK	The consumer association Which[449] has drafted guidelines and advice for consumers to understand the insurance market, including reviews of insurance companies and products. Which's guides focus on three products, namely household[450], car[451] and travel[452] insurance. These three guides provide information on the market for the product, especially on the types of coverage available, guidance on how to make a claim, how to renew policies, which policies are considered the best, and which the worst according to insurers' practices (ranked according to e.g. customer service, value for money, the clarity of the policy). The Money Advice Service also provides guidance[453] to consumers to help them in their decision-making with information on types of policies and cover, what is the appropriate level of cover, and the aspects to check when comparing policies.

Initiatives to improve financial literacy

National supervisory authorities in Latvia, Spain, Romania and Slovakia carried out actions to improve the financial literacy of consumers in the country, including in insurance services. In Latvia, the government collaborated with trade associations and schools as well as universities, for the drafting of a common strategy document for the creation of a financial literacy trainer and advisory group[454]. In addition, the Spanish financial supervisory authorities, Banco de Espana and the Comisión Nacional del Mercado de Valores signed a cooperation agreement in 2013 for the implementation of a plan over 2013 to 2017 on financial services education[455].

In 2008, the Spanish National Bank and the National Stock Market Commission started the first project on financial education targeting the general population. Other entities of the Spanish administration, such as the General Secretariat of the Treasury and Financial Policy and Directorate General for Insurance and Pensions, joined this project. The objective of this project was to educate the Spanish population on different financial topics so citizens will be prepared to face the new financial context in relation to markets, financial products, relationship between individuals and companies etc.

This project has been renewed for the period of 2013-2017 with the same overall objective and targeting in particular the following topics:

- Implement a financial education in schools
- Raise awareness of the importance of pensions and insurance policies
- Increase the project's network
- Increase the number of collaboration agreements with private and public entities
- Consolidate the brand "Finanzasparatodos" (Finances for all)
- Evaluation and research activities

In Romania, in September 2015, the national supervisory authority FSA launched a national financial education programme targeting secondary and high school students (later extended to university students). The programme focused not only on insurance, but on other non-banking markets such as private pensions and capital markets.

[449] http://www.which.co.uk/
[450] http://www.which.co.uk/money/insurance/reviews-ns/home-insurance/home-insurance-the-basics/
[451] http://www.which.co.uk/money/insurance/reviews-ns/car-insurance/car-insurance-the-basics/
[452] http://www.which.co.uk/money/insurance/reviews-ns/travel-insurance/travel-insurance-the-basics/
[453] https://www.moneyadviceservice.org.uk/en/articles/contents-insurance-get-the-right-policy-and-cover
[454] Latvijas iedzīvotāju finanšu pratības stratēģija 2014-2020 (2014). Available at: http://www.fktk.lv/texts_files/FIN_STRATEGIJA_042014.pdf
[455] http://www.bde.es/f/webpcb/RCL/canales/home/menu-vertical/educacion-financiera/Plan_de_Educacion_Financiera_2013_2017.pdf

In Slovakia, the national supervisory authority NBS runs an Institute of Banking Education (Inštitút bankového vzdelávania NBS, n.o. – IBV NBS), which provides courses and workshops for the improvement of qualifications of personnel working in the financial sector, including insurance. For example, there is a workshop targeting specifically non-life insurance sector where the participants (insurance intermediaries, employees of insurance companies) obtain better knowledge of insurance products, especially with regards to products in the area of property and motor insurance. The Ministry of Education, Science, Research and Sport of the Slovak Republic approved education programmes on financial literacy for primary and secondary school teachers run by IBV NBS. These programmes should lead teachers to relay the obtained knowledge to their pupils leading to a higher financial literacy among consumers[456].

Development of codes of conduct

Collaborations between national supervisory authorities, trade associations and consumer associations have also been formed to improve the conduct and performance of the insurance market for consumers through the development of codes of conduct, which insurance companies must abide to.

For instance, the main insurers' association in the UK (Association of British Insurers) and the brokers' organisation (British Insurance Brokers' Association) published their "Code of Good Practice regarding support for potentially vulnerable motor and household insurance customers at renewal"[457] in January 2016. In France, two main insurers trade associations reached an agreement in January 2015, which will facilitate for consumers an easier switch between insurance providers. The agreement specifies, for example, what mandatory information needs to be included in the letter between insurers and this in turn will secure risk identification.

A code of conduct for insurance distribution has been established by the German insurance industry, defining standards for the provision of good advice. Approximately 90% of German insurance companies are participating in the code. They agreed to have their compliance certified by an independent third party and work together with intermediaries who improve their skills on a regular basis through, for example, further training[458].

Initiatives to improve transparency (especially of PCWs)

Initiatives have also been undertaken in order to improve transparency in the non-life insurance market. In order to respond to the issues surrounding price comparison websites, so as to create a transparent platform. The Swedish Consumer Insurance Agency has established an independent PCW, to avoid conflicts of interest. It compares life and non-life insurance products across the market on prices, content, and scope. Independent PCWs have also been launched by the Italian national supervisory authority and the Latvian's Motor Insurance Bureau.

In France, due to the numerous complaints in regards to add-on insurance, a federation of add-on insurance (Fédération des garanties et assurances affinitaires – FG2A[459]) was founded in 2012 to structure add-on insurance practice and to better inform consumers. The FG2A created a label "insurance quality and services" for add-on insurance products, valid for three years and attributed to them following the assessment of 30 criteria and

[456] Inštitút bankového vzdelávania NBS, 2016. Available at: http://www.ibv-nbs.sk/index.php
[457] ABI and BIBA, 2016, ABI and BIBA Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal. Available at: https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2016/Vulnerable%20customers/ABI%20BIBA%20Code%20Good%20Practice%20support%20potentially%20vulnerable%20motor%20household%20customers%20renewal.pdf
458 Insurance Europe, 2016, Consumer Focus. Available at : http://www.insuranceeurope.eu/consumer-focus-2
[459] Fédération des garanties & assurances affinitaires, available at: http://www.fg2a.com/

an audit conducted by Bureau Veritas Certification.

In Italy, the national supervisory authority (IVASS) has implemented specific regulations obliging insurance companies to provide detailed information related to their products online. Moreover, following the investigation into comparison websites in the Italian market, IVASS has intervened with specific requirements for comparison websites[460], such as indicating the commercial links with the companies compared on the websites, declaring the market share covered by the comparison, avoiding product bundling and other misleading practices, and comparing not only prices but also product features.

In Spain, the trade association UNESPA issues "self-regulation" transparency guidelines[461] on information to be provided to consumers before a contract is concluded for product such as motor and multi-risk insurance. UNESPA members can adopt the guidelines on a voluntary basis. To date, 80% of UNESPA members (insurance companies) subscribed to the motor guidelines[462], while only 60% signed up to the multi-risk[463].

In Sweden, the InsureSec register for intermediaries is an initiative put in place to enable all consumers to verify the competence of specific intermediaries. Information on licenses, tests, and degrees are also included. Through the register, the consumer can make sure that the trader has up-to-date competence in the field and that the level of experience and knowledge is documented.

Measures to improve sales practices

Remedies to improve sales practices have been put in place or are planned to be introduced. These remedies are summarised in table below. Some of these (e.g. Spain, France, Latvia) aim to inform and empower consumers via mobile applications.

Country	Measures to improve sales practices
DE	The trade association GDV developed a new cloud solution, called Trusted German Insurance Cloud (TGIC)[464], to push efficient communication between brokers and insurers. Data exchanges will be standardized based on BiPRO norms (norms established by the Institute for Process Optimization) which have been developed jointly by insurance companies, intermediaries, associations, service providers, and other market participants. Consumers have different contracts with different insurance companies generating complex administrative processes. These are expected to be significantly reduced by the implementation of this online communication tool among insurance market players. Consumers are likely to benefit from tailored consumer services due to the up-to date information[465]. The project to improve

[460] IVASS, 2015, Indagine sui siti comparativi nel mercato assicurativo italiano Risultanze e conseguenti interventi di vigilanza. Available at: http://www.ivass.it/ivass_cms/docs/F13968/Risultanze_indagine_e_interventi_di_vigilanza.pdf

[461] UNESPA, 2016, En beneficio de nuestros clientes, el seguro va más allá de lo que marcan las leyes. Available at: http://www.unespa.es/frontend/unespa/AUTORREGULACION--En-Beneficio-De-Nuestros-Clientes--El-Seguro-Va-Mas-Alla-De-Lo-Que-Marcan-Las-Leyes-vn2818-vst226

[462] UNESPA, 2016, Good Practice guidelines for car insurance. Available at: http://www.unespa.es/adjuntos/fichero_4170_20160527.pdf

[463] UNESPA, 2010, Good Practice guidelines - multirisk insurance http://www.unespa.es/adjuntos/fichero_4103_20151124.pdf

[464] GDV, 2016, Makler Kommunikation. Available at: http://www.gdv.de/wp-content/uploads/2016/01/GDV_Flyer_Maklerkommunikation_2016.pdf

[465] GDV, 2016, Makler Kommunikation. Available at: http://www.gdv.de/wp-content/uploads/2016/01/GDV_Flyer_Maklerkommunikation_2016.pdf

	communication processes between insurance brokers and insurance companies was scheduled for roll out throughout 2016[466]. The German Civil Code[467] forbids insurers to use pre-ticked boxes to sell add-on insurance without the consent of consumers.
ES	UNESPA published guidelines on internal dispute resolution[468]. The trade association UNESPA and Tirea (an IT company for insurers) have developed the mobile application INEA[469] enabling policyholders to send the necessary information to their insurer for the settlement of a claim concerning a road accident between two vehicles. It also allows people to check what compensation for bodily injuries should be granted according to the renewed Spanish injuries evaluation system for traffic road accidents (Baremo). This tool is already operational and it can be used free of charge. It will be especially useful to road traffic victims, judges, lawyers, attorneys, doctors and any other persons involved in the aftermath of a traffic accident. The Spanish government approved Orden (ECC Orden ECC/2316/2015, de 4 de noviembre, relativa a las obligaciones de información y clasificación de productos financieros[470]) on information and classification of financial products, which entered into force in February 2016. This Orden imposes the classification of all financial products, including non-life insurance, according to a risk indicator for consumers, presented as a traffic light indicator (red for a high-risk product).
FR	Article L120-1 of the Consumption Code forbids unfair commercial practices and article L121-1-1 presents a list of 22 practices to be systematically considered as unfair. These practices include, for instance when an insurer pretends to have a label or specific qualification but does not, or when a product is advertised at a price that is never proposed in the contract. The Hamon law forbids the "pre-ticking" of optional warranties, assimilated to forced sales, which was quite common with travel insurance[471]. To make it easier for policyholders to report a motor accident, French insurers launched an official free mobile phone app ("e-constat") on 1 December 2014[472]. This application allows policyholders to report their motor accidents directly to their insurers from a smartphone. The application can also speed up the processing and settlement of claims.
IT	IVASS is working on the simplification of contract documentation for the non-life insurance sector[473]. First, the contracts in the motor sector have been changed. Contract information for motor liability insurances now cannot exceed three pages. The other non-mandatory motor insurances can reach maximum 5 pages. The authority has not only intervened on the length of the contract but has also implemented a standardized

[466] GDV, 2015, GDV aims to push efficient communication between brokers and insurers. Available at: http://www.en.gdv.de/2015/06/gdv-aims-to-push-efficient-communication-between-brokers-and-insurers/
[467] German Civil Code. Available at:http://www.gesetze-im-internet.de/englisch_bgb/englisch_bgb.html#p1060
[468]UNESPA, 2016, Good practice guidelines for internal resolution practices. Available at: http://www.unespa.es/adjuntos/fichero_4145_20160309.pdf
[469]IDEA, 2016. Available at: https://idea.tirea.es/iDEAWeb/
[470]Orden ECC/2316/2015. Available at: https://www.boe.es/boe/dias/2015/11/05/pdfs/BOE-A-2015-11932.pdf
[471] Les Echos, 2015, Assurance Voyage : le renforcement réglementaire est une chance pour les distributeurs. Available at: http://www.fg2a.com/index.php?option=com_content&view=article&id=136
[472] E-constat auto, available at: http://www.e-constat-auto.fr/
[473] IVASS, 2016, Semplificazione della nota informativa dei rami danni. Available at: http://www.ivass.it/ivass_cms/docs/F19773/isvc0560.pdf

	format, a list of key information needed and the impossibility to insert references to external documents. Given the positive feedback on the initiative, IVASS is now planning to extend the experience to other insurance products.
LV	The Latvian Insurers Association updated their website in 2015 to make their Ombudsman Service more visible to consumers who wish to complain. In particular, the section on cross-border complaints has been improved so as to be able to lodge a complaint in English. In addition, the Motor Insurers' Bureau developed a smartphone application specific to M3PL insurance[474] for consumers to learn about M3PL policy, compare various insurers' offers, and keep track of their vehicle damage history.
RO	The upcoming report from the national supervisory authority FSA, analysing the contractual conditions of contracts from the three largest insurance firms in Romania should provide answers as to how best to tackle problems in the market[475].
SK	The national supervisory authority NBS produced a pre-contract form that contains a check list for insurance providers as to what information has to be relayed to their clients before a contract can be signed. Insurance companies used before a very small font for terms and conditions, which was not readable. To this end, a regulation was passed in 2014 (Act No. 141/2014 Coll. amending the Slovak Republic Government Order No. 87/1995, implementing certain provisions of the Civil Code[476]) that clearly specifies the size of the font to be used in contracts. There is also a law on financial mediation that provides clear guidelines on the extent of information that needs to be provided before signing a contract.
UK	In 2012, ABI, BIBA and the UK government reached an agreement requiring all ABI members who do not provide insurance due to age restrictions to 'signpost' customers to an alternative appropriate provider, who will offer a product regardless of age[477]. The British Insurance Broker's Association (BIBA)[478] started the "Find-A-Broker" service[479], which is aimed at vulnerable consumers who have difficulties finding an insurance policy. Following its study on the add-on insurance market[480], the national supervisory authority (the FCA) introduced new rules and guidance to be applied by September 2016, whereby insurers can no longer automatically include add-on products within the policy as a 'package' and pre-ticked boxes and opt-out sales are banned unless they are provided free to the customer and provision of product information is paramount.

Following a strong increase of the number of complaints on car rental issues (see section 3.1.6), the European Commission and national consumer authorities engaged with the

[474] https://www.ltab.lv/app/
[475] Information from FSA in written survey on May 20th, 2016.
[476] Act No. 141/2014 Coll. Available at: http://www.noveaspi.sk/products/lawText/1/82148/1/2
[477] ABI, 2012, ABI announces new agreement to improve access to motor and travel insurance for older customers. Available at: https://www.abi.org.uk/News/News-releases/2012/03/ABI-announces-new-agreement-to-improve-access-to-motor-and-travel-insurance-for-older-customers
[478] www.biba.org.uk
[479] BIBA, 2016, Manifesto 2016. Available at: https://view.publitas.com/biba/biba-manifesto-2016/page/1
[480] FCA, 2014, General insurance add-ons: Provisional findings of market study and proposed remedies

five leading car rental companies (Avis, Europcar, Enterprise, Hertz and Sixt) to address these issues. Following this dialogue, the European Commission announced in January 2017[481] that these five car rental companies had agreed to change their commercial practices to ensure transparent and clear (i.e. plain language) information on what is contained in the rental price (e.g. compulsory insurance and its coverage) and on additional insurance options (price, coverage, excess) and to guarantee fair damage handling process[482].

Box 35 : Evidence from the stakeholder interviews

Initiatives to improve consumer awareness and understanding

Collaborations between trade associations and schools and universities have been established to improve consumer awareness among young people. The Latvian Insurers Association has created explanatory material, in the form of cartoons, for school education.

In France, the main trade association has proposed harmonised definitions of insurance terms and conditions to its members, to be used consistently in their offers and contracts.

The national supervisory authority in Slovakia has tried to improve conditions for consumer decision-making by producing a pre-contract form that the insurance companies should use, however, this effort has so far not proven very effective as highlighted by the stakeholder interview with the authority.

In the UK, a trade association mentioned that insurers are trying to improve communication with consumers through the use of e.g. smartphone technology, where consumers can make a claim by taking a photograph of the incident on their smartphone, and sending it to the insurer. According to this interviewee, the use of this option has increased, and it is encouraged by the industry in the UK.

At EU level, the implementation of the Insurance Distribution Directive[483] (IDD), particularly through the provision of a product information document (PID) which insurers and intermediaries will have to provide at the point of sale, will provide consumers with clearer and more simple information about the product, and therefore enable them to make more informed decisions during the purchase, according to interviewed stakeholders in Slovakia, Sweden, the UK, France and Luxembourg. In Germany, stakeholders noted that the PID will enhance transparency and the ability of consumers to make well-informed decisions regarding the purchase of ancillary insurance products. In Germany, under the Insurance Information Regulation[484] a standardised product information document requirement has been in place since 2007. Spanish interviewees highlighted that the majority of the IDD elements (including the standardised product information document) were already covered by the Spanish

[481] European Commission, 2017, Car rental companies improve treatment of consumers, thanks to EU-wide enforcement. Available at: http://europa.eu/rapid/press-release_IP-17-86_en.htm

[482] By providing the actual bill for the repair or a fair assessment of the cost of the repair to the customer in case of damage, before billing the account.

[483] DIRECTIVE (EU) 2016/97 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 January 2016 on insurance distribution. Significant too in this context is that the IDD covers both insurance undertakings and insurance intermediaries whereas the IMD which it replaces was only applicable to insurance intermediaries.

[484] Versicherungsinformationsordnung

Insurance Mediation Act. In France, the national supervisory authority mentioned in its answer to the Green Paper on retail financial services[485] that the IDD introduces a new gold-standard for the distribution of all non-life insurance products, as it is expected to improve the transparency of the practices in the sector, and many changes in regulatory and business practices across Europe (for instance to comply with the product information document requirement) can be expected as a result of its implementation.

5.2. Effectiveness of remedies

This section considers the potential effectiveness of various remedies in terms of helping consumers to make better decisions. This is primarily based on the results of the behavioural experiment, with further evidence also provided by focus group participants regarding what measures they believe would be most helpful and effective, as well as some insights from other studies reported in the literature. Many remedies identified through the interviews and desk research (described above) are either currently being drafted or were only recently launched, meaning that at present there is little information on their effectiveness.[486]

Structure of the detailed analysis and results

In the subsections below, the detailed analysis and results are structured according to the stages typically involved in the process of selecting an insurance product, which were mirrored in the contract choice task of the behavioural experiment.

- In the case of home and motor insurance, from the consumer's perspective these stages are:
  - Specifying their insurance requirements based on their situation (the 'Profile' stage in the experiment);
  - Comparing several alternative insurance offers and selecting an insurance product to purchase, or deciding to purchase no insurance at all (the 'Comparison' stage in the experiment); and
  - Confirming their chosen insurance product, or deciding not to purchase insurance at all (the 'Confirmation' stage in the experiment)
- For car rental and add-on insurance, the stages are the same as above except that rather than specifying their insurance requirements consumers are presented with an upfront insurance offer that may be taken or declined (the 'Initial offer' stage in the experiment).

We measure the effectiveness of each remedy in comparison to a baseline group that did not have particular decision-making tool (remedy) available to them (see section 5.3.1 for a note on the analysis methodology).

Furthermore, the effectiveness of remedies is analysed in isolation at every decision making stage outlined above. This means, at each stage, a respondent could respond optimally, regardless of whether or not choices in preceding stages were optimal. For example, a respondent could make a decision error at the `Profile' stage and thus never reach a fully optimal choice. Regardless of this initial error, the respondent's choices at the `Comparison' and `Confirmation' stages could still be optimal, given the choices s/he

[485] Insight from ACPR answer to the consultation on the Green Paper on retail financial services: better products, more choice, and greater opportunities for consumers and businesses. Available at: http://ec.europa.eu/finance/consultations/2015/retail-financial-services/index_en.htm

[486] As a result, interviewed stakeholders noted that it was too early to give an informed opinion on effectiveness. Furthermore, national supervisory authorities and consumer associations mentioned that no evaluations had been carried out as of yet regarding the existing guidelines for consumers and codes of conduct for the industry, therefore, no information was available on effectiveness in the literature.

made previously. This type of analysis is the cleanest approach to the measurement of the effectiveness of remedies since the decision-making stages as well as the targeted remedies are quite distinct.

Consumer decision-making and the effectiveness of remedies at each of the above stages are analysed in turn in subsections 5.2.1 to 5.2.4 below. Structuring the analysis this way also makes it possible to clearly relate the findings to the behavioural economics literature, which is discussed (using a similar structure) in section 4.2.2.

5.2.1. Specifying insurance requirements (home and motor insurance): 'Profile stage'

An early step in the process of selecting and purchasing various types of insurance, such as home and motor insurance, is for the consumer to specify their requirements and preferences, such as the sum insured, excess, and the particular risks to be covered. This was simulated by the 'profile stage' of the contract choice task in the behavioural experiment to allow us to examine the behaviour of consumers at this stage and how two treatments representing possible information remedies affect behaviour. The detailed results for this stage of the experiment are presented in Box 36, and some further relevant insights can also be taken from the focus groups (see Box 40 in section 5.2.3). The key findings that can be drawn from this evidence are as follows:

- In the experiment consumers tended to select too low an excess given their financial means (59% did so). In other words, given the consumer's ability to cover the costs of a financial loss, the fully rational consumer, based on the standard model of decision-making, should select a higher excess which would result in a lower premium. However, it is known from the behavioural economics literature, that regret aversion and "peace of mind" motivations could drive such choices. This behaviour is also in line with research showing that individuals underestimate the possible premium savings from choosing higher excess levels and observations from the consumer survey that respondents did not understand the relationship between premiums and excess. In terms of policy remedies, this implies a need to raise consumer awareness of the benefits of selecting a higher excess in terms of premium savings, and encouraging them to consider these benefits properly in light of their financial ability to bear some losses themselves.
- A significant share of consumers (11%) also failed to insure high-impact risks even when it was explicitly important to do so, which if repeated in reality would mean that many consumers would be at risk of serious financial losses. Behavioural biases potentially responsible for such behaviour include narrow framing and selective attention. Implications with respect to policy remedies are that it is important to take measures to ensure that consumers are not underinsuring in this way.
- Consumers were significantly more likely to access and view important information about alternative insurance offers if it is provided in a concise, targeted way, instead of in an extensive, all-inclusive document. This result was also found at multiple other stages of the purchasing process during the experiment (see below). This highlights that it is important to provide information in a salient user-friendly way, such as the '?'-icons method used in the experiment for explanatory terms. Such an approach to providing information is more likely to mean that consumers engage with the information (compared to alternative 'heavier' approaches such as the 'glossary' which provided more detailed text-heavy explanations).
- A glossary explaining the terms used in insurance offers was also discussed during the focus groups (see Box 40 in section 5.2.3). Some participants believe this would be useful (in particular for selecting home, motor or car rental insurance),

although this view was not unanimous.[487] However, this type of document should be kept short, and use consistent terminology.

- 'Personal' and 'personalised' advice was identified during the focus groups as a remedy that consumers believe is effective. Such advice could be provided when consumers specify their insurance requirements (as well as at other stages of the purchasing process) to assist them to select an insurance that meets their needs. However, it was also noted that such advice should be objective and unbiased.

Box 36 : Evidence from the behavioural experiment and survey

At the first stage in the contract choice task respondents assigned to home contents or comprehensive motor insurance scenarios[488] were provided with 'profile information' which set the scenario for their choice.[489] They were then asked to complete some questions about their insurance requirements. Most importantly, respondents were asked to choose whether they wished to cover a high-consequence risk (i.e. natural hazards for home insurance, vandalism for motor insurance).[490] Moreover, respondents had to select an excess level of either €0, €100, or €500.[491]

Respondents' performance at this stage and in the choice task as a whole depended on these two choices. Firstly the **excess level** was correctly selected if it was chosen to be **as high as possible**, given the respondent's personal financial situation.[492]

Secondly, the high-consequence risk should be covered if there was a flood/vandalism risk mentioned in the profile information, whereas covering these risks is not counted as optimal if no such risk indications were given in the profile information.[493]

It is important to note, when considering the results presented below, that this latter decision-making 'error' (covering a risk that it is not necessary to cover) should be carefully interpreted, since these results are based on the particular experimental setting. It is important to acknowledge that it could be argued that flood and vandalism risks may still be relevant for respondents irrespective of the information given at the profile stage.

Overall decision-making at the profile stage

Overall, respondents had substantial difficulties at this stage of the choice task. On

[487] Participants in Italy were more inclined to find a glossary useful than those in other countries, whereas Romanian respondents were at the opposite end feeling that it would be time consuming to read through this type of document, and that the information already existed at the end of contracts. Across the other countries, views were more mixed; some felt that a glossary would be helpful for providing information on home insurance, but somewhat less useful for car rental insurance, or motor insurance.

[488] As explained in section 2.4.3, in the experiment each respondent was assigned to a specific purchasing scenario, in which they were either shopping for home contents, comprehensive motor, car rental, or add-on insurance.

[489] The profile information informed the respondent about the location of their home if they were assigned to home insurance, or where they park their vehicle if they were assigned to motor insurance. This location/parking information was clearly linked to the presence of a high-consequence risk (e.g flooding or vandalism). The profile information additionally provided some other characteristics relating to their home or vehicle. The precise wording can be seen in the experiment script annex.

[490] The presence of the high-consequence risk was clearly mentioned in the profile information for the relevant group of respondents.

[491] We quote all prices in German/Italian Euro. Prices in other countries were adjusted to local currencies and purchasing power.

[492] The financial situation was measured through a pre-experiment survey question and assessed whether respondents could cover an unexpected bill of €500 which corresponds to the highest possible excess in the choice task. Selecting an excess that is as high as possible can usually be considered optimal as it commonly decreases the insurance premium and thus allows for savings in the long run. Furthermore, it increases the amount of loss that the insured person must cover themselves which, motivated by moral hazard, should help reduce the likelihood and severity of claims.

[493] Respondents were randomly split into two groups, for the first group, the high-consequence risk was present and mentioned clearly as such in the profile information. For the second group, the profile information was written such that the same risks were not present.

average and across all Member States and both types of insurance, only one fifth (21%) of respondents managed to correctly select both the excess level and risk coverage at the profile stage (see Table 54).

The most common error by respondents was choosing **too low an excess**. On average across all countries and both home and motor insurance **59% chose an excess that is too low** (see Table 54). This choice pattern was consistent across all Member States, and roughly equivalent across home and motor insurance. The tendency to choose too low an excess is in line with the literature and other empirical findings on consumer behaviour in the non-life insurance sector.[494]

Several potential explanations exist from a behavioural economics perspective. Firstly, it has been suggested that consumers have preferences for full insurance due to the fear of feeling regret in case of a claim.[495] Similarly, choosing too low an excess could be driven by present bias if consumers are reluctant to commit to the payment of a large up-front payment in case of a claim (i.e. the excess) in compensation for small, regular savings on the premium. Furthermore, this is also in line with research showing that individuals underestimate the possible premium savings through choosing higher excess levels.[496] Finally, individuals may overestimate the probability of a claim during the purchasing process and thus opt for a lower excess level than is reasonably necessary.

With respect to policy remedies, this result suggests a need to make consumers more aware of the benefits associated with selecting a higher excess, in terms of premium savings, and encouraging them to properly consider these benefits in light of their financial means and ability to bear some losses themselves in the event of a claim. Furthermore, to help individuals assess the actual probabilities of the materialisation of specific risks and so the likelihood of having to cover a specific excess, probabilities might be communicated more effectively using vivid descriptions and comparisons and examples instead of mere numbers and percentages.[497] In terms of risk coverage, a large proportion of respondents chose to cover the high-impact risk, even when it was not strictly necessary (see Table 54), although as noted above it is difficult to make normative statements on what appears to be a choice to over-insure.[498] This tendency to over-insure could be driven by similar behavioural drivers as the decisions to choose too low excess levels (e.g. underestimation of associated premium savings, fear of regret, see also section 4.2.2 for an overview of behavioural biases), as well as by motives related to **peace of mind**.

More importantly, **11%[499] failed to select risk coverage when they should have done so**. This is a substantial share of individuals risking serious financial consequences in case of damage. In addition to underestimating the likelihood and (financial) consequences of the adverse event, underinsurance can be driven by the behavioural biases of narrow framing and selective attention which, for example, may cause

[494] See Pashigian et al. (1966) 'The Selection of an Optimal Deductible for a Given Insurance Policy', The Journal of Business for a seminal examination of excess choices for motor insurance.

[495] Braun and Muermann (2004) 'The Impact of Regret on the Demand for Insurance', Journal of Risk and Insurance; Thaler (1980) 'Toward a positive theory of consumer choice', Journal of Economic Behavior and Organization.

[496] Shapira and Venezia (2008) 'On the preference for full-coverage policies: Why do people buy too much insurance?', Journal of Economic Psychology.

[497] See Kunreuther (2015) 'The Role of Insurance in Reducing Losses from Extreme Events: The Need for Public–Private Partnerships' in The Geneva Papers for a discussion of studies discussing the effective communication of probabilities in insurance contexts.

[498] Damages from natural water or vandalism could arise even if these risks are not clearly present, thus it could well be rational to purchase high-impact risk cover if it is offered for a reasonable price, as in this experiment.

[499] The share (12%) is the percentage among all respondents. It is even as large as 21% among respondents who **needed to cover the risk**.

individuals to recognise the importance of cover against natural catastrophes only if such damages are reported in the news.[500] It is, however, unlikely that this is the only driver of this choice behaviour since the profile information specifically mentioned the presence of flood (or vandalism) risk.

While respondents' performance at the profile stage is roughly equivalent across home and motor insurance in most countries, there is a difference in performance between the two products in the UK. This seems to be driven by the fact that, despite the mention of acts of vandalism in the profile information, respondents in the UK were significantly less likely to select vandalism cover compared to other Member States. This finding might be linked to the fact that the most frequently chosen insurance cover in the UK is the comprehensive motor insurance which commonly covers acts of vandalism. The average UK consumer would thus expect this cover to be included by default and not feel a need to actively select it.

Table 54: Key choices and choice optimality at profile stage, by country and overall (%)

	DE	IT	RO	SK	SE	UK	Total
Fully optimal choice (correct excess & coverage)							
Home & Motor	21.9	19.2	23.4	21.6	22.6	22.1	21.4
Home only	21.1	19.8	22.1	21.2	24.4	25.8	22.3
Motor only	22.7	18.6	24.6	22	20.8	18.2	20.6
Excess choice: home & motor combined							
Correct excess	36.3	30.8	44.2	39.7	34.6	36.3	35.6
Too high excess	3.3	6.3	8.3	7.6	2.9	4.8	5
Too low excess	60.4	62.9	47.5	52.7	62.5	58.8	59.4
Risk coverage decision: home & motor combined							
Correct coverage	59.5	58.5	53.5	59.6	64.1	59.2	58.9
Incorrectly covered the risk	28.4	33.5	39.2	31.4	24	28	30.3
Incorrectly did not cover the risk	12.1	8.1	7.3	9.0	11.9	12.8	10.8

Note: N=1349 for home and N=1353 for motor insurance respectively.
Source: London Economics analysis of online behavioural experiment data.

Effects of information provision on consumer behaviour at the profile stage

At the profile stage, we tested whether the provision of information explaining technical terms and the interaction of specific contract features with the insurance premium would help improve respondents' choices.[501]

This information was either available via a 'glossary' button at the bottom of the screen which, if clicked, opened an alphabetical list of all terms and explanations. Alternatively, the same information was provided via a targeted 'short guide'. The short guide was presented using '?'-icons that were attached to the terms they explained. Clicking on one of these icons opened a small box containing the explanation.

In order to draw conclusions relating to policy remedies, two key behaviours are examined in respect of these information treatments;

[500] Kunreuther, Pauly (2005) 'Rules rather than discretion: Lessons from Hurricane Katrina', Journal of Risk and Uncertainty.
[501] For details of these treatments see section 5.3 and the annexes document. For example, for excess the information read: "The fixed amount you need to pay when you make any claim. The more you increase your excess, the more your premium should be reduced.")

- Respondents' propensity to use (i.e. view) the information depending on how it is presented, and
- Whether these treatments had an impact on the likelihood that respondents made optimal choices.

While a reasonable proportion of respondents (17%) used the information tools that were provided, these tools did not have a statistically significant effect on optimal choice behaviour at the profile stage.

Nevertheless, an important finding is that respondents were much more inclined to access the information when it was provided via '?'-icons rather than via the glossary button (see Table 55). This is likely due to the fact that the icons were placed more prominently, next to technical terms, whereas the glossary button featured only at the bottom of the page such that the respondent had to scroll down to see and use it.

This is important since it provides insights regarding how useful information should be provided within the purchasing process such that consumers are more likely to engage with the information.

Table 55: Fraction of respondents using the information tools

	All	Home	Motor
Glossary	0.17	0.18	0.15
Short Guide	0.30	0.37	0.25
Difference	0.13***	0.18***	0.10***

Note: N=1816. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online behavioural experiment data.

Effects of personal characteristics on use of the information tools

Furthermore, it may be interesting to establish which types of consumers use information tools. This is because the provision of information may not have an effect if the only consumers who read the information are those who are already well informed. To investigate this, we analyse the determinants of tool use through a regression analysis (see the note on the analysis methodology in section 5.3 for details of the explanatory variables).

Information tool use varies with the socio-demographic characteristics of respondents, as shown in the regression analysis presented in Table 56. For example, tool use was unrelated to educational attainment in its own right, but effects related to education were captured by cognitive ability and by how 'insurance savvy'[502] individuals are (for a definition of this variable see the note on the analysis methodology in section 5.3), characteristics that are strongly linked to educational attainment. Individuals with higher cognitive ability and those who are more insurance savvy used the tools significantly more.

Therefore, it is possible that information tools may increase the divide between more and less informed consumers, if only those who are already well informed use the tools. Future research should investigate ways to encourage less well-informed consumers to engage with information on insurance products.

The information document testing conducted in 2016 for EIOPA[503] is helpful in this regard. As part of this research focus groups were carried out with consumers with low

[502] Insurance savvy is measured using post-experiment comprehension and awareness questions regarding general understanding of insurance language, risk coverage, obligations and premium setting.
[503] London Economics (2016).

financial literacy and education.[504] This study identified several aspects of information provision that are likely to encourage engagement with the information in particular among those with low financial literacy/education:

- Repeated, colourful, intuitive symbols; specifically, using traffic light coloured ticks, crosses and exclamation marks as bullet points to signify risks covered, not covered, or subject to restrictions.

  "It is good to have what is not included in red. That is really good. This is what the crosses and the exclamation marks are about. I like these symbols." (low literacy/education group, discussing motor insurance, Hamburg)

  "I prefer all the ticks repeated, that way you don't forget what you're reading and you know which are the good and the bad sections" (low literacy/education group, discussing private health insurance, Madrid).

- Engaging, familiar icons to indicate the subject matter of section of the document.

  "My phone is full of apps, these symbols are similar and feel familiar." (low literacy/education group, discussing household insurance, London)

  "It is interesting as well. Having the icons on the PID. The icons are more complex, but everybody looks at icons. If you look at the icon, you know what is going on before you read all the text." (low literacy/education, discussing motor insurance, Hamburg)

  "I find the icons more interesting. When you see all this text you think: oh no, put this aside. But the icons look good. They appeal more to me." (low literacy/education, discussing motor insurance, Bucharest)

- Colour, to attract attention

  "My favourite PID is the one with the ticks (PID 2), but it should have the header of this one (PID 3). There needs to be some colour to attract attention." (low literacy/education group, discussing household insurance, Bucharest)

  "I really like the blue colour, it looks nicer and gives you a better impression. But I don't like that the "money" issue is in white, like it's not important." (low literacy/education group, discussing private health insurance, Madrid)

Respondents across all Member States showed similar behaviour except for those from Romania who were significantly more inclined to use the tools.[505] This may potentially be driven by the fact that the Romanian insurance industry is less developed compared to the other markets.[506] It could be that individuals were more inquisitive regarding the information tools due to being less experienced with home and motor insurance. Finally, older age groups tended to use the tools less often compared to younger groups.

Table 56: Linear and logit regressions for use of information tools at profile stage

Dependent variable: Information tool use at profile stage	Linear regression	Logit model
Education: Medium	0.0428	0.305
	(1.07)	(1.05)
Education: High	0.0648	0.428
	(1.47)	(1.42)

[504] Separate focus groups were also conducted with consumers with high financial literacy and education.
[505] This finding results from the country fixed effects which were included as other control variables. These effects are not shown in the abbreviated table, but are accounted for.
[506] The Romanian market scored low in terms of insurance maturity, medium in density and low in digitalisation (see country selection in section 1.1).

Cognitive ability: Medium	0.0797**	0.568**
	(2.31)	(2.24)
Cognitive ability: High	0.120**	0.785**
	(2.41)	(2.51)
Insurance savvy: Medium	0.0779**	0.518**
	(2.23)	(2.13)
Insurance savvy: High	0.0350	0.274
	(0.90)	(1.01)
Risk aversion: Risk neutral	0.0364	0.197
	(1.03)	(0.99)
Risk aversion: Risk seeking	0.0127	0.0637
	(0.45)	(0.38)
Trust: Neither trusting nor mistrusting	-0.187	-0.931
	(-1.20)	(-1.37)
Trust: Rather mistrusting	-0.176	-0.864
	(-1.14)	(-1.29)
Trust: Don't know	-0.0978*	-0.915
	(-1.66)	(-1.36)
Baseline use	0.339**	-0.981
	(2.01)	(-1.19)
Other controls included in regressions:	Country fixed effects, gender, age, financial decision making in household, financial situation, living situation	
Number of respondents	1668	1668

Notes: Analysis for home and motor insurance pooled together. The shown estimations use the following reference groups which were omitted from the estimations: Low education, low cognitive ability, low insurance savvy, risk aversion, rather trusting. The shown estimation coefficients should be interpreted compared to these reference groups. The coefficients of the linear regression model are approximations of the difference in the likelihood of tool use, i.e. a coefficient of 0.05 would stand for roughly a 5% increase in the likelihood of tool use due to the specific control variable. The coefficients of the logit model do not have an interpretation as such, they are included to assess the robustness of the linear regression allowing for non-linearity in the econometric model (see section 5.3 for further information on the regression analyses). Standard error in parentheses, */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online behavioural experiment data.

5.2.2. Display of an upfront offer (car rental and add-on insurance): 'Initial offer stage'

Rather than consumers specifying their requirements and preferences, when choosing and purchasing rental and add-on insurance the first step in the process often involves being presented with an upfront offer that can be either accepted or declined, and there is evidence (e.g. from the focus groups) that at this point consumers feel under pressure in their decision-making and/or don't realise that alternative insurance is available. The 'initial offer stage' of the contract choice task in the experiment simulated this scenario, making it possible to explore consumer behaviour and the impacts of treatments representing pressure sales practices versus the remedy of eliminating these practices. Additional relevant insights are provided by the focus groups. Detailed results from the experiment are presented in Box 37 and the evidence from the focus groups is in Box 38. The main findings emerging from this evidence are as follows:

- Although most experiment respondents compared alternative offers, there was still a strong tendency to accept the insurance offer that was shown first up front, which regularly led to choosing an overpriced insurance policy. Behavioural biases potentially behind this decision-making include default bias or simply perceiving the insurance shown upfront as a recommendation. Combined with findings of other studies that consumers are unlikely to compare offers unless alternatives

are easily accessible[507] and focus group findings that consumers are often unaware that they can compare the market, important implications in terms of policy remedies are that consumers would benefit if the availability of alternatives was more transparent during the sales process.

- One of the strongest results overall from the experiment is that when put under time pressure, a proxy for sales pressure, consumers were significantly less likely to choose optimally at the initial stage (down from 84% to 51%), driven by more consumers accepting the offer shown and fewer choosing to see alternative offers. From a policy perspective, this implies that remedies to mitigate the effects of pressure and pressure selling practices are especially important. As noted above, examples of such remedies include rules against these practices and altering the purchasing process so consumers can reconsider their choices, e.g. cooling off periods.
- The finding above is supported by the focus group evidence, which shows that feeling under pressure during the purchasing process is seen as a problem by consumers. Participants often felt that sales staff tend to overemphasise possible risks as well as the benefits of the insurance and that this, along with having limited time to decide, can lead consumers towards purchasing insurance which they may not need. The focus group participants noted the importance of being able to choose an add-on insurance policy after the purchasing the primary product, to allow sufficient time for them to search and understand relevant information.
- Provision of clear information at the point of sale was seen as important by the focus group participants. In particular, information on what is covered and not covered and obligations. Information should be in plain language and could be provided at the point of sale in the form of posters (in the car rental office) or a short written document (when buying add-on insurance). Regarding car rental insurance, a further potential remedy identified in the focus groups relates to the timing of information; in particular, it would be useful to receive details of the insurance when booking a rental car, before collection.
- Furthermore, for car rental insurance, remedies to overcome potential language issues when hiring a car abroad were proposed, namely receiving information in the consumer's own language and having a contact line in the consumer's own country.
- Having a good understanding of insurance concepts, or the cognitive ability and education to grasp these concepts, were important factors in being able to select an appropriate offer in the experiment, and was found to be important in decision-making across all stages of the experiment (see below). A policy implication of this finding is that remedies to improve financial literacy, *especially* in relation to insurance matters, are likely to improve decision-making and benefit consumers.

Box 37 : Evidence from the behavioural experiment and survey

As in the home and motor insurance setup, respondents assigned to car rental or add-on insurance scenarios were also provided with 'profile information' at the outset of the choice task. This information described the primary product that respondents could subsequently insure (i.e. it briefly described the car rental agreement or the product (a bed) for which they could purchase add-on insurance).

Instead of completing questions about their insurance requirements (the profile stage), respondents were instead shown one specific insurance product at the 'initial offer stage'. Respondents then had three choices: confirm the insurance that was shown, click

[507] Financial Conduct Authority (2014) `Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?' https://www.fca.org.uk/news/occasional-paper-no-3.

to see alternative insurance offers, or proceed without purchasing insurance.

Choosing to compare the market is always counted as optimal (since this meant the respondent could choose the optimal insurance at the (subsequent) comparison stage). Confirming the insurance product shown at the initial stage was optimal only if the offer was 'advantageous' (i.e. not overpriced for limited coverage).[508] Choosing to finish the choice task without purchasing insurance was optimal only if the individual's personal financial situation allows them to bear the potential consequences associated with self-insurance.[509]

Most individuals (71.8% on average across all countries and both insurance products) chose optimally at this stage. As can be seen in Table 57, this was driven by the fact that many individuals (48.4%) chose to compare alternative offers. Others correctly decided to self-insure by choosing to proceed without purchasing insurance. This share was especially high in Sweden (30.3%), which is likely due to the fact that the percentage of affluent respondents (as measured by their self-reported ability to incur an unexpected loss in a preceding survey question) was highest in that Member State (meaning that self-insuring was more often the correct choice in this country).

Table 57: Choices at initial stage, by country and overall (%)

	DE	IT	RO	SK	SE	UK	Total
Optimal choices at initial stage (confirm optimal provider, compare market or self-insure when optimal)							
Car rental & Add-on	68.0	70.2	58.4	66.9	77.2	82.0	71.8
Car rental only	65.8	66.4	54.8	67.4	73.3	81.0	69.3
Add-on only	70.4	74.0	62.1	66.4	80.9	83.0	74.3
Breakdown of choices: car rental & add-on combined							
See alternative offers (optimal)	42.0	51.6	40.1	44.4	40.7	58.3	48.4
Confirm optimal provider	8.6	7.8	5.7	6.3	6.2	5.8	7.3
Chose not to purchase insurance when optimal to do so	17.4	10.8	12.6	16.1	30.3	17.9	16.1
Confirm not optimal provider[1]	25.8	27.0	32.7	26.3	18.7	14.2	23.3
Chose not to purchase insurance when should have done so	6.1	2.8	8.9	6.8	4.2	3.8	4.9

Note: N=2702. 1) At the initial stage, one offer was shown, randomly selected out of three. Since there was only one optimal provider, more respondents saw a suboptimal offer upfront than saw an optimal one. As a natural consequence the shares confirming not optimal providers were higher than those confirming optimal providers.
Source: London Economics analysis of online behavioural experiment data.

Between 2.8% (in Italy) and 8.9% (Romania) decided not to purchase insurance despite being in a tight financial situation.[510] This was not optimal, since without insurance these individuals would risk having to cover a liability up to €500 in case of a claim, which would be difficult for them.

[508] Which specific offer was shown up front was randomised across participants, in most cases the insurance offer shown upfront in the car rental and add-on setup was overpriced (for around five in six respondents), while in some cases an advantageous offer was shown (for around one in six respondents). Advantageous means a roughly actuarially fair price, which is proxied by roughly the best price found in the real market for the respective product and coverage. See the annexes document for further detail.

[509] Each respondent's financial situation was measured through a survey question which assessed whether they could cover an unexpected bill of €500, which corresponds to the maximum liability that was mentioned in the car rental agreement, or to the value of the product for which they could purchase add-on insurance (a bed). Respondents who indicated that they could cover such a bill, could therefore also self-insure against the risks associated with the car rental, or the purchase of the bed.

[510] A 'tight' financial situation is defined as having difficulties to cover an unexpected bill of €500. This was assessed through a pre-experiment survey question.

The most common mistake, however, was to confirm the insurance that was shown up front without comparing, which often led to choosing an overpriced offer. This behaviour could have been driven by default bias, which causes individuals to remain with the status quo (i.e. presenting a single insurance upfront may have caused this insurance to become the respondent's default/status quo).[511] The insurance that was shown up-front could also have been perceived as a recommendation, or as the only product available in conjunction with the primary product.

This finding is in line with other evidence. A previous study into the add-on insurance market showed that individuals are unlikely to compare the market unless alternatives are easily accessible.[512] In addition, according to findings from the focus groups, consumers are often unaware of the possibility to compare the market for car rental and add-on insurance. It is thus possible that respondents did not even realise the availability of alternative offers, in particular, if the attention they paid to the task was limited.[513]

Effects of time pressure and low-prominence of alternatives on consumer behaviour at the initial stage

Findings from the focus groups suggest that consumers often feel pressure during the purchasing process for car rental or add-on insurance. This pressure most often comes in the form of time pressure (e.g. at car rental agencies due to onward travel commitments), or can be induced by sales techniques of ancillary sellers. Furthermore, many consumers do not seem to be aware of the possibility to shop around for products such as furniture or car rental insurance, and add-on insurance is often prominently presented alongside the main product whereas the option not to purchase insurance is 'hidden away'.

To test these potentially harmful market practices, two treatments were introduced at the initial stage of the choice task. The first treatment simulated time pressure or pressure inducing sales practices of ancillary sellers by giving individuals limited time to review information and choose at the initial stage. The second treatment prominently placed the option to confirm the insurance on offer while giving less prominence to the options to 'See alternative offers' and 'Proceed without purchasing insurance'.

The baseline treatment remedied both potentially harmful practices by eliminating time pressure and by showing all choice possibilities, including the option to compare the market, with similar prominence as the promoted (up-front) offer.

Table 58: Fraction of respondents choosing optimally at initial stage, by treatment and product type

	All	Car rental	Add-on
Baseline	**0.84**	**0.81**	**0.87**
Pressure	0.51	0.44	0.57
Difference to baseline	-0.33***	-0.37***	-0.30***
Low prominence	0.8	0.79	0.81
Difference to baseline	-0.03	-0.01	-0.06*

Note: N=2702. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the

[511] This bias is also known as the 'status quo bias', see section 4.2.2. Johnson and Goldstein (2003) 'Do defaults save lives?', Science; Kahneman, Knetsch, Thaler (1990) 'Experimental Tests of the Endowment Effect and the Coase Theorem', Journal of Political Economy; Kahneman, Knetsch, Thaler (1991) 'Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias', Journal of Economic Perspectives.

[512] Financial Conduct Authority (2014) `Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?', https://www.fca.org.uk/news/occasional-paper-no-3.

[513] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.

90%/95%/99% confidence level.

Source: London Economics analysis of online data of behavioural experiment.

A key finding, which can be seen from Table 58, is that respondents were significantly less likely to choose optimally if they were put under time pressure. Only half (51%) of respondents chose optimally under the pressure condition on average across both types of insurance, compared to over four-fifths (84%) under the baseline condition without pressure. This was driven by the fact that significantly less individuals chose to see alternative offers under time pressure, but instead confirmed the offer shown.[514]

Whether the options other than to confirm the insurance shown upfront (i.e. to compare products or to not purchase insurance at all) were visually prominent or less prominent was less influential on choices in the experiment. Only participants in the add-on insurance environment were significantly less likely to choose optimally in the 'low prominence' condition. In contrast to behaviour under time pressure, on average across both types of insurance the proportions that decided to view the alternative offers were in fact very similar under the baseline and low prominence conditions.

This suggests that when not under pressure consumers can largely overcome marketing practices that give low prominence to particular alternatives, which is in line with the idea from the behavioural literature that people use 'system 1' or 'system 2' thinking depending on the situation.[515] When using system 2, individuals see choices for what they are irrespective of framing factors, such as the prominence of options. The time pressure applied in the pressure treatment may have driven consumers to use the more intuitive system 1. The experiment did not test whether these two types of marketing practice might interact (i.e. where one accentuates the effect of the other), but the theory of system 1 versus system 2 thinking suggests that this may be the case.

The same effects are also in line with the literature on the economics of **scarcity**. Time scarcity, similar to poverty and hunger, has been shown to significantly deter the quality of decision-making.[516]

Controlling for socio-demographic characteristics

The treatment effect of the pressure treatment is robust to the inclusion of a number of socio-demographic control variables in a multivariate regression (see Table 59). The effect of the low prominence treatment, conversely, loses its significance once other factors are included in the analysis (for details of the regression analysis undertaken see the note on the analysis methodology in section 5.3). Therefore we find that this treatment was not influential with regards to the baseline treatment.

Many socio-demographic characteristics remain insignificant in the regression analyses below which suggest that performance at this stage is relatively constant across different groups of participants. Yet, it is worth noting that cognitive ability and insurance savviness seem to be significant drivers of optimal choice behaviour for example for add-on insurance. Furthermore, an F-test of joint significance of education, cognitive ability and insurance savviness shows that these factors jointly impact the likelihood of choosing optimally, across products.[517] Thus, having a good understanding of insurance

[514] 60% chose to see alternatives under the baseline condition, 25% under time pressure, and 60% in the low-prominence condition. The difference between the baseline and the pressure treatment is highly statistically significant.

[515] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.

[516] Mani, Mullainathan, Shafir, Zhao (2013) 'Poverty Impedes Cognitive Function', Science. Shah, Mullainathan, Shafir (2015) 'Scarcity Frames Value', Psychological Science.

[517] These characteristics are highly correlated with each other such that overall effect of 'education', 'cognitive ability', or 'insurance savvy' may be captured by the respective other characteristics, and thus this group of controls only jointly shows as statistically significant.

concepts, or the cognitive capacities and education to grasp insurance matters easily, are important ingredients to being able to select an appropriate offer.

Table 59: Linear and logit regressions for optimal choice at initial stage controlling for treatment effects and socio-demographic characteristics

Dependent variable: Optimal choice at initial stage	Linear regression			Logit model		
	All	Car rental	Add-on	All	Car rental	Add-on
Initial stage: Time pressure	-0.345***	-0.379***	-0.327***	-1.850***	-1.888***	-2.062***
	(-13.16)	(-9.49)	(-9.59)	(-11.97)	(-8.44)	(-8.49)
Initial stage: Low prominence of alternatives	-0.0339	-0.0298	-0.0333	-0.266	-0.195	-0.396
	(-1.51)	(-0.87)	(-1.15)	(-1.58)	(-0.85)	(-1.53)
Education: High	0.0496	0.0104	0.0729	0.309	0.0719	0.485
	(1.14)	(0.16)	(1.24)	(1.27)	(0.20)	(1.41)
Education: Medium	0.0282	-0.0296	0.0689	0.151	-0.167	0.406
	(0.67)	(-0.48)	(1.23)	(0.65)	(-0.50)	(1.25)
Cognitive ability: Medium	0.0542*	0.0819*	0.0114	0.336*	0.480**	0.0994
	(1.72)	(1.86)	(0.26)	(1.91)	(1.98)	(0.36)
Cognitive ability: High	0.00620	0.0141	-0.00130	0.0445	0.0753	0.0331
	(0.15)	(0.24)	(-0.02)	(0.19)	(0.24)	(0.09)
Insurance savvy: Medium	0.0379	-0.0481	0.115***	0.195	-0.265	0.671***
	(1.32)	(-1.05)	(3.10)	(1.21)	(-1.05)	(3.03)
Insurance savvy: High	0.0545*	0.0356	0.0823**	0.319*	0.209	0.501**
	(1.92)	(0.85)	(2.01)	(1.94)	(0.85)	(2.03)
Risk aversion: Risk neutral	0.0524*	0.0444	0.0413	0.319*	0.248	0.296
	(1.92)	(1.14)	(1.14)	(1.90)	(1.12)	(1.16)
Risk aversion: Risk seeking	0.0427*	0.0600*	0.0151	0.255*	0.349*	0.118
	(1.83)	(1.77)	(0.49)	(1.83)	(1.75)	(0.60)
Trust: Neither trusting nor mistrusting	-0.0818	-0.161	-0.00777	-0.505	-0.947	-0.0214
	(-1.12)	(-1.61)	(-0.07)	(-0.94)	(-1.31)	(-0.02)
Trust: Rather mistrusting	-0.0753	-0.150	-0.0113	-0.466	-0.878	-0.0539
	(-1.05)	(-1.52)	(-0.10)	(-0.88)	(-1.23)	(-0.06)
Trust: Don't know	0.0263	0.0715	-0.0398	0.119	0.401	-0.415
	(0.38)	(0.85)	(-0.35)	(0.28)	(0.75)	(-0.61)
Baseline	0.855***	0.916***	0.832***	1.978***	2.223**	2.003**
	(8.67)	(6.61)	(5.99)	(3.02)	(2.45)	(2.03)
Other controls included in regressions:	Country fixed effects, gender, age, financial decision making in household, financial situation, living situation					
Number of respondents	2541	1274	1267	2541	1274	1267

Note: The shown estimations use the following reference groups which were omitted from the estimations: Baseline treatment (i.e. no time pressure and equal prominence of alternative choices), low education, low cognitive ability, low insurance savvy, risk aversion, rather trusting. The shown estimation coefficients should be interpreted compared to these reference groups. The coefficients of the linear regression model are approximations of the difference in the likelihood of choosing optimally at the initial stage, i.e. a coefficient of 0.05 would stand for roughly a 5% increase in the likelihood of choosing optimally. The coefficients of the logit model do not have an interpretation as such, they are included to assess the robustness of the linear regression allowing for non-linearity in the econometric model (see section 5.3 for further information on the regression analyses). Standard error in parentheses, */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online behavioural experiment data.

We undertook further exploratory regression analyses in order to look for characteristics

that interact with the various treatments applied in the experiment (i.e. characteristics that accentuate or diminish the treatment effects). This involved including interaction terms between personal characteristics and the treatment variables in regressions of performance in the experiment (for further explanation see section 5.3).[518] Interestingly, most of the negative effects of pressure and low prominence of certain options are not statistically significant for individuals with low education (see Table 60).

It seems that time pressure lowers the performance of more educated consumers down to the level of the less educated. As can be seen from the table below, in the baseline (without time pressure) individuals with higher education outperform individuals with low education. However, the pressure treatment had no statistically significant effect on the performance of respondents with low education, but lowered the performance of those with medium and high education significantly.

A potential reason for this is that consumers with higher education can apply their ability when they are given time to do so, but not when under substantial (time) pressure. This could again be related to system 1 and system 2 thinking.[519] When given enough time to activate the deliberative system 2 thinking, highly educated individuals perform significantly better than those with lower education. Whereas, when under pressure, all consumers can only rely on the intuitive system 1 thinking and perform similarly.

Table 60: Fraction of respondents choosing optimally by educational attainment at initial stage, by treatment and product type

	Low education			Medium and high education		
	All	Car rental	Add-on	All	Car rental	Add-on
Baseline	0.64	0.58	0.73	0.86	0.84	0.89
Pressure	0.53	0.58	0.47	0.51	0.42	0.58
Difference to baseline	-0.12	0.01	-0.27*	-0.36***	-0.43***	-0.31***
Low prominence	0.76	0.75	0.77	0.81	0.8	0.82
Difference to baseline	0.11	0.17	0.04	-0.06**	-0.05	-0.07**

Note: Number of respondents with low education included in this table: 207. Number of respondents with medium and high education included in this analysis: 2495. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online data of behavioural experiment.

Another personal characteristic that seems to accentuate the effect of the pressure treatment is trust.[520] While treatment effect sizes are in line with the overall population for individuals displaying medium to high trust levels, the negative effects of the time pressure treatment are larger for those who are generally *less trusting*. This finding is, however, based on a very small sample of individuals that display low trust, so we do not report these results or interpret them any further.

It is important to highlight that the experiment design for this study took on board the findings from previous studies, such as from the recent behavioural experiment

[518] The results of this are not presented here due to the very large volume of results produced and since many of these results are not statistically significant and therefore not informative. However where, through this regression analysis, we find interesting interactions between the treatments and respondents' personal characteristics these are presented.
[519] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.
[520] Trust is measured through an indicator which summarises trust in the insurance sector as well as in people in general. See section 5.3 for further explanation.

commissioned by the UK Financial Conduct Authority on behaviour in the add-on insurance market.[521] That study found that it is important to make alternative offers easily accessible, otherwise consumers fail to compare the market and end up making suboptimal choices. This present study therefore extends the findings by showing that it is moreover important to eliminate factors which could induce pressure on consumers.

Box 38 : Evidence from the focus groups

Car rental insurance and add-on insurance

For car rental insurance and add-on insurance, some participants noted that it would be good that "**clear" information is available at the point-of-sale** (e.g. in the format of posters in the car rental office, or a short written document about what is covered, and what is not covered, when buying add-on insurance); this should allow consumers to "know what they are buying". Other remedies that were volunteered for car rental insurance included: more information available when booking a rental car (before travelling), information that is available in one's own language (when renting a car abroad) and a personal contact/hotline in one's own country.

Opinions with regards to which of the suggested remedies would be most helpful when purchasing **car rental insurance** varied:

- Participants in Italy and the UK believed that it would be useful to receive the details about the insurance prior to picking up the car. Generally, participants did not want to spend too much time looking at information about insurance, and having to make on-the-spot decisions at the moment when they were hiring a car:

  "If you're hiring something you're there to hire it and go, you're not there to spend time going through points and clauses" (Woman, 25, higher education, London).

Other possible remedies which could help consumer decision-making with regards to car rental insurance were suggested spontaneously by participants:

- Receiving more information when hiring a car (before travelling) on what is covered by basic and by additional insurance;
- Being able to choose in terms of excess levels;
- Receiving clear information on the risks covered and those not covered;
- Receiving information in the customers' language, if renting a car abroad;
- Having a person of contact/hotline in one's country, in case a claim needs to be filed;
- Not being pressured by sales staff;
- Receiving information in plain language; and
- Using visual tools and diagrams which make it easy to identify the risks covered and those not covered (this aspect was mainly brought up in Italy).

Suggested remedies to help consumers purchase **add-on insurance** were, to some extent, similar to those which applied to car rental insurance. Most participants would appreciate a more transparent process, with clear information at the point of sale (if possible, written), along with explanations from sales staff. The key aspects which would

[521] Financial Conduct Authority (2014) `Occasional Paper No. 3: How does selling insurance as an add-on affect consumer decisions?', https://www.fca.org.uk/news/occasional-paper-no-3.

need clarifying are the risks covered, the risks not covered, the amount that could be claimed, as well as the obligations (e.g. type of proof to be provided when filing a claim). Some participants also flagged the importance of not being pressured by sales staff, and being able to select an insurance after the product was purchased (in order to allow sufficient time for people to search and understand the information).

In Sweden, for both car rental insurance and add-on insurance, participants also suggested that it would be useful if people were asked what type of risks are already covered by home insurance, before being sold add-on insurance.

The remedies identified by focus group participants for improving the consumer decision-making process when purchasing **travel insurance** can be summarised as following:

- Clear explanations about risks covered, sum insured, proof required (e.g. medical certificates)
- Clear explanations about risks not covered (e.g. different types of illnesses, pre-existing diseases, psychological reasons – in the case of travel cancellations (Germany)
- Being aware of what is covered by one's home insurance and by paying by credit card (specifically emphasised in Sweden)
- Being able to choose from different packages, in case one is only interested in covering a certain type of risk, as for example lost luggage (Slovakia).

5.2.3. Comparing offers and selecting an insurance (all products): 'Comparison' stage

Consumers' ability to compare and assess alternative offers when these are presented together to the consumer is a crucial part of selecting the right insurance contract. During the behavioural experiment the 'comparison stage' replicated this element of the purchasing process by presenting respondents with a choice similar to that they would face if on a comparison website. This allowed us to investigate their behaviour at this stage and to test a number of potential remedies, including information provision, timing and highlighting of information, and allowing respondents to manipulate their chosen excess and risks covered/not covered. The focus groups also provided evidence regarding the importance and effectiveness of remedies at this stage in the purchasing process from the perspective of consumers. The evidence is presented in detail in the boxes below (Box 39 contains results from the experiment). The key findings are as follows:

- In the home and motor experiment a substantial share of respondents (15.3%) chose not to purchase insurance at all, meaning that they remained without cover which could leave them exposed to considerable financial consequences. Behavioural factors that may cause such behaviour include difficulty in assessing the probability and expected value of a claim 'waste aversion' bias, and overconfidence. Implications in terms of policy remedies are that it is important to be wary that consumers are not underinsuring in this way.
- Experiment respondents were substantially more likely to use the short guide than the glossary (by 17% to 5%). Thus, at this stage, as at the profile stage, consumers are much more likely to access and view information if it is provided prominently in small portions, the implication being that it is important to provide information in such a way.
- 'Insurance savviness' was particularly important for optimal decision-making at the comparison stage. This is in line with an equivalent finding (noted above) for the initial offer stage, and implies that remedies to improve financial literacy *in*

particular with respect to insurance are likely to improve decision-making and outcomes for consumers.[522]

- Giving consumers the opportunity to change the parameters of their choice during comparison stage of the experiment was very effective, when consumers made use of this. This was particularly the case for allowing respondents to change their chosen excess level (and to see the impact of this change on price). This effect was driven by individuals' increasing the excess to appropriate levels given their financial means, leading to savings on the premium. Hence, consumers should be given ample opportunity in the purchasing process to alter their chosen excess and the interaction between these variables and price should be actively demonstrated. Furthermore, the possibility to modify the excess, whenever this is given, should be very clearly indicated.
- Although a substantial share of respondents failed to insure high-impact risks even when it was important to do so, consumers were significantly more likely to do so if the option to manipulate this parameter was available to them at the comparison stage and they exploited this opportunity. Implications with respect to policy remedies are that the option to select high-impact risk coverage should be clearly indicated throughout the purchasing process and consumers should be able to modify their decisions at more than one stage.
- Related to the two points above, the most significant barrier to improving consumer decision-making through use of the 'manipulation tool' is to increase the share of consumers who use it when it is available. Hence, in terms of policy remedies an implication is that consumers need to be encouraged to use such tools.
- Among the remedies discussed in the focus groups, comparison tools rank among the most effective according to participants, who believe such tools can help them to compare offers and take informed decisions. However, a number of concerns and suggestions for improvements were raised. In particular, comparison tools should be independent and comprehensive (echoing views expressed in the interviews), while allowing for 'complex comparisons' using standardised methods and terminology, with the costs of different options clearly shown.
- Product information document features that performed best, in terms of helping consumers to understand and use the document correctly, during testing in another study for EIOPA include: using two columns to present text; separating the different sections of the document (e.g. risks covered, not covered etc.) into individual boxes; using an icon to indicate what each section of the document is about (e.g. an exclamation mark to indicate a section on restrictions and exclusions); using traffic light coloured ticks, crosses and exclamation marks as bullets to indicate risks covered, not covered, or subject to restrictions; and a large blue title header.

Box 39 : Evidence from the behavioural experiment and survey

All respondents in the home and motor insurance scenarios reached a comparison stage after the profile stage. Respondents in the car rental and add-on insurance scenarios also reached this stage if they chose to see alternative offers at the initial stage.

The comparison stage showed respondents insurance offers from different providers. The offers differed in terms of the risks they covered as well as in price. At this stage, they could choose to proceed with one of the offers, or proceed without purchasing insurance.

We evaluate the optimality of decision-making at this stage *in isolation from choices at*

[522] In this regard, the Latvian Insurer's Association highlighted that their initiative with schools and universities had had satisfactory results, as teachers and lecturers wished to continue using the material in their education programme.

other stages, based entirely on provider choice and the decision to purchase insurance or not. This means we take as given any choices taken at previous stages (i.e. the profile or initial stage, see section 5.2.1 and 5.2.2).[523] The reason for analysing optimal choice behaviour in isolation at each stage is that it allows us to look in detail at the effects of treatments applied at a particular stage.

In the home and motor insurance setting, it was optimal to purchase insurance and to do so from a particular provider who had the best offer in terms of risk coverage and price.

In the car rental and add-on setup, affluent respondents could always choose to self-insure. Otherwise, it was optimal for all respondents (whether affluent or not) to buy insurance if an 'advantageous'[524] product was on offer. Such an advantageous insurance was offered, or not, depending on the experimental condition. If no reasonably priced product was offered, it was optimal to self-insure for both affluent respondents and those in a tight financial situation.

Some respondents in the home and motor scenarios, depending on their treatment group, could also 'manipulate' their chosen excess and covered risks at this stage and see the consequent change in the premium at this stage. The effects of this 'manipulation treatment' are analysed separately to respondents' provider choices, in a separate subsection below.

Overall decision-making (choice of provider) at the comparison stage

On average across products and Member States, around four in ten (37.5%) respondents chose optimally at this stage (Table 61). This share was roughly constant across countries, but varied across products. Participants performed better in the car rental and add-on insurance setups (47.5% and 52.8% chose optimally respectively) compared to those in the home and motor insurance scenarios (37.5% and 30.8%). This difference was driven by the fact that it was sometimes optimal to not purchase insurance in the car rental and add-on setup, while this was never an optimal choice in the home and motor setting.

Overall, the most common mistake was choosing a suboptimal provider (53.1% made this mistake across the home and motor insurance scenarios, and 47.5% in the car rental and add-on insurance scenarios).

A sizable share of respondents in the home and motor setting, 15.3%, decided not to purchase insurance at all. This means that these individuals choose to remain without cover for their home contents, or without comprehensive motor insurance, which could leave them exposed to substantial financial consequences if damages were to occur.

This underinsurance could be driven by various factors identified in the behavioural economics literature. Firstly, consumers have difficulty in assessing the probability and expected value of a claim.[525] This may imply that individuals do not realise the importance of the insurance and so remain exposed to the risks. Another possible explanation is 'waste aversion'[526], a bias that means individuals tend to stop purchasing insurance if a claim has not occurred in the past, because they feel they have 'wasted'

[523] For example, if respondents in the home and motor scenarios selected suboptimal risk coverage and excess level at the previous stage, they could still choose optimally at the comparison stage.
[524] Advantageous means a roughly actuarially fair price, which is proxied by roughly the best price found in the real market for the respective product and coverage. See the annexes document for further detail.
[525] Tversky and Kahnemann (1992) `Advances in prospect theory: Cumulative representation of uncertainty', Journal of Risk and Uncertainty, Volume 5, Issue 4; Kunreuther, Pauly (2014) 'Behavioral Economics and Insurance: Principles and Solutions', Risk Management and Decision Processes Center, Working Paper.
[526] de Meza and Diane Reyniers (2015) `Evidence that waste aversion begets insurance aversion', Economics Letters 126.

the previous premium payments. Furthermore, and particularly relevant to underinsurance of vehicles, is the concept of overconfidence.[527] Individuals may believe they are better drivers than they actually are and therefore purchase too little (or zero) coverage. This type of underinsurance was less prevalent in the car rental and add-on environment, with only around 2.5% incorrectly choosing not to purchase insurance at this stage.

Table 61: Choices at comparison stage, by product, country and overall (%)

	DE	IT	RO	SK	SE	UK	Total
Optimal choice (chose optimal provider, or self-insured, when optimal)							
All products	36.9	36.6	34.4	37.4	40.2	39.5	37.5
Home only	33.8	31.7	34.2	25.8	30.1	26.0	30.8
Motor only	26.7	32.9	33.2	41.5	33.4	37.4	32.3
Car rental only	55.2	44.2	14.8	47.0	53.3	48.8	47.5
Add-on only	49.8	45.9	60.1	43.4	69.2	59.5	52.8
Break down of choices: home and motor combined							
Confirmed an optimal provider	30.3	32.3	33.7	33.7	31.7	31.6	31.6
Confirmed a non-optimal provider	50.4	51.7	53.1	49.8	47.2	59.1	53.1
Decided not to purchase insurance (not optimal)[1]	19.3	16	13.2	16.4	21.1	9.3	15.3
Break down of choices: car rental and add-on combined							
Confirmed an optimal provider	34.5	29.1	25.7	36.3	42.4	34.6	32.9
Confirmed a non-optimal provider	44.6	52.7	62.0	51.6	36.1	43.9	47.5
Decided not to purchase insurance when optimal	18.2	16.0	10.5	9.1	19.0	19.0	17.1
Decided not to purchase insurance when not optimal	2.7	2.2	1.9	3.0	2.6	2.5	2.5

Notes: N=3954, respondents in the car rental and add-on scenarios who selected at earlier stages not to purchase insurance or to confirm the initial offer did not reach this stage which explains the lower sample size compared than the full sample. 1) It was never optimal for respondents in the home and motor scenarios to not purchase insurance.

Source: London Economics analysis of online data of behavioural experiment.

Effects of information provision on behaviour at the comparison stage (all products)

The treatments varying the provision of information tested at the profile stage were also applied at the comparison stage in order to investigate whether this remedy would improve choices. Again, the information was either presented via a 'glossary' button at the bottom of the screen or via a "short guide" using '?'-icons next to technical terms.

We again examine two behaviours in relation to these information treatments, namely respondents' propensity to use (i.e. view) the information depending on how it was presented, and whether these treatments had an impact on the likelihood that respondents made optimal choices.

Table 62 shows that respondents were less likely to access the information using the tools at the comparison stage than at the profile stage (compare the table below with

[527] Svenson (1981) `Are we all less risky and more skilful than our fellow drivers?', Acta Psychologica 47. Odean (1999) `Do Investors Trade Too Much?', The American Economic Review, Vol. 89, No. 5. Barber, Odean (2001) `Boys will be Boys: Gender, Overconfidence, and Common Stock Investment', The Quarterly Journal of Economics; Sandroni and Squintani (2007) `Overconfidence, Insurance, and Paternalism', The American Economic Review, Vol. 97, No. 5.

Table 55 in section 5.2.1). However, the difference in use between the two treatment groups is of a similar magnitude at both the profile and comparison stages. Respondents were around three times more likely to use the short guide than the glossary (17% versus 5%). Hence, at the comparison stage (as at the profile stage) individuals are much more likely to view information if it is provided prominently, and in small portions.

Table 62: Fraction of respondents using the information tool, by tool and product pair at the comparison stage

	All	Home and motor	Car rental and add-on
Glossary	0.05	0.04	0.09
Short Guide	0.17	0.16	0.20
Difference	0.12***	0.12***	0.12***

Note: N=3954. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.

Source: London Economics analysis of online data of behavioural experiment.

However, in line with the findings from the profile stage (section 5.2.1), the information tools had no effect on optimal choice behaviour at the comparison stage (see Table 63). The main reason why the treatment remains without a measurable effect at this stage is that only few respondents clicked on the tools (unless individuals actively viewed the information that was available to them they could not learn from it).

Also, it could be that consumers simply ignored the additional information because of choice overload.[528] Individuals often seek to simplify their choices as much as possible through heuristics, implying that they do not seek additional information as it increases the complexity of the decision and so the effort required. This related to the 'What You See Is All There Is' phenomenon discussed by Kahneman[529], which says that individuals are likely to ignore any information that is not prominently shown as part of a decision.

Rather than being influenced by the information treatment, it appears that the optimality of choices at this stage was affected by socio-demographic characteristics. In particular, insurance savviness was important for optimal decision-making at the comparison stage. This characteristic stands out as being highly statistically significant overall, as well as for motor and add-on insurance in isolation. Other characteristics such as respondents' educational background and cognitive ability are only jointly significant, in conjunction with insurance savviness.[530]

Table 63: Logit regression for optimal choice at comparison stage controlling for treatment effects and socio-demographic characteristics

Dependent variable: Optimal choice at comparison stage	All	Home	Motor	Car rental	Add-on
Information treatment: Glossary	0.129	0.162	-0.0826	0.386	0.244
	(1.21)	(0.82)	(-0.43)	(1.44)	(0.88)
Information treatment: Short Guide	0.152	0.262	-0.0638	0.113	0.244
	(1.40)	(1.30)	(-0.34)	(0.43)	(0.86)
Education: High	0.167	0.0990	0.345	0.355	-0.614
	(0.93)	(0.34)	(1.07)	(0.75)	(-1.18)
Education: Medium	0.0588	0.0287	0.120	0.342	-0.349
	(0.34)	(0.10)	(0.38)	(0.75)	(-0.70)

[528] Iyengar and Lepper (2000) 'When choice is demotivating: Can one desire too much of a good thing?', Journal of Personality and Social Psychology.,
[529] Kahneman (2011) 'Thinking Fast and Slow', published by Farrar, Straus and Giroux.
[530] An F-test of joint significance of the coefficients for education, cognitive ability and insurance savvy was rejected at the 99% level (F=6.24, p=0.000).

Cognitive ability: Medium	0.0985	0.0895	-0.00101	0.111	-0.0725
	(0.73)	(0.33)	(-0.00)	(0.35)	(-0.19)
Cognitive ability: High	0.237	0.576*	-0.0594	0.579	-0.392
	(1.37)	(1.75)	(-0.19)	(1.35)	(-0.80)
Insurance savvy: Medium	0.187	0.222	0.694**	0.415	0.167
	(1.43)	(0.90)	(2.52)	(1.23)	(0.56)
Insurance savvy: High	0.652***	0.453	0.982***	0.431	1.277***
	(4.66)	(1.56)	(3.39)	(1.44)	(3.94)
Risk aversion: Risk neutral	0.0545	0.0339	0.0850	0.190	-0.473
	(0.46)	(0.16)	(0.38)	(0.64)	(-1.65)
Risk aversion: Risk seeking	0.0946	0.0263	0.356**	-0.00879	-0.599**
	(0.94)	(0.14)	(2.01)	(-0.04)	(-2.25)
Trust: Neither trusting nor mistrusting	-0.524	-0.733	-0.980	-0.651	0.428
	(-1.17)	(-0.87)	(-1.39)	(-0.61)	(0.49)
Trust: Rather mistrusting	-0.723	-1.275	-0.849	-0.864	0.457
	(-1.62)	(-1.53)	(-1.22)	(-0.81)	(0.53)
Trust: Don't know	-0.659*	-0.703	-1.119*	-0.564	2.166
	(-1.93)	(-1.17)	(-1.93)	(-0.74)	(1.61)
Baseline	-0.500	-0.493	-0.738	-0.123	-1.038
	(-0.98)	(-0.53)	(-0.87)	(-0.10)	(-0.93)
Other controls included in regressions:	Country fixed effects, gender, age, financial decision making in household, financial situation, living situation.				
Number of respondents	3758	1270	1297	614	577

Note: The shown estimations use the following reference groups which were omitted from the estimations: Baseline treatment (i.e. no information provided), low education, low cognitive ability, low insurance savvy, risk aversion, rather trusting. The shown estimation coefficients should be interpreted compared to these reference groups. The coefficients of the logit model do not have an interpretation as such merely the direction and level of significance should be interpreted (see section 5.3 for further information on the regression analyses). Standard error in parentheses, */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online data of behavioural experiment.

Effects of varying timing and highlighting of information at the comparison stage (all products)

A further treatment applied at the comparison stage tested the effects of varying the timing and highlighting of information. Specifically, this treatment varied:

- In a first condition, whether important information on the covered and excluded risks of each policy was shown at the comparison stage or, alternatively, was only shown later at the confirmation stage (see section 5.2.4 for further detail);[531] and
- In a second condition, whether this information was not only shown, but also highlighted.

Thus, the first condition tested a potentially harmful market practice, whereas the second tested a potential remedy. A third treatment condition, the baseline, presented the information 'normally' without highlighting.[532]

[531] The confirmation stage provided full details on the chosen insurance product. The confirmation stage was reached either after confirming the insurance at the initial stage (car rental and add-on only), or after selecting an offer at the comparison stage (all products).

[532] These treatments were inspired by previous work from the Italian supervisory authority, IVASS, who conducted a study on comparison websites in the insurance sector. The study found that some comparison

The first condition represented a potentially harmful practice because the information that was omitted at the comparison stage was necessary to make a fully informed, optimal decision. In this case the information only became available later at the confirmation stage and individuals had to actively go back and forth between the comparison and confirmation stages to compare the products on offer. Without this extra effort, individuals could only base their choice on the partial information, which put heavy emphasis on the premium.[533]

A nuanced picture emerges from this treatment, in that the signs and magnitudes of the results vary by product. While we are unable to detect statistically significant effects in the car rental and add-on insurance scenarios, there are strong effects in the home and motor insurance environments.

Considering first the impact of **not showing information** on covered and excluded risks at the comparison stage:

- In the **motor insurance** scenario, the effect of not showing this information at the comparison stage is negative, as expected. Participants were 10 percentage points (pp) less likely to make an optimal choice at the comparison stage if important information was not shown.
- In the **home insurance** scenario, interestingly, not showing this information at the comparison stage *improved* the choices of respondents (by 14pp). While this may seem counterintuitive, it may be explained by the behavioural economics literature and previous empirical findings[534] since excluding information simplified the decision environment (since respondents needed to process less information), which has been shown to improve decision-making in numerous settings.[535] In fact, when this information was not shown respondents had to make their choices based on price alone, which may have caused them to choose the optimal provider more often in the home insurance scenario due to two factors:
    - First, the optimal provider was significantly cheaper than the overpriced provider (which covered more low impact risks), and only very marginally more expensive than the cheapest provider (which covered less risks).
    - Second, individuals' attention was not drawn to the low impact risks covered by the overpriced provider. This is in line with the literature on previous studies which have shown that consumers are often willing to purchase, and pay substantial premiums to cover such risks.[536]

The behavioural pattern that appears to drive this divergence in results between home and motor insurance is revealed by examining the detail of respondents' choices between providers. Specifically, in the home insurance scenario respondents had a preference for maximising the range of risks covered, with a tendency (47% under the baseline) to mistakenly select the insurer that covered additional low impact risks for a substantial increase in premium (which is not considered optimal). As one would expect, this error was much less frequent (at 22%) when information on coverage of these risks was not shown and price was the only characteristic that differentiated the offers, leading to the overall improvement in choices under this treatment in the home

websites uniquely base their evaluation on price. IVASS recommended that comparison should be possible along other criteria, and that these should be presented in a consistent, standardised way.

[533] Screenshots of the different treatment conditions are shown in the experiment script annex.

[534] Kahneman (2003) `Maps of Bounded Rationality: Psychology for Behavioral Economics', The Amercian Economic Review, Vol. 93, No. 5.

[535] For example: European Commission (2015) 'Consumer testing study of the possible new format and content for retail disclosures of packaged retail and insurance-based investment products'; European Commission (2013) 'Testing of a Standardised Information Notice for Consumers on the Common European Sales Law'

[536] See for example: Baker, Siegelmann (2013) '"You Want Insurance with That?" Using Behavioral Economics to Protect Consumers from Add-on Insurance Products'; Cutler and Zeckhauser (2004) `Extending the Theory to Meet the Practice of Insurance', Brookings-Wharton Papers on Financial Services. Financial Conduct Authority (2014).

insurance scenario. In contrast, this same dynamic could not drive an overall improvement in choices in the motor insurance scenario, since in this scenario respondents generally had a lower propensity to select the overpriced insurer that covered extra low impact risks.[537]

This divergence in the taste for 'maximising the coverage' could be driven by the following three factors:

- As shown by the focus groups, consumers have more experience in switching their motor insurance than their home insurance. As a result, they may be more familiar with the types of risks they actually need and wish to cover in motor insurance, while being driven by 'piece of mind' considerations for their home contents.
- Motor insurance tends to be more expensive compared to home insurance. Consumers may thus more carefully consider which cover is necessary for their vehicle. At the same time, an additional cover in the home insurance may not seem too onerous as the overall expense remains relatively small compared to the value insured.
- As drivers, consumers may feel more in control over damages occurring to their vehicle compared to their home. They may therefore feel an increased need to purchase very comprehensive cover for their home while feeling less need to insure damages to their vehicle they feel unlikely to cause.

Next, considering the impact of **highlighting information** on covered and excluded risks, in addition to simply showing this information alongside all other information:

- In the **motor insurance** scenario the effect of this treatment condition was negative, at -7pp. However, this treatment effect is only marginally significant, and does not survive the inclusion of further controls (in a regression analysis), so we do not attach strong weight to this result.
- In the **home insurance** scenario the impact of this treatment was to increase the likelihood that respondents would make the optimal choice by 11pp. A possible explanation for this is that the highlighting of the information on covered and excluded risks increased the differentiation on the screen between these policy features and the premium, allowing respondents to better evaluate the choice.

Table 64: Timing and highlighting treatment: Fraction of respondents choosing optimally at comparison stage, by treatment and product

Display of information at comparison stage[1]	All	Home	Motor	Car rental	Add-on
Baseline (shown)	**0.36**	**0.22**	**0.38**	**0.46**	**0.53**
Not shown (timing)[2]	0.37	0.37	0.28	0.46	0.49
Difference to baseline	0.01	0.14***	-0.10***	0.00	-0.04
Shown and highlighted	0.39	0.33	0.31	0.51	0.56
Difference to baseline	0.03	0.11***	-0.07*	0.04	0.03

Note: N=3954 (Home: 1349, motor: 1353, car rental: 648, add-on: 604). Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level. 1) The information, that was shown/not shown and highlighted/not highlighted, related to the covered and excluded risks of each policy. 2) If the information was not shown at the comparison stage, it was shown at the

[537] There are only small country differences. This has been investigated via the fully interacted regression model (mentioned above and described in detail in section 5.3) which includes interaction effects between the treatment groups and countries. It seems that, compared to the UK (chosen as a baseline, though it could equally be another country), DE and SE perform better in the car rental insurance scenario when information is not shown. The same is true for SK in the motor insurance scenario. Highlighting of information was only above average effective in IT for add-on insurance. At country level the treatment group sizes are very small. Thus it is difficult to interpret these results with high confidence.

confirmation stage, at which point consumers could return to the comparison stage.
Source: London Economics analysis of online behavioural experiment data.

Effects of allowing manipulation of risk coverage and excess at the comparison stage (home and motor insurance only)

A further treatment condition tested at the comparison stage for home and motor insurance allowed respondents to manipulate the excess level and high-impact risk coverage (i.e. whether to cover natural hazards or vandalism) which was previously chosen at the profile stage. This manipulation could be done via two dropdown menus at the top of the comparison stage screen. Respondents were invited to use the tool via a colourful banner reading "Choose the right cover and excess by using these menus!" (screenshots can be seen in the experiment script annex).[538] This treatment was inspired by some aggregator websites which already feature similar tools such as the UK and German sites www.moneysupermarket.com, and www.check24.de.

If a respondent changed either the excess or the risk coverage, the offers shown below would update automatically, i.e. the coverage and/or excess levels would change and the premiums would adjust accordingly. The aim of this treatment was to test whether such a tool would support consumers' understanding of the premium setting mechanism by showing how parameters (covered risks and excess) influence on price.

The first result to note is that few respondents (10%) used the manipulation dropdown menus when they were available. As a consequence, the overall impact of this treatment is very limited across the sample as a whole. There is a small overall increase in the likelihood of finally selecting the correct excess and risk coverage among those who could manipulate these parameters at the comparison stage, but this effect is not statistically significant (on average for home and motor insurance these effect sizes were 1pp for the excess and 2pp for risk coverage, see Table 65).

However, for those respondents who used the tool it was indeed effective at improving choices, as explained further below. The insignificance of the overall result is due to the fact that there were so few these respondents that their choices were too diluted to be observed.

Table 65: Manipulation treatment: Fraction of respondents choosing optimal excess level or risk coverage, by treatment and product

	Home & Motor	Home	Motor
Excess manipulation			
No manipulation	0.36	0.36	0.35
Manipulation possible	0.37	0.35	0.39
Difference	0.01	-0.02	0.04
Risk manipulation			
No manipulation	0.49	0.53	0.46
Manipulation possible	0.52	0.55	0.48
Difference	0.02	0.02	0.02

Note: N=2702. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online behavioural experiment data.

Looking at the respondents who used the manipulation tool and at how they used it, we

[538] The banner increased tool use compared to the pilot study that did not feature the banner. However, further research may be needed to find out what can get a majority of consumers to engage with such tools.

see that they improved their excess choices. Among those who used the manipulation tool, 50%[539] chose the optimal excess on average across home and motor insurance, 14pp above the baseline rate of 36% shown in the table above.

How the manipulation tool effectively improved excess choices becomes evident when looking in detail at the types of manipulations respondents made. Just over half (53%) of those who used the tool improved their choice of excess, compared to under a fifth (19%) who made their choice worse (see Table 66). The remainder (28%) used the tool but eventually kept their excess at the same level.

The most common use of the tool, by a substantial margin, was to improve the choice of excess by increasing it, with 50% of those who manipulated their excess using it in this way. As highlighted previously (see section 5.2.1), a key reason for suboptimal choices of insurance relates to choosing too low excess levels, which is associated with paying a higher premium (than necessary). Allowing consumers to adjust the excess and observe the impact this has on the premium can lead them to increase the excess and ultimately improve their overall choice.

Looking in detail at how individuals used the tool to manipulate their risk coverage, 41% clearly improved their choices, mostly (33%) by covering the high-impact risk when this was necessary (see Table 66). This is a significant share who made a crucial improvement to their insurance cover. Not insuring against a high-impact risk when such risk is clearly present could cause substantial harm to an individual's financial situation in case of a claim. Hence, when coverage for high impact risks, such as natural hazards, is available (at reasonable cost) to those prone to damage it should be purchased. Making this coverage visible to consumers and giving them ample opportunity to select it at several points in the purchasing process can help them select this important coverage.

Table 66 suggests that 41% of individuals deteriorated the quality of their risk coverage choice via the manipulation. However, this must be interpreted carefully, as 37% within this share chose to cover the high-impact risk when it was not strictly necessary. While this may be considered 'overinsurance' and so is not counted towards optimal decision-making in the table, in reality it could well be a correct choice since high-impact risks (e.g. vandalism and natural hazards) could cause substantial damage even if the risk is not evident.[540] Taking this into account and considering only the *unambiguous improvement* (covering the risk when it should be) and the *unambiguous deterioration* (not covering the risk when it is right to do so) in choices due to respondents' using the tool, the share who improved their choices was more than eight times the share who made their choices worse (33% versus 4%).

Table 66: Manipulation treatment: Type and quality of excess manipulation use

Type of manipulation(2)	Quality of manipulation	Frequency (%)
Used manipulation to increase excess	Improved	50
	Deteriorated	5
Used manipulation to decrease excess	Improved	3
	Deteriorated	14
Used manipulation but	At optimal level	5

[539] The result is visible from Table 66 below: 50+3+5=58% improved or maintained the excess level through the use of the tool. Most respondents fully improved to optimality, but not everybody. This explains the difference between 58% and roughly 50% who end up with an optimal excess after using the manipulation tool.

[540] From a behavioural economics perspective, overinsurance can be motivated by regret aversion (see above) as well as by the 'possibility effect'. The possibility effect means that small probabilities which make a highly unlikely event 'possible' are overweighted. This can lead to a higher willingness to pay for insurance for risk coverage which is not strictly justified from an actuarial calculation (i.e. willingness to pay could be larger than the actuarially fair value of [*probability of damage x expected value of damage*]).

maintained excess	At too low level	20
	At too high level	3
	Total	100
Used manipulation to cover the risk	Improved	33
	Deteriorated	37(1)
Used manipulation to not cover the risk	Improved	8
	Deteriorated	4
Used manipulation but maintained risk coverage	At optimal coverage	15
	Should have covered but does not	2
	Did not need to cover the risk but chose to cover	1(1)
	Total	100

Notes: 1) 37% of individuals using the risk manipulation chose to cover the high-impact risk when it was not strictly necessary. While this was counted as 'not optimal' overinsurance in this experiment, it does not actually cause consumer detriment. Risks such as vandalism and natural hazards could still affect any vehicle or home, therefore, it is never fully wrong to select this coverage. 2) 6% (74/1353) of respondents used the excess manipulation tool. 6% (85/1353) of respondents used the risk manipulation tool. The frequency of tool use was equivalent amongst affluent and poorer individuals.
Source: London Economics analysis of online data of behavioural experiment.

In summary, the manipulation tool seems to have been effective at demonstrating the interactions between excess and risk coverage choices and price. Consumers who used the tool mostly improved the quality of their insurance choices, or at least did not deteriorate them. In terms of excess choice, the tool was effective at raising previously too low excess choices. Moreover, it led individuals to choose coverage for high-impact risks, whether or not this was strictly necessary based on the profile information.

Various behavioural drivers can explain the effectiveness of this tool. First of all, it made risk coverage and excess choice more salient[541] in the purchasing process by presenting these choices twice to respondents (i.e. once at the profile and again at the comparison stage). This could have been perceived as a signal that careful attention should be paid to these parameters. The focus groups, literature and stakeholder interviews have furthermore shown that consumers are primarily concerned about price, but then also look for information on the excess, risk coverage and exclusions. The manipulation tool effectively combined these parameters and was effective at increasing individuals' willingness to pay for insurance, if they obtained better coverage in return.

The biggest challenge in improving consumer behaviour through such a tool is to increase the use of it, since only 10% of respondents used the tool to manipulate the excess and risk coverage among those who had it available to them. Hence an important implication in terms of policy remedies is that consumers need to be encouraged to use such tools when they are available. A simple banner reading "Choose the right cover and excess by using these menus!" is not sufficient. Instead, it could be investigated whether forcing active excess/risk cover choice during product comparison would improve customer engagement and choices.

Box 40 : Evidence from the focus groups

Home and motor insurance

Across the six countries, participants generally agreed that **comparison tools** could help them to compare offers for **home insurance** and **motor insurance**, and take

[541] See behavioural biases above in section 4.2.2. Salience is a physiological concept which is related to the way our brains notice stimuli of different intensities. Della Vigna (2009) `Psychology and Economics: Evidence from the Field'. Bordalo, Shleifer and Gennaioli (2012) `Salience Theory of Choice Under Risk', The Quarterly Journal of Economics 127 (3).

more informed decisions when choosing insurance. Nevertheless, some suggestions were made for improving these tools:

- Comparison tools need to be "independent" and not be run by insurance providers, or "influenced" by insurance providers (all countries);

  "*While the different insurance companies have a calculator where you put in your individual conditions, there should be an official, unbiased one for all different insurance companies. Where you put in the coverage you would like to have and what you would be willing to pay."* (Woman, 29, higher education, Stockholm)

- Comparison tools should be comprehensive and include all available offers (Italy);

Comparison tools should not only compare on price, but allow for "more complex comparisons" (Italy, Romania, Sweden), such as: selecting and adding different types of risks covered (e.g. theft, accidental damage etc.)

- during the comparison process, and costs should be clear for each of the different options added (Italy);
- Comparison tools should take into account individual aspects as pre-selection criteria, such as family composition, income and lifestyle (Sweden);
- Comparison tools should allow for more "standardised" comparison, and should take care that the same terminology is used for all providers (Sweden);

  "Insurance companies should use the same terminology. In order to be able to call a specific add-on insurance for a specific name, certain terms would have to be included. More standardised offers." (Woman, 48, higher education, Stockholm)

- Comparison tools should be graphically appealing, using charts and diagrams that make it easy for consumers to understand what is covered and what is not (Italy).

Also frequently mentioned as a potential remedy were "**personal" and "personalised" advice** (i.e. helping to select an insurance that matches exactly with one's needs). Once again, participants stressed that it would be essential that this advice is provided by someone "objective" and "unbiased" (some participants noted that advisors would be linked to a specific insurance company (tied agents), and that was considered not helpful).

Although views on this aspect were less unanimous, some believed that a **glossary** where the different terms used in the offer are explained would be useful when selecting home insurance or motor insurance. If such a glossary is provided it should be "short" and "only contain relevant information".

In Romania, participants spontaneously suggested **other remedies**, such as having clearer contracts, as well as guarantees that clients would not lose their money if the insurance company goes bankrupt.

Regardless of the type of product discussed, participants expressed mixed views with regards to the usefulness of **scores and ratings** based on consumer reviews. While some considered these to be of help in selecting the right insurance, others questioned their "neutrality" (thinking that an insurance company might use them as "hidden advertising" by "buying" reviews), or thought that they would mainly be written by consumers who focus mainly on negative aspects:

"I don't believe a word of them. I think they're all written by people who have some interest in it." (Man, 41, lower education, London)

"I would look at them but they would be full of negative things, everyone's going to be moaning about something, so... if I did see good experiences, it would

encourage me I guess." (Man, 56, lower education, London)

Car rental insurance and add-on insurance

Opinions with regards to which of the suggested remedies would be most helpful when purchasing **car rental insurance** varied:

- A glossary was considered helpful by some participants, while others believed this to be unnecessary, or, according to some of the participants in the UK, "useful only to people renting a car for the first time";
- Personal advice was considered useful by participants in Romania, Slovakia and Germany, and less so by those from other countries.
- Comparison tools were considered less appropriate in this context (or, useful for comparing car hiring companies, rather than comparing insurance cover).

Box 41 : Evidence from the literature

As discussed in section 4.4, London Economics (2016) undertook consumer and design testing of a standardised presentation format for the Insurance Product Information Document (IPID) for EIOPA. The aim of the testing was to assess the extent to which alternative IPID formats alleviate consumer difficulties in understanding non-life insurance products and clearly communicate the content of the IPID in an understandable, non-misleading way that can also aid comparisons. Testing was also used to ensure that the IPID format was suitable for consumers from different demographic groups and in different countries.

The study tested how the design of the document affected consumers' comprehension of the information, and their ability to compare between different non-life insurance products using the document.[542] The study used qualitative focus groups and an online survey which included both quantitative and qualitative testing. The testing allowed conclusions to be drawn regarding how information on non-life insurance products should be designed and how and to what extent visual tools enhance comprehension of complex information.

In the online survey participants were shown the sample IPIDs on screen and were tested on their understanding of the content of the IPID, asked their opinion on which sample IPID format they preferred, and tested on their ability to compare alternative products. To gather this evidence, the survey was split into three separate tasks:

- An objective test of understanding of IPID content, in which respondents were shown a sample IPID format showing the details of a non-life insurance product and were asked questions to test their understanding of the content of the IPID (e.g. a question asked respondents to identify which of a list of risks were covered).
- A subjective test of consumers' impressions of the IPID formats, in which respondents were shown two different sample IPID formats for the same non-life insurance product side-by-side. They were asked a range of questions to determine which format, in their opinion, was more informative, easy to

[542] The output of the study was a set of recommendations to EIOPA regarding the design features of the document that performed best in the qualitative and quantitative testing, to aid EIOPA with its Insurance Distribution Directive (IDD) mandate to develop draft implementing technical standards regarding a standardised presentation format for the IPID, specifying the details of the presentation of the information.

understand, and engaging.

- An objective test of ability to use the content of the IPID to compare alternative products, in which respondents were shown two alternative insurance products of the same type, both presented using the same IPID format. The two products were potential substitutes for one another, such as a consumer might encounter when shopping around for a particular type of insurance. The two products were designed to differ in one feature, e.g. the risks covered or the cost of cancelling the product before the end of the contract. Respondents were asked questions requiring them to identify differences between the two products. The aim of this task was to assess respondents' ability to use the information contained in the IPID to compare two alternative offers.

Taken together, the survey allowed the study to determine which sample IPID formats perform best (objectively and subjectively) in terms of enabling consumers to understand and use the content of the IPID correctly.

Alternative designs were shown to consumers in focus groups and the design elements that were identified as being important for understanding and comparison were:

- Simple, clear format;
- Appropriate use of colour to draw attention to the IPID;
- Using text of a similar size throughout the document;
- Symbols and icons for different sections of the document;
- Use of two columns to present the text; and,
- Underlined titles and section breaks.

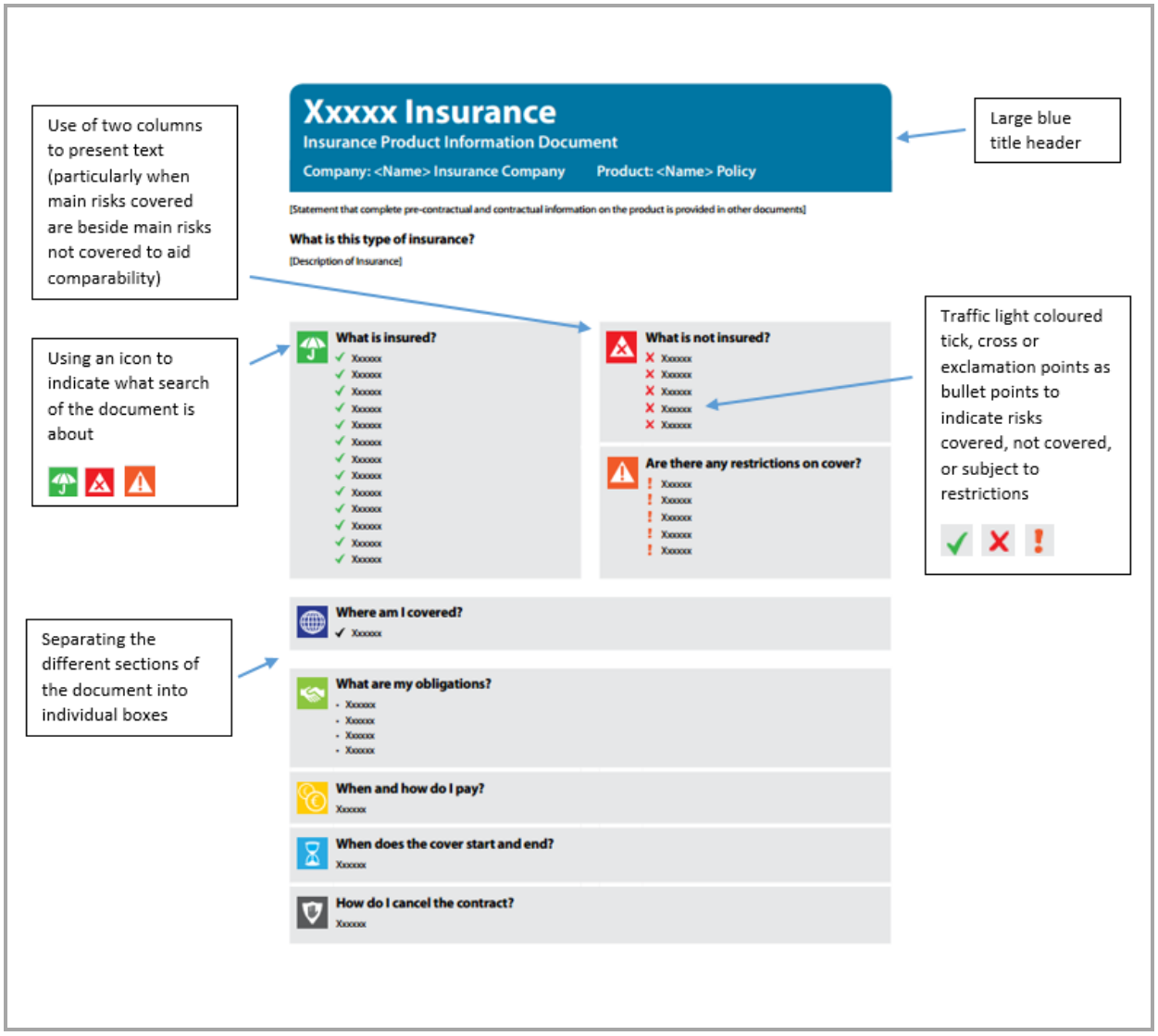
The features of the design which performed best included:

- The use of two columns to present text (particularly when main risks covered are beside main risks not covered to aid comparability);
- Separating the different sections of the document (e.g. risks covered, risks not covered etc.) into individual boxes;
- Using an icon to indicate what each section of the document is about (e.g. an exclamation mark to indicate a section on restrictions and exclusions);
- The use of traffic light coloured ticks, crosses and exclamation marks as bullet points to indicate risks covered, not covered, or subject to restrictions; and
- A large blue title header.

The conclusions of this study were tested across subgroups including age, gender, financial literacy etc., and the best performing IPID design in the quantitative testing was the best performer in both the task testing understanding of the content, and in the task designed to test the consumers' ability to compare between two different insurance offers.

The figure below shows a mock-up of the recommended design, which incorporated the design features that performed best during the testing, with these most effective design features highlighted.

Figure 26: Best performing product information document design features



5.2.4. Confirming the chosen insurance product (all products): 'Confirmation' stage

Typically, the final step in the process of purchasing insurance involves the consumer confirming that the policy they have selected is indeed the one they wish to purchase and finalising the transaction. Alternatively, at this stage in the process consumers could decide to revisit the product selection. This was simulated by the 'confirmation stage' of the contract choice task in the experiment, allowing us to examine consumer behaviour and how treatments representing possible remedies affect decision-making at this stage. Detailed results from the experiment are presented in Box 42. The main findings emerging from this evidence are as follows:

- In line with the findings for other stages of the purchasing process, respondents were significantly more likely to view information on insurance offers when it was provided via the short guide ('?'-icons) than when it was provided via the 'glossary' button. This reiterates the finding that consumers are more likely to engage with information if it is provided prominently in small portions.
- At the confirmation stage of the experiment respondents rectified to some extent the negative impact of pressure on their choices at the initial stage in the car rental and add-on insurance settings. This was driven by more individuals choosing to correctly self-insure rather than select an overpriced insurance. This important finding suggests that if consumers are given time to reconsider their choices in absence of pressure this helps them to (partially) overcome this pressure sales practices. It suggests that remedies linked to purchasing process (e.g. cooling off periods or even the role of the new Product Information

Document) are likely to be effective. This is also supported by some of the behavioural economics literature, which finds that individuals may take different decisions 'in the heat of the moment' compared to when they had time to think and 'cool off', which has been found in numerous studies.[543]

- When new information became available to respondents at the confirmation stage this motivated them to return and revisit their choices at the comparison stage. A conclusion that may be drawn from this is that it is important to allow consumers to go back and modify their choices throughout the purchasing process (this conclusion is similar that from the manipulation treatment at the comparison stage).

Box 42 : Evidence from the behavioural experiment and survey

The final stage in the choice task was the confirmation stage. This stage provided respondents with a complete summary of their chosen insurance policy. It expanded on the information given at the initial and/or comparison stage on risk coverage and exclusions and gave information on customer service, general exclusions, policy duration and ways to cancel. It was reached after selecting an insurance or after being timed-out at the initial stage (i.e. the comparison stage was skipped in these cases), or after selecting an insurance at the comparison stage.

The two choices available to respondents at the confirmation stage in order to finalise their decision and exit the choice task were to either confirm their selected insurance policy or to proceed without purchasing insurance. In addition, respondents could also move back and forth between the confirmation and comparison stages to modify their selected insurance offer using a 'go-back'-button.

In the following subsections, we again evaluate the optimality of respondents' choices at this stage *in isolation*, i.e. irrespective of choices at previous stages. This is done to allow examination of the effects of a specific treatment on decision-making at this stage only.

Thus, for respondents in the home and motor scenarios the optimal choice at the confirmation stage was to confirm their chosen insurance, irrespective of their selection at the comparison stage. Otherwise, they would remain without insurance cover and potentially exposed to substantial financial consequences if damage occurred.

In the car rental and add-on scenarios, it was optimal to confirm their insurance if the offer was advantageously priced.[544] Otherwise, if their chosen policy was overpriced, it was optimal to self-insure by not confirming the insurance. The option to self-insure was furthermore optimal for all affluent respondents regardless of the price of the advertised insurance.

Overall decision-making at the confirmation stage

Respondents performed well at this stage overall. On average, across all countries and products 74.3% chose optimally, taking their choices at previous stages as given. In particular, performance was good among participants in the home (82.4% optimal) and motor (84.6%) insurance scenarios. These shares are high because most individuals chose to confirm the insurance, which was always optimal at this stage compared to continuing without insurance (regardless of the offer chosen at the comparison stage).

Performance was lower in car rental and add-on (60 and 66.5%) which was driven by

[543] Loewenstein (2000) 'Emotions in Economic Theory and Economic Behavior', American Economic Review; Lerner et al. (2004) 'Heart Strings and Purse Strings - Carryover Effects of Emotions on Economic Decisions', Psychological Science; Loewenstein (2005) 'Hot-cold empathy gaps and medical decision making', Health Psychology.

[544] Advantageous means a roughly actuarially fair price, which is proxied by roughly the best price found in the real market for the respective product and coverage. See the annexes document for further detail.

the fact that it was only optimal to confirm the insurance if the policy was advantageous, otherwise individuals should select to self-insure. By design this made it more difficult to choose optimally in these setups compared to the home and motor insurance setups.

Table 67: Choices at confirmation stage, by product, country and overall (%)

	DE	IT	RO	SK	SE	UK	Total
Optimal choice (chose to confirm insurance, or self-insured, when optimal)							
All products	72.6	75.1	68.7	65.8	73.9	78.3	74.3
Home only	77.0	85.9	78.4	67.0	73.9	90.1	82.4
Motor only	76.0	88.4	80.3	78.4	79.6	93.0	84.6
Car rental only	69.3	56.9	39.5	57.8	63.6	56.6	60.0
Add-on only	66.3	67.4	71.5	58.7	78.0	63.2	66.5
Breakdown of choices (by product pair) [1, 2]							
Home and motor combined							
Confirmed selected offer	76.5	87.1	79.3	72.5	76.7	91.5	83.4
Decided not to purchase insurance	23.5	12.9	20.7	27.5	23.3	8.5	16.6
Car rental and add-on combined							
Confirmed insurance when optimal to confirm	34.3	38.2	33.9	34	39.6	43.2	37.6
Did not confirm insurance when optimal to confirm	2.9	5.6	10.3	12.8	3.3	3.4	4.7
Confirmed insurance when not optimal to confirm	29.1	32.6	33.7	29	26.6	37.2	32.3
Did not confirm insurance when not optimal to confirm	33.7	23.7	22.1	24.2	30.6	16.3	25.3

Note: N=4148, respondents who selected at earlier stages not to purchase insurance did not reach this stage which explains the lower sample size compared than the full sample. Some design choices explain differences in performance between home/motor and car rental/add-on insurance: 1) By design it was always optimal to confirm the insurance in the home and motor scenarios, while it was only optimal to confirm the insurance in the car rental and add-on scenarios if the offer was advantageous. 2) Not confirming insurance was never optimal in the home and motor scenarios, whereas it was sometimes the optimal choice in the car rental and add-on setup.
Source: London Economics analysis of online data of behavioural experiment.

Despite the overall high performance at this stage for individuals in the home and motor insurance setups, around 16.6% chose not to purchase an insurance.[545] These individuals choose to remain without cover for their home contents, or comprehensive motor insurance, which could leave them exposed to substantial financial consequences in case of a claim.

In the car rental and add-on context on the other hand, a large share of consumers (32.3%) confirmed their selected insurance even when it was not advantageous to do so. This is in line with the literature on add-on insurance.[546] Despite the fact that these products are often overpriced compared to their actuarial value, individuals readily purchase these products.

Considering the behavioural biases that may be driving this, such behaviour could be

[545] Note that respondents who selected to proceed without purchasing insurance at any previous stage would not reach the confirmation stage, but exit the purchasing process immediately. Therefore, the share of 16.6% captures only the share of respondents selecting to self-insure among those who reached the confirmation stage.

[546] See for example: Baker, Siegelmann (2013) '"You Want Insurance with That?" Using Behavioral Economics to Protect Consumers from Add-on Insurance Products'; Cutler and Zeckhauser (2004) `Extending the Theory to Meet the Practice of Insurance', Brookings-Wharton Papers on Financial Services. Financial Conduct Authority (2014).

related again to regret aversion, as well as by small stakes risk aversion which implies that individuals are overly risk averse when it comes to insuring relatively small risks compared to larger risks. While such behaviour may seem irrational from a classical economics perspective, it can be explained through behavioural probability weighting.[547] Individuals have been shown to have a tendency to overestimate small probabilities and are 'loss averse'.[548] Both biases taken together lead individuals to overestimate the objective probability of products becoming faulty as well as the incurred cost of repair or replacement, and thus increase their willingness to purchase insurance.

Effects of information provision on consumer behaviour at the confirmation stage (All products)

As at previous stages of the task, at the confirmation stage we again tested whether the provision of information explaining technical terms and the interaction between contract features and the premium could improve choices. As at the profile and comparison stages this information was presented either through a 'glossary' button at the bottom of the screen, or through a 'Short guide' using '?'-icons next to technical terms.

Even fewer respondents compared to previous stages clicked on any of the information tools at the confirmation stage. This is likely due to the fact that respondents saw the same information tool throughout the various decision stages, meaning the glossary or `?'-icons are no longer a novelty. Respondents have likely either already used the tools, or their interest is not solicited at this stage if it was not solicited at previous stages.

Despite the overall low tool usage, in line with previous findings, respondents were significantly more likely to click on the '?'-icons compared to the 'glossary' button (Table 68). This finding is robust across both product pairs. It again shows that consumers are more likely to engage with information if it is provided prominently in small portions.

Table 68: Fraction of respondents using the information tool, by tool and product type at the confirmation stage

	All	Home & motor	Car rental & add-on
Glossary	0.03	0.02	0.04
Short Guide	0.06	0.05	0.08
Difference	-0.04***	-0.03***	-0.04***

Note: N=4148, respondents who selected at earlier stages not to purchase insurance did not reach this stage which explains the lower sample size compared than the full sample. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online data of behavioural experiment.

Knock-on effects of time pressure at the initial stage on choices at the confirmation stage (car rental and add-on insurance only)

As can be seen from Table 69, the pressure treatment applied at the initial stage (see section 5.2.2) had some 'knock-on' effects on choices at the confirmation stage.[549]

Table 69: Initial stage pressure treatment: Fraction of respondents choosing optimally at confirmation stage, by treatment and product

Treatment	All	Car rental	Add-on

[547] Rabin (2000) `Risk Aversion and Expected-Utility Theory: A Calibration Theorem', Econometrica, Vol. 68, No. 5. Kahneman and Tversky (1992).
[548] Loss aversion describes the phenomenom that losses seem to loom larger than gains. Thus, individuals tend to react more strongly to losses than they do to equal sized gains (Kahneman and Tversky, 1979).
[549] Recall that this treatment either put individuals under time pressure when making a decision about whether to purchase an initial insurance offer or compare the market, or it made the choices relating to not purchasing this insurance and comparing the market visually less prominent.

Baseline (no pressure)	0.59	0.57	0.61
Pressure	0.72	0.67	0.77
Difference	0.13***	0.09*	0.16***

Note: N=1856. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online behavioural experiment data.

Specifically, individuals who were put under time pressure at the initial stage were, on average, 13pp *more* likely to choose optimally at the confirmation stage; that is, at the confirmation stage respondents *rectified to some extent the negative impact of pressure* on their choices at the initial stage. This results in a seemingly counterintuitive finding that the pressure treatment had an *overall positive net effect* (i.e. the effect of the pressure treatment on the final decision was positive). However, this effect must be interpreted with caution because it is caused by the experiment design.

To explain the interaction between the treatment and the experiment design, recall that the time pressure was **only applied at an 'initial stage'** during which an upfront offer was shown (see section 5.2.2 and the flow chart below). All respondents who either confirmed an insurance or were timed out directly reached the 'confirmation stage', at which point they could decide to confirm the insurance or proceed without insurance. There was no time pressure at this stage.

The 'confirmation stage', without time pressure, thus acted like a 'cooling off period' during which individuals could rectify the (potentially) poor decisions they took under pressure. This seems to be what happened during the experiment; a substantially larger share of individuals (50%) chose to self-insure rather than select an overpriced insurance at the confirmation stage following exposure to time pressure, compared to the baseline (17%) without pressure. This is visible in Table 70 as well as in the flow chart presented in Figure 27. Most offers in the car rental and add-on insurance scenarios were overpriced by construction, meaning that these patterns of behaviour resulted in the overall effect of time pressure.

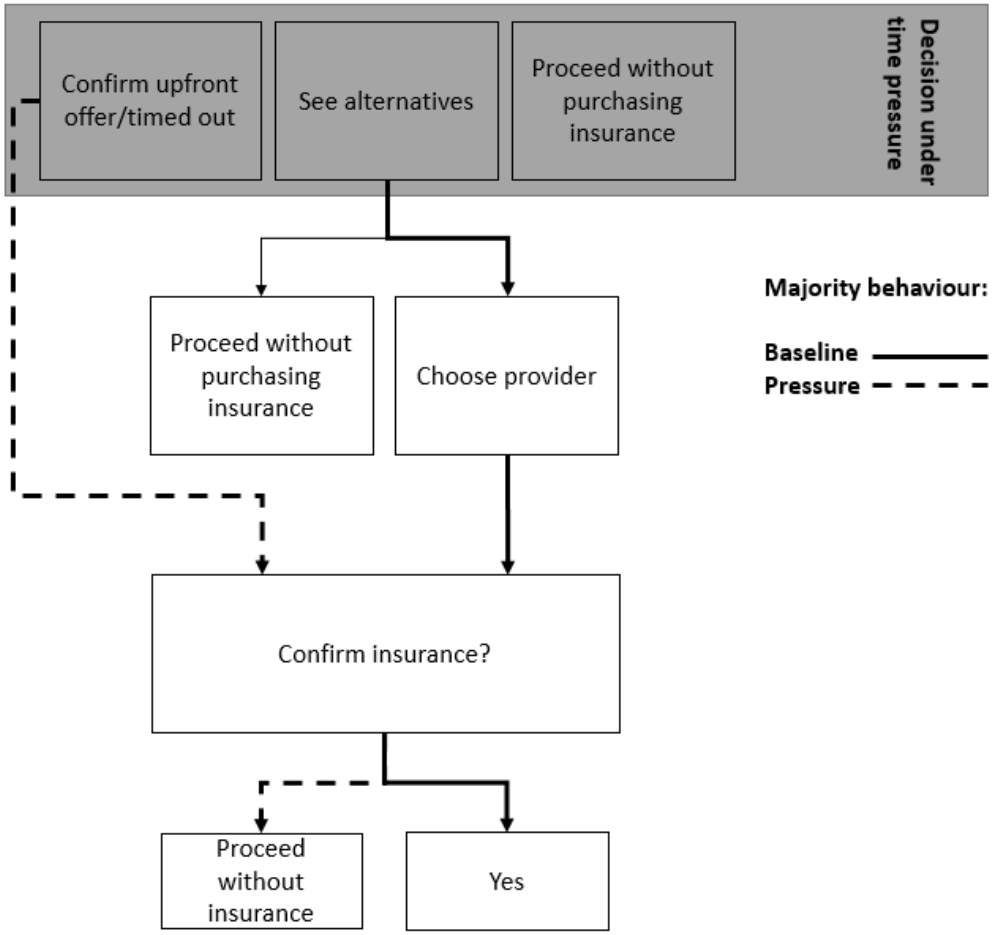
It is important to note that since pressure was only applied at the initial stage, it is this stage alone that reflects the real-life practice of applying sales pressure in the context of these two products (in reality there is often no confirmation stage for these products). Hence, the impact of pressure selling practices should be assessed based on its effect at the initial stage (see section 5.2.2).

Table 70: Respondent choices at confirmation stage in baseline and time pressure treatment (%)

	Car rental & add-on combined		**Car rental**		**Add-on**	
	Baseline	Pressure	Baseline	Pressure	Baseline	Pressure
Confirm insurance	83.1	49.6	82.2	52.0	84.1	47.3
Decided not to purchase insurance	16.9	50.4	17.8	48.0	15.9	52.7
Number of respondents	555	693	304	346	251	347

Note: Respondents who selected at earlier stages not to purchase insurance did not reach this stage which explains the lower sample size compared than the full sample.
Source: London Economics analysis of online data of behavioural experiment.

Figure 27: Flow chart and majority behaviour in baseline and pressure treatments (Car rental and add-on only)



Source: London Economics analysis of online data of behavioural experiment.

The results shown in Table 70 and Figure 27 are an important observation since they suggest that when given the time to reconsider their initial choice in absence of pressure, this helps consumers to overcome this sales practice, which clearly points towards the efficacy of policy remedies relating to purchasing process (e.g. cooling off periods or even the role of the new Product Information Document).

This finding complements the findings from the focus groups (see the Interim report, section 8.4.4). Focus group participants said that they often felt 'pressured' into purchasing insurance through time pressure or through persuasive sales techniques, and that 'on the spot' this led them to purchase the insurance although they may later think that it was not strictly required.

In terms of the behavioural economics literature, the phenomenon of perceiving the same situation differently at different times can be linked to the so-called 'hot-cold empathy gap'.[550] This implies that individuals can take different decisions 'in the heat of the moment' compared to when they had time to think about it and 'cool off'. This has been found by numerous studies and has, for example, led regulators to introduce

[550] Loewenstein (2000) 'Emotions in Economic Theory and Economic Behavior', American Economic Review; Lerner et al. (2004) 'Heart Strings and Purse Strings - Carryover Effects of Emotions on Economic Decisions', Psychological Science; Loewenstein (2005) 'Hot-cold empathy gaps and medical decision making', Health Psychology.

mandatory 'cooling off' periods allowing consumers to withdraw from contracts under certain circumstances, for example in distance selling.[551]

In summary, although respondents rectified the effects of the pressure treatment at the confirmation stage, the treatment still caused substantial detriment when it was applied at the earlier stages of the decision making journey (see section 5.2.2).

Timing of information and consumers' use of the 'go-back' button

A final interesting observation from the confirmation stage relates to respondents' use of the 'go back'-button to return to the comparison stage and whether full information was provided at the comparison stage or only later at the confirmation stage.

As explained previously (see section 5.2.3), one treatment varied the timing at which information on the covered and excluded risks of each policy was given to respondents. Some respondents were provided with this information at the comparison stage (and then again at the confirmation stage), whereas others were only given this information about their selected policy for the first time at the confirmation stage.

The experiment data shows a clear link between the timing of this information and respondents' propensity to use the 'go back'-button to return to the comparison stage to modify their selection (see Table 71). For example, in the home insurance scenario, the share of respondents who used the button was 7pp higher among those who saw the information only for the first time at the confirmation stage (a difference that is statistically significant). In the car rental and add-on insurance scenarios this effect was even larger (although in the motor insurance scenario it was not statistically significant).

Table 71: Timing of information treatment: Fraction of respondents using the 'go back'-button at the confirmation stage to return to the comparison stage, by treatment group

Timing of information	Home	Motor	Car rental	Add-on
Information shown at the comparison stage	0.13	0.11	0.09	0.06
Information shown for first time at confirmation stage	0.20	0.16	0.21	0.28
Difference	0.07**	0.05	0.12***	0.22***

Note: N=3372 (respondents who selected not to purchase insurance at the initial stage or comparison stage did not reach the confirmation stage and so never saw the 'go back'-button, which explains the lower sample size compared than the full sample). Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online behavioural experiment data.

This demonstrates that when new information is made available to consumers late in the purchasing process they realise that new information has been supplied to them and this motivates them to return and revisit their choices. In fact, this may have contributed to the positive effect of not showing information on covered and excluded risks on the optimality of choices at the comparison stage in the home insurance scenario, since by using the 'go back'-button respondents seem to have realised that the cheapest provider did not offer the best premium-coverage deal.

A conclusion that can be drawn from this is that it is important to allow consumers the opportunity go back and modify their choices throughout the purchasing process (note that this is a similar conclusion to that which can be drawn from the manipulation

[551] If a good or service was purchased online or outside of a shop (by telephone, mail order, from a door-to-door salesperson), consumers have the right to cancel and return their order within 14 days, for any reason and with no justification. See: http://europa.eu/youreurope/citizens/consumers/shopping/guarantees-returns/index_en.htm, accessed 01.11.2016.

treatment applied at the comparison stage).

5.3. Note on the analysis methodology

The discussion on effectiveness of remedies presented in section 5.2 reports on evidence from the behavioural experiment and survey data. This section outlines the methodology that was used to analyse this data, firstly detailing the analytical approach, followed by presenting the list of variables used in the analysis. A similar approach was also followed in the analyses of the behavioural experiment and survey data in chapter 6 further below.

5.3.1. Analytical approach

Overview

For each outcome variable of interest, the data analysis commenced with firstly producing simple descriptive statistics. The outcome variables are variables representing whether or not each respondent made the optimal choice at the relevant stage of the experiment, in isolation from choices made at preceding stages of the experiment. The definitions of optimal and sub-optimal choices are explained within the text in section 5.2.

This was followed by testing whether the observed means are statistically significantly different from each other[552] across treatment groups. The types of treatments are listed in Table 72 and a full explanation of the various treatment groups is available in section 2.4.4.

Subsequently, the main set of results was produced using regression analysis. This whole process was followed for each outcome variable of interest.

Weighting approach

Two types of weights are produced for this study: country weights and cross-national weights. Country weights adjust for gender, age, and region distributions in each country according to the Eurostat statistics. These weights are applied when analysing the data at individual country level. Cross-national weights adjust for country population size. These weights are applied, in addition to the country weights, when analysing the data across multiple countries. Both weights are generated using the iterative proportional fitting command ipfweight in Stata software package. The ipfweight command performs a stepwise adjustment by weights to bring the sample distributions closer to the population margins for gender, age, and region. The weights are trimmed using a lower threshold of 0.2 and an upper threshold of 5. The weights and target shares for gender, age and region according to Eurostat are shown in the tables in Annex 14 of the annexes document. During the analysis the weights are applied using the Stata software package (which has been used for all of our analysis) using the svyset command (the only survey design characteristics that are specified via this command are the weights themselves).

Descriptive statistics

The descriptive analysis of each outcome variable showed tabulations of all the possible choices at every decision-making stage in the insurance choice task. That is, it shows the shares of respondents per choice possibility (e.g. choosing to proceed with a particular insurance offer, or choosing not to purchase insurance). In addition, it shows the shares of respondents who made the "optimal" choice at each stage (in isolation from choices at preceding stages). Such shares were reported based on the full sample first, and were

[552] Using a two-sided t-test.

later broken down by treatments. These descriptive statistics serve to provide an initial overview of the overall choice behaviour in the experiment as well as of optimal responses in particular.

Average treatment effects

Following this, for each outcome variable of interest, the share of respondents who made the "optimal" choice were compared between treatments. Differences in shares between the baseline and other treatments demonstrate the impact that each of the treatment variants has on the outcome variable, i.e. on the share of respondents who made the "optimal" choice at a given stage of the experiment compared to the baseline. A two-sided t-test was used to test whether the observed differences were statistically significantly different from zero. Statistical significance is reported at the 90%, 95% or 99% confidence levels in the tables of results presented in section 5.2 and chapter 6.

Tests of mean differences

Multivariate regression analyses were then performed to check the robustness of the results from the 'difference in means' tests by controlling for the potential influence of a set of control variables.

The purpose of this technique is to check whether the observed differences in mean outcome variables were entirely caused by the different treatments to which experiment participants were assigned, or whether these differences were to some extent affected by variation in other characteristics. To achieve this, each regression model includes variables representing the treatments, with the baseline used as the reference point (i.e. the dummy variable signifying this treatment group was omitted). The full set of control characteristics listed in Table 73 are also included in the model together with the treatment variables, but are not shown for brevity of the main report.

In doing so, two econometric techniques were used in parallel: *Linear regression* and *logistic regression (logit)*. Further detail on these methodologies is provided at the end of this section.

Regression analysis with variable interactions

As a final stage of the analysis, the regression analyses were also produced including interaction terms[553] of each treatment variant and each control variable, in addition to the treatment variants and control variables on their own. This process was completed for all outcome variables and treatments, but only a selection of interesting results are discussed and presented in section 5.2 of the report. The full set of results is available on request.

This approach allowed for the investigation of whether any of the average treatment impacts estimated in the previous phase of the analysis were larger or smaller for specific groups of individuals in the sample. The full list of control variables with which each treatment variant was interacted is presented in Table 73 of the following section.

Therefore, in these models the estimated coefficients of the treatment variants alone, e.g. $treatment_A$, indicate the impact of the treatment variant compared to the baseline for a reference group of respondents[554]. The coefficient of each interaction variable

[553] Interaction terms are variables constructed as multiples of two predictor variables, in this case a control and a treatment variable. Interaction terms are used to test whether the effect of one predictor variable on the outcome variable is different at different values of the other predictor variable.

[554] For instance, two education control variables are added: "Education: Medium" and "Education: High", and these control variables are interacted with the treatment variables. The reference group of respondents are those in the "Education: Low" category. Therefore, the coefficient of the treatment variable which is *not* interacted with educational controls represents the average difference in probability of "optimal" outcome under the treatment versus the baseline, for respondents in the "Education: Low" category. The

treatment$_A$ x control$_B$ provides the difference in impact of *treatment$_A$* for the sub-sample of respondents who possess characteristic *control$_B$,* compared to the impact of *treatment$_A$* on the baseline sub-sample.

Linear regression analysis

Linear regression analysis is an econometric technique which allows for an intuitive interpretation of the estimated coefficients on the treatment variables. In particular, the estimated coefficient of a given treatment is interpreted as the percentage point difference between the share of respondents who made the "optimal" choice under this treatment and that in the baseline treatment. The linear regression coefficients are therefore expected to be similar in magnitude to the difference in means estimated at the previous stage of the analysis.

A positive coefficient of a treatment variant suggests that this variant results in a higher proportion of respondents choosing optimally compared to that under the baseline treatment; whereas a negative coefficient of a treatment implies that this treatment worsens the optimal choice rate. The regression analysis also reports whether this difference in shares is statistically significantly different from zero at the conventional confidence levels - 90%, 95%, or 99%.

The outcome variables from the experiment at each stage represent respondents' choices, which are either "optimal" or "suboptimal". Therefore, the outcome variables modelled in the regression analysis are binary variables. Although the results from the linear regression analyses are easy to interpret and provide a reliable indication of the direction of impact and the statistical significance, this econometric technique is not perfectly suitable to model binary outcome variables[555], and may as a result produce estimates of difference in shares that are not plausible in magnitude. Therefore, to double-check the reliability of the linear regression results, the same models are also estimated used another econometric technique – the *logistic regression.*

Logistic regression analysis (logit)

Logit regressions are suited for modelling binary outcome variables such as the experiment outcome variables, where "sub-optimal" choices take the value of 0 and "optimal" choices take the value of 1.

When estimating a binary model we essentially estimate an unobserved underlying variable – in this example this is the propensity to make the optimal choice regarding insurance. When the propensity to make the optimal choice exceeds some threshold the individual will choose optimally, and we will observe this.

The logistic regression is a non-linear model which uses a different underlying estimation procedure compared to the linear regression model. For this reason, the interpretation of the findings is less straight-forward compared to that of the coefficients estimated in a linear regression.

Nevertheless, the sign of the coefficients estimated using logit also provides information on the direction of the impact that a given treatment variant has on the propensity to choose optimally, in the same way as the sign of the linear regression coefficients does. Namely, a positive sign implies that the treatment variant increases the likelihood of optimal choice compared to the likelihood under the baseline treatment, and vice versa.

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interactions of the treatment variable with each educational control variable then represent the "difference-in-difference", i.e. the comparison of the average difference in probability of "optimal" outcome under the treatment versus baseline for respondents in the respective educational category, to that for respondents in the "Education: Low" category.

[555] Linear regression analysis is not suitable for modelling binary outcome variables as they violate one of the statistical assumptions of the linear regression model, namely that the outcome variable is continuous and normally distributed.

5.3.2. Variables used in the analysis

The **treatment** and **control** variables used in the analysis are listed and defined in the tables below. The *tests of mean differences* compare the means of all outcome variables under the baseline treatment and those under the treatment variants presented in Table 72. In turn, the regression models test the impact on the means of outcome variables by using simultaneously each of the relevant treatment variants in Table 72 required for that outcome variable, and the set of control variables presented in Table 73.

Table 72: List of treatment variables

Treatment types	Treatment groups
Cross-border information	Domestic
	Cross-border without banner
	Cross-border with Banner A
	Cross-border with Banner B
	Cross-border with Banner A + Banner B (lab only)
Marketing practices at initial offer stage	No Pressure
	Pressure
	Low Prominence
Information provision	No Information
	Glossary
	Short Guide
Manipulation of the excess and covered risks at comparison stage	Manipulation not possible
	Manipulation possible
Timing and highlighting of information at comparison stage	Information on risks covered or not covered was shown, but not highlighted
	Information on risks covered or not covered was not shown
	Information of risks covered or not covered was shown, and highlighted

Further detail on the treatment types and treatment groups, as well as an explanation of which treatment types/groups were tested at which experiment stages, is provided in section 2.4.4 (with further details given in the annexes document).

Table 73: List of control variables

Control variable	Definition
Education: Highest level of education obtained	
Education: Low	Primary or lower secondary education
Education: Medium	Upper secondary or post-secondary education, not including university or equivalent
Education: High	Undergraduate and post-graduate university degree or equivalent vocational training, or higher
Cognitive ability: A composite indicator measuring respondents' ability to answer two questions related to percentages and probability	
Cognitive ability: Low	None of the questions is answered correctly
Cognitive ability: Medium	Only one of the questions is answered correctly

Cognitive ability: High	Both questions are answered correctly
Insurance savvy	A composite indicator based on a number of scenario-based questions[1]
Insurance savvy: Low	
Insurance savvy: Medium	
Insurance savvy: High	
Risk aversion: An indicator measuring people's attitudes towards risk[2]	
Risk aversion: Risk averse	Individuals who choose the certain payment even when the expected pay-off from the lottery is higher.
Risk aversion: Risk neutral	Respondents who choose to play the lottery when the expected pay-off is larger than the certain amount, but chose certainty when the expected pay-off is lower.
Risk aversion: Risk seeking	Individuals who choose to play the lottery even when the expected pay-off is lower than the amount they would receive with certainty.
Trust: A composite indicator of four rated statements related to respondents' trust in the insurance market[3]	
Trust: Rather trusting	High trust score attained
Trust: Neither trusting nor mistrusting	Medium score attained
Trust: Rather mistrusting	Low trust score attained
Trust: Don't know	Answered 'Don't know'
Demographics	
Gender	Gender of respondent (female / male)
Age	Age category of respondent <25 / 25-35 / 35-45 / 45-55 / 55-65 / 65+
Financial decision making in household	Whether or not the respondent takes the financial decisions in the household (binary)
Financial situation	How easily the respondent can cope with an unexpected expense
Living situation	A variable describing the respondent's living situation, including whether or not they live with other adults and/or with children
Country fixed effects	Fixed effects to control for country-specific characteristics

Note: 1) These questions tested respondents' understanding of: motor insurance policies; home insurance policies; car rental agreements; and what insurance excess means. 2) Based on a scenario-based question whether the respondent prefers to play a lottery with a 50%-50% probability of winning a given pay-off, or to receive a given amount of money with certainty. This question is asked for a range of amounts. 3) The questions are "You'd better be cautious when dealing with insurance providers and intermediaries"; "When I have to make a claim, I trust that my insurance will cover the damage"; "Insurance providers are more concerned about making money than providing security to people"; and "You generally think that most people would try to take advantage of you if they got a chance". Each statement was rated on a scale of 0-10, resulting in a cumulative score of 0-12.

A number of the control variables are based on categorical variables, namely:

- Education (low/medium/high);
- Cognitive ability (low/medium/high);
- Whether the respondent is insurance savvy (low/medium/high); and

- The respondent's attitudes towards risk (risk averse/risk neutral/risk seeking); and
- The respondent's level of trust (trusting/neither trusting nor mistrusting/rather mistrusting/doesn't know).

These categorical variables were used to produce the binary variables listed in the table above. For each categorical variable, the first category presented in the table has not been included in the regression analysis, so that it serves as a baseline.

6. Factors that limit cross-border insurance purchases

This chapter examines the main factors that limit consumers' interest in cross-border insurance purchases, and actions or interventions that could reduce barriers to cross-border insurance purchases and so increase cross-border demand. The chapter draws on evidence from the stakeholder interviews, desk research, focus groups, survey, and the behavioural experiment.

6.1. Main factors limiting cross-border insurance purchases

This section presents findings regarding the main barriers limiting cross-border insurance purchases and barriers faced by insurance providers in supplying insurance cross-border. The survey results (presented in Box 43) suggest there is a relatively substantial amount of latent unexploited cross-border demand, comprising of a group of consumers, almost one-fifth of the total, who are interested in purchasing insurance cross-border but have not even tried to do so. The findings highlight the following key barriers to cross-border purchasing of insurance:

- **Consumer awareness** that it is possible to purchase insurance cross-border is low. This is a finding of both the focus groups and also the consumer survey (e.g. only 27% reported being aware of the possibility to buy buildings insurance cross-border). Being unware of the possibility to purchase insurance cross-border is found (via the survey) to be a key factor limiting cross-border purchases *irrespective of the presence or absence of language, cultural or distance barriers*. Related to this, some stakeholders noted the main limitation is actually that there are almost no cross-border offers, which of course would result in low awareness of the availability of cross-border insurance.
- **Language barriers** were identified as an important barrier in the focus groups and stakeholder interviews and via the consumer survey. Language barriers increase costs for insurance companies due to the need for translations, can lead to confusion and misunderstanding by consumers about insurance product features/coverage; and, create concerns for consumers in regard to filing claims or accessing customer support. According to the survey results, consumers are not comfortable making cross-border purchases and dealing with cross-border insurers using another language. This factor, as well as the perception that **completing a cross-border purchase would be more complicated**, seems to create a deficit in consumer confidence in the cross-border non-life market relative to the domestic market, meaning that most consumers (just over half) would not buy cross-border insurance even if it were a more attractive offer than a domestic offer.
- Low levels of consumer **trust, lack of familiarity and absence of existing relationships** with cross-border insurance providers, were identified by focus group participants as barriers to purchasing insurance cross-border. In the same vein, focus group participants also noted the importance of familiar brands in the choices of insurance provider. Likewise, the stakeholder interviews found that consumers tend to purchase insurance from providers they know, which tend to be located in their home country. This suggests that if cross-border insurers could build brand recognition among consumers in other countries, this would stimulate cross-border demand.
- **Differences in regulation and legislation** between countries, which increase the costs to insurance firms of providing insurance cross-border. For example, the literature review found that these factors increase the costs of supplying cross-border due to the need for legal support to assess national requirements. Furthermore, the focus groups found that differences in legislation create uncertainty, insecurity and possibly costs for consumers to understand the insurance contract, their rights to make a claim or resolve a dispute.
- Closely associated with the point above, according to the survey results the most important factor preventing consumers from purchasing insurance cross-border,

or trying to do so, is concern about the **difficulty of solving problems** if something goes wrong. Related to this, another limiting factor is feeling that the **level of consumer protection is lower** in other countries.

- Further important limiting factors identified via the survey include that consumers **think foreign providers would not provide coverage** in their home country, and the **feeling that the insurer would be located too far away**.
- **Differences in the way national markets operate** and **local knowledge**. This includes, according to evidence from the stakeholder interviews, differences in the prominence of different sales channels between countries, meaning that insurance companies need to adapt marketing and selling strategies. Furthermore, the focus groups found that consumers fear that a lack of local presence means local practical knowledge in the case of a claim will be limited (e.g. a recommended car repairer).
- The stakeholder interviews also identified various **barriers to entry**, including the difficulty of assessing risks in foreign markets and that foreign markets are already saturated.

The detailed findings of the various strands of research undertaken, including the survey, focus groups, literature review and stakeholder interviews, which collectively support the key findings outlined above, are presented in the boxes in the following subsections.

6.1.1. Cross-border orientation and awareness of the option to purchase cross-border

The survey collected information on respondents' degreed of 'cross-border orientation' and their awareness of the option to purchase insurance cross border. The findings from these parts of the survey are presented in the box below.

Box 43 : Evidence from the survey

'Cross-border oriented' consumers in the sample

As a starting point, we examine the proportion of respondents that can be considered to be 'cross-border oriented' consumers. Such consumers might be expected to have a more positive attitude towards purchasing insurance cross-border, compared to 'domestically oriented' consumers. The survey provides information on five personal characteristics according to which consumers may be identified as cross-border oriented for the purposes of this study:

- Lived and/or worked abroad since the age of 18
- Envisages living and/or working abroad in future
- Purchased/tried to purchase insurance cross-border in last 2 years
- Would consider purchasing insurance cross-border[556]
- Lives in border region[557]

The shares of respondents qualifying in each category, and in total in any category, are presented in Table 74.

Table 74: Shares of 'cross-border oriented' consumers, by type of cross-border orientation and country (%)

[556] This question was only asked to respondents who had not previously purchased or tried to purchase insurance cross-border.

[557] This category comprises all laboratory respondents who were specifically recruited from border regions and online respondents who indicated living within 50 km of the next border. In the UK this question was only asked to respondents from Northern Ireland since the rest of the UK does not have a mainland border to another country.

	DE	IT	RO	SK	SE	UK	Total
Lived and/or worked abroad since the age of 18	19.8	19.7	23.1	29.6	21.2	19.9	20.4
Envisages living and/or working abroad in future	11.0	23.0	48.0	20.2	19.1	21.1	19.6
Purchased insurance cross-border, or tried to do so, in last 2 years	8.3	14.8	13.5	12.9	5.4	6.9	10.0
Would consider purchasing insurance cross-border[1]	16.0	33.1	31.8	12.5	16.5	22.4	23.1
Lives in border region[2]	18.0	14.3	15.4	53.1	12.5	0.6	13.3
Total of 'cross border oriented consumers'	34.4	49.4	57.5	44.1	37.8	42.2	42.5

Notes: Shares of respondents indicating a type of 'cross-border orientation' according to any of the above criteria only captures affirmative responses. We capture 'don't know' responses as not being cross-border orientated because such responses seem to carry information in this regard (e.g. if respondents did not know whether they would consider purchasing cross-border insurance, we count them rather as not want to do so).
1) This question was only asked to respondents who had not previously purchased or tried to purchase insurance cross-border. 2) This category comprises all laboratory respondents who were specifically recruited from border regions and online respondents who indicated living within 50 km of the next border. In the UK this question was only asked to respondents from Northern Ireland since the rest of the UK does not have a mainland border to another country.
Source: London Economics analysis of online and laboratory survey/experiment data.

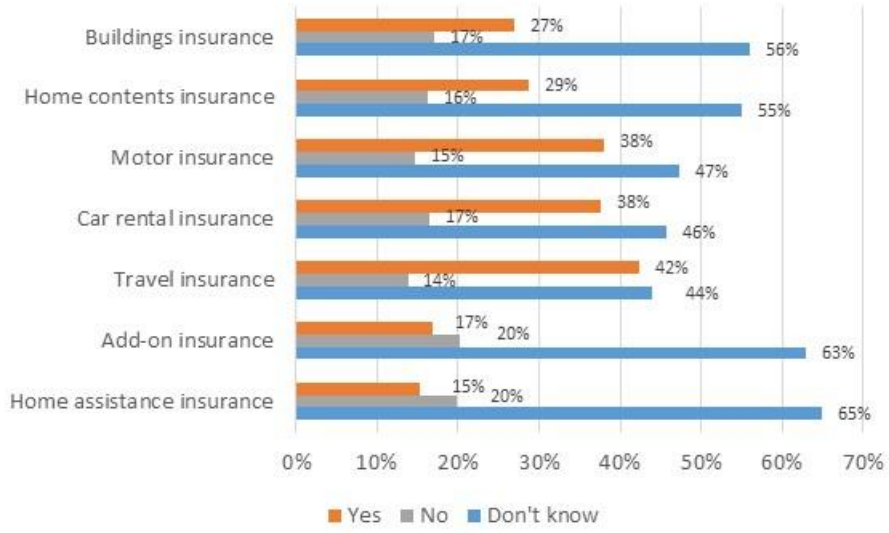
Using the broadest definition, where a consumer is defined as cross-border oriented if they have any of the five characteristics, the share of respondents who can be seen as cross-border oriented is relatively large, at 42.5%. This is mainly due to the large shares of respondents who have either lived or worked abroad in the past (since the age of 18), or envisage doing so in the future. Furthermore, while the share of respondents who have purchased or tried to purchase insurance cross-border is relatively low, at around 10% on average across countries, the share of who would consider purchasing insurance cross-border is relatively high in all countries, varying from 12.5% in Slovakia to 33.1% in Italy.

In the following sections, whenever appropriate we present disaggregated results for cross-border oriented and non-cross-border oriented consumers, in order to explore how these groups differ in terms of their attitude towards purchasing insurance cross-border. This allows us to address the specific requirement of the terms of reference to test cross-border oriented consumers' interest in buying insurance cross-border.

Consumers' awareness of the option to purchase non-life insurance cross-border

In order to gauge whether and to what extent unawareness of the possibility to purchase insurance cross-border is a barrier to cross-border demand, respondents were asked whether, to their knowledge, specific insurance products were available for them to purchase from insurers located in other EU countries. Respondents could respond that they believe the insurance products are available cross-border ('Yes'), or that they are not ('No'), or that they do not know. The results on average across the six countries are shown in Figure 28 and the breakdown by county is presented in Table 75.

Figure 28: Shares of respondents who indicate being aware that insurance is available cross-border by type of insurance, average across countries



Note: N=5604
Source: London Economics analysis of online and laboratory survey/experiment data.

It emerges that most consumers do not know whether insurance is available cross-border. On average across countries, for all insurance products more than four in ten respondents reported knowing whether the product may be purchased cross-border, and this share is over half for four of the seven products in question (see Figure 28). In addition to this, a further share, ranging from 14% to 20% across products, reported that they believe these insurance products are not available to purchase cross-border. These results are in line with those for another survey question, which asked why respondents had never purchased non-life insurance cross-border, with a high share (40% on average across countries) saying that they did not know that such purchases were possible.

This low overall level of awareness of the option to purchase insurance cross-border, which exists for consumers in the EU, could potentially cause low levels of demand for cross-border insurance, since unless they are aware of this possibility consumers may be unlikely to actively seek information and offers from cross-border providers. This is likely to be exacerbated by the fact that insurance is a complex product, meaning that searching for and comparing offers is a costly exercise (in terms of time and effort).

Comparing across products in Figure 28, as might be expected larger shares of consumers believe they can purchase motor, car rental, and travel insurance from foreign providers, compared to household insurance for example. This may be due to the fact that these insurance products relate to 'mobile', and in their nature more international, goods or services (since e.g. a car may be driven across borders). Furthermore, in the cases of travel and car rental insurance, there are international providers active in the market that may be known to respondents.

The breakdown by country shown in Table 75 shows that these aggregate results conceal some marked differences between countries. Consistently across all insurance products in question, Slovakia has the highest share of respondents who report that know these products are available for them to purchase cross border (the highest rates of cross-border awareness are those for motor and travel insurance in Slovakia, at 74% and 75% respectively). The shares of consumers who are aware that insurance is available to them cross-border are also high relative to other countries in Italy and Romania. At the other end of the scale, fewer consumers are aware of the possibility to purchase insurance cross-border in Sweden in particular.

Table 75: Respondents indicating knowledge of cross-border insurance provision by type of insurance and country (%)

	DE	IT	RO	SK	SE	UK	Total
Buildings insurance							
Yes	16.8	40.8	30.8	62.2	7.1	24.1	27.0
No	22.4	9.3	20.7	7.0	16.1	17.8	17.0
Don't know	60.8	49.9	48.5	30.8	76.8	58.1	56.0
Home contents insurance							
Yes	22.5	36.5	27.7	63	20.7	26.4	28.7
No	18.7	12.5	23.7	7.5	12.2	16.3	16.3
Don't know	58.8	50.9	48.6	29.6	67.1	57.3	55.0
Motor insurance							
Yes	24.9	61.2	53.6	74.3	6.5	28.0	38.0
No	20.9	5.7	15.6	4.0	14.2	16.4	14.6
Don't know	54.2	33.1	30.9	21.7	79.4	55.6	47.3
Car rental insurance							
Yes	31.4	52.2	48.0	57.5	31.1	27.1	37.7
No	19.4	9.6	17.1	5.4	12.6	21.3	16.5
Don't know	49.2	38.2	34.8	37.0	56.3	51.5	45.8
Travel insurance							
Yes	32.1	59.5	62.7	76.5	30.5	30.0	42.3
No	16.8	8.4	11.3	4.1	10.3	17.6	13.8
Don't know	51.2	32.0	26.0	19.5	59.2	52.3	43.9
Add-on insurance							
Yes	13.4	25.7	20.0	33.6	10.0	10.5	16.8
No	24.0	12.3	25.8	10.7	14.4	24.4	20.3
Don't know	63.1	62	54.2	55.7	75.6	65.0	62.9
Home assistance							
Yes	8.4	29.2	16.0	36.3	5.0	9.4	15.3
No	22.6	12.5	27.3	8.9	16.3	22.9	19.8
Don't know	69.1	58.3	56.7	54.7	78.8	67.7	64.9

Note: N=5604
Source: London Economics analysis of online and laboratory survey/experiment data.

6.1.2. Consumers' interest in and propensity to purchase insurance cross-border

The survey also examined respondents' interest in and propensity to purchase insurance cross-border. The findings from these survey questions are presented in the following box.

Box 44 : Evidence from the survey

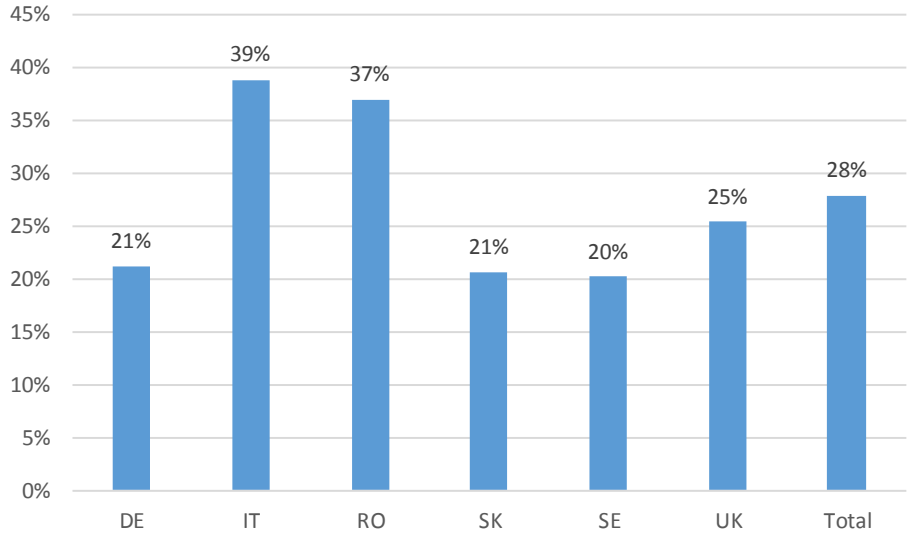
Interest in cross-border purchasing of insurance

To assess consumers' interest in cross-border purchasing of insurance, respondents were asked whether they have purchased or tried to purchased insurance cross-border in the last two years, or would consider doing so in the future. On this measure, 28% of consumers report being interested in purchasing insurance cross-border on average across the six countries (see Figure 29). Interest in buying insurance cross-border ranges from 20% to 39% across countries, being highest in Italy and Romania, and lowest in Germany, Slovakia and Sweden.

These shares might, at first, seem unexpectedly high given the low awareness among consumers of the option to buy insurance cross-border (reported above). However, we know from Table 75 that most of this interest is in the form of a willingness to consider purchasing insurance cross-border (those who have bought cross-border, or tried to do so, make up only 10% of the total), which would not be affected by consumers' unawareness of the option to do so. This suggests there is a relatively substantial amount of latent unexploited cross-border demand, made up of a group of consumers (some 18% of the total) who are interested in purchasing insurance cross-border but, for whatever reason, have not even tried to do so.

A caveat to note here is that the reported incidence of cross-border purchases may be overstated. In a previous study on cross-border purchases of goods and services online, it was found that many purchases that were indicated as being cross-border were in fact domestic purchases.[558] However, conversely, it is possible that our results underestimate the actual incidence of cross-border purchases, since respondents who reported not knowing whether they have bought insurance cross-border are counted as not having done so (and it is possible that some of these have in fact purchased insurance cross-border).

Figure 29: Share of respondents who have previously purchased, or tried to purchase, or would consider purchasing insurance cross-border, by country (%)



Note: N=5604. Respondents who answered "Don't know" are counted together with those who answered "No" because they were unable to clearly state having purchased or tried to purchase insurance cross-border. The share who answered "Don't know" was around 11.4%.
Source: London Economics analysis of online and laboratory survey/experiment data.

Modelling consumers' propensity to purchase insurance cross border

As a second step in this part of the analysis, regression analysis was undertaken in order to investigate the relationships between consumers' characteristics and their propensity to purchase insurance cross-border. Specifically, respondents' propensity to purchase cross-border was regressed on characteristics including their distance from the nearest border (less than 50km, or not), whether they have lived or envisage living abroad, and their confidence in using a foreign language to deal with insurance matters[559], where propensity to purchase cross-border is defined as:

[558] European Commission (2015) 'Provision of two online consumer surveys as support and evidence base to a Commission study: Identifying the `main cross-border obstacles to the Digital Single Market and where they matter most'.
[559] Further explanatory variables in the regression included measures of educational attainment, cognitive ability, insurance savviness, risk aversion, and trust.

- Having previously purchased, or tried to purchase, insurance cross-border; or
- Would consider purchasing cross-border insurance in the future.

The regression results, presented in Table 76, show that consumers who have lived or worked abroad, or envisage doing so in the future, have a higher propensity to purchase insurance cross-border. Similarly, being confident in using a foreign language to deal with insurance matters is associated with a higher propensity to purchase insurance cross-border, as are the characteristics of cognitive ability, and 'insurance savviness'.

The largest magnitude result is that for high confidence in using a foreign language. This reinforces the findings discussed above which illustrate the importance of language difficulties, suggesting that measures to lessen these difficulties, such as the provision of product documentation and customer service in different languages, would be beneficial.

Table 76: Linear and logit regression of respondent propensity to purchase insurance cross border

Explanatory variables	Linear	Logit
Respondent lives within 50km of border(1)	0.0267	0.156
	(1.31)	(1.23)
Respondent has lived and/or worked abroad or envisages doing so	0.201***	1.068***
	(10.82)	(11.02)
Medium level of confidence in using a foreign language when dealing with insurance(2)	0.0908***	0.657***
	(5.90)	(5.73)
High level of confidence in using a foreign language when dealing with insurance(2)	0.310***	1.657***
	(12.29)	(11.82)
Education: Medium	0.0114	0.128
	(0.51)	(0.71)
Education: High	0.0316	0.241
	(1.26)	(1.28)
Cognitive ability: Medium	0.0318*	0.253*
	(1.78)	(1.90)
Cognitive ability: High	0.0801***	0.518***
	(2.99)	(3.09)
Insurance savvy: Medium	0.0383**	0.245**
	(2.13)	(2.04)
Insurance savvy: High	0.0553***	0.363***
	(2.78)	(2.77)
Constant	-0.255***	-4.848***
	(-3.96)	(-8.52)
Other controls included in regressions:	Country fixed effects, risk aversion, trust, gender, age, financial decision making in household, financial situation, living situation	
Number of respondents	5,303	5,303

Notes: Propensity to purchase cross-border insurance captures respondents who have previously bought cross-border insurance, or who would consider purchasing cross-border insurance in the future. 1) All respondents from the laboratory environment are included in this group since they were recruited specifically from border regions. 2) Confidence in using a foreign language when dealing with insurance is proxied by agreement to statements relating to confidence and readiness to purchase cross-border insurance (see Table 78). Individuals who said that they felt confident in completing an insurance purchase in a foreign language, and in dealing with their insurance provider in a foreign language are classed as 'high confidence'. Individuals who indicated confidence on only one of the two statements are classed as 'medium'. The baseline group is 'low confidence', which includes those who do not feel confident in interacting with insurers in a foreign language in either way. The coefficients of the linear regression model are approximations of the difference in the propensity to purchase insurance cross border, i.e. a coefficient of 0.05 would stand for roughly a 5% increase in this propensity. The coefficients of the logit model do not have an interpretation as such, they are included to

assess the robustness of the linear regression allowing for non-linearity in the econometric model (see section 5.3 for further information on the regression analyses).
Source: London Economics analysis of online and laboratory survey/experiment data.

6.1.3. Factors limiting cross-border purchasing of non-life insurance

Several parts of the survey aimed to understand the factors that limit consumers' interest in purchasing insurance cross-border, including in the absence of cultural, language and/or distance barriers. The following box presents the findings from these parts of the survey.

The subsequent boxes then present further evidence from the focus groups, literature and stakeholder interviews regarding the factors that limit cross-border insurance purchases.

Box 45 : Evidence from the behavioural experiment and survey

Factors limiting consumers' interest in cross-border purchasing of insurance

To understand the main factors limiting consumers' interest in cross-border purchasing of insurance, the survey respondents were asked about *why* they have never purchased, or tried to purchase, insurance cross-border. This question is used to construct an indicator of the factors that have prevented each respondent from making, or trying to make, a cross-border insurance purchase. The seven possible limiting factors examined in the survey are:

- Thinking cross-border insurers would not provide coverage in home country;
- Thinking cross-border insurance provider may not pay in case of a claim;
- Being concerned it may be more difficult to solve any problems;
- Feeling that there were cultural differences that may cause problems;
- Feeling that the insurance provider would be located too far away;
- Feeling that the quality of insurance in their home country was better; and
- Feeling that the level of consumer protection in other countries may be lower than in their home country

Those who *have* made a cross-border insurance purchase, or tried to do so, are counted as not having been limited by any of these factors.

Identifying which are the key limiting factors preventing consumers from engaging in cross-border purchasing of insurance may help to identify the areas in which policy interventions should be targeted to have most effectiveness. The results are presented on average across countries in Figure 30, and disaggregated by country in Table 77.

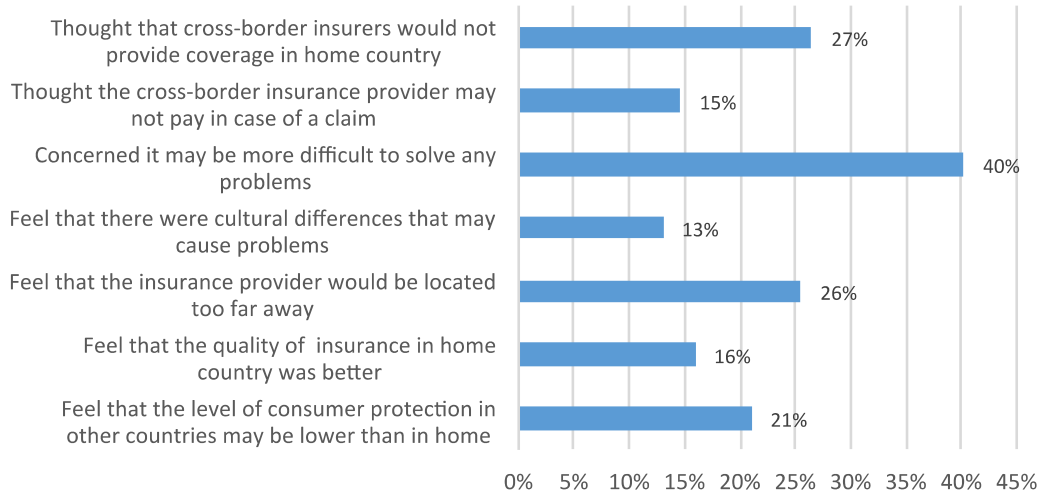
The factor found to be most important in limiting cross-border purchasing of insurance is concern that it may be **more difficult to solve problems** if something goes wrong (which may be linked to the finding from the focus groups and stakeholder interviews that some are concerned about foreign insurers not meeting legal requirements). This is a limiting factor for 40% of respondents, on average across the six countries (see Figure 30). Related to this, feeling that the **level of consumer protection is lower** in other countries is a limiting factor for 21%. These results suggest that effective policy measures would be to reassure consumers that ombudsmen and redress mechanisms are available to them if they make cross-border insurance purchases. For example, promoting the visibility of the ECC-Net, and particularly the network's ability to assist consumers with cross-border disputes in the insurance sector, may be beneficial.

The second most important factor, relevant for 27% of respondents, is that consumers

think that **foreign providers would not provide coverage** in their home country. This perceived lack of cross-border supply may or may not be justified, depending on the consumer's specific insurance requirements. Solutions to resolve this perception may be to encourage cross-border supply into the market and/or to promote awareness of such supply among consumers.

The terms of references specifically refer to cultural and distance barriers. The survey results suggest that distance is an important factor, with the feeling that the insurer would be **located too far away** found to be a limiting factor for 26% of consumers. This might be addressed if cross-border insurers provided claims handling and customer service locally, and prompted that this was the case. On the other hand, concern that cultural differences may cause problems is found to be the least important factor among those examined (13%).

Figure 30: Main reasons for having never purchased or tried to purchase insurance cross-border, average across countries (%)



Note: N=5604. This question was asked as a follow-up question only to respondents who had never purchased, nor tried to purchase, insurance cross-border. Responses by survey participants who have previously engaged in cross-border insurance purchases are counted as if these limiting factors do not apply.
Source: London Economics analysis of online and laboratory survey/experiment data.

There are significant differences between countries in terms of the importance of certain factors. In particular, feeling that the level of consumer protection is lower in other countries is a limiting factor for 32% of respondents in Germany and 28% in Sweden, compared to 10% in Italy and just 6% in Romania (see Table 77). Similarly, the perception that the quality of insurance is better in the consumer's home country is an important factor for 25% of German respondents and 21% of those in Sweden, compared to just 7% in Romania and 6% in Italy. The other research activities of the study have found particularly high levels of distrust in domestic retail insurance in Romania and Italy, which may partially explain these results

However, a consistent finding across all countries is the importance of concern about the difficulty of solving problems. This is the single most important factor in all countries, with shares ranging from 26% in Italy to 49% in Germany. Hence, it may be beneficial to stress to consumers that their domestic legal framework and customer protection mechanisms apply in case of cross-border insurance purchases.

Table 77: Main reasons for having never purchased or tried to purchase insurance cross-border, by country (%)

	DE	IT	RO	SK	SE	UK	Total
Thought that cross-border insurers would not provide coverage in home	28.2	25.8	25.5	19.0	19.7	27.5	26.5

country							
Thought the cross-border insurance provider may not pay in case of a claim	17.9	7.6	18.0	16.7	6.1	16.9	14.6
Concerned it may be more difficult to solve any problems	49.3	26.4	36.2	47.3	46.0	41.4	40.2
Feel that there were cultural differences that may cause problems	12.0	8.6	11.8	13.5	16.5	18.1	13.0
Feel that the insurance provider would be located too far away	26.4	24.5	31.4	31.4	25.5	22.8	25.5
Feel that the quality of insurance in home country was better	24.5	5.7	6.6	10.3	20.7	17.6	15.9
Feel that the level of consumer protection in other countries may be lower than in home country	32.2	10.4	6.0	10.7	27.8	21.6	21.0
Number of respondents	952	1050	850	952	850	950	5604

Note: This question was asked as a follow-up question only to respondents who had never purchased, nor tried to purchase, insurance cross-border. Responses by survey participants who have previously engaged in cross-border insurance purchases are counted as if these limiting factors do not apply.
Source: London Economics analysis of online and laboratory survey/experiment data.

Next, we examine respondents' declared levels of confidence and 'readiness' to purchase insurance cross-border and deal with cross-border insurers, relative to purchasing domestically. The respondents were asked to indicate the extent that they agree with the following statements on a four-point scale from 'strongly disagree' (1) to 'strongly agree' (4):[560]

- You feel confident purchasing [domestic] non-life insurance products;
- You feel confident purchasing non-life insurance products from providers located in another EU country;
- You know where to get information and advice about non-life insurance products offered by providers located in [your home country];
- You know where to get information and advice about non-life insurance products offered by providers located in another EU country;
- You do not think that completing an insurance purchase with a provider from another EU county would be more complicated than with a [domestic] provider;
- You would readily purchase non-life insurance from a provider in another EU country if their policy were more attractive than a comparable policy from a provider in [your home country];
- You are prepared to purchase non-life insurance products using another EU language; and
- You would feel comfortable dealing with your insurance provider using another EU language.

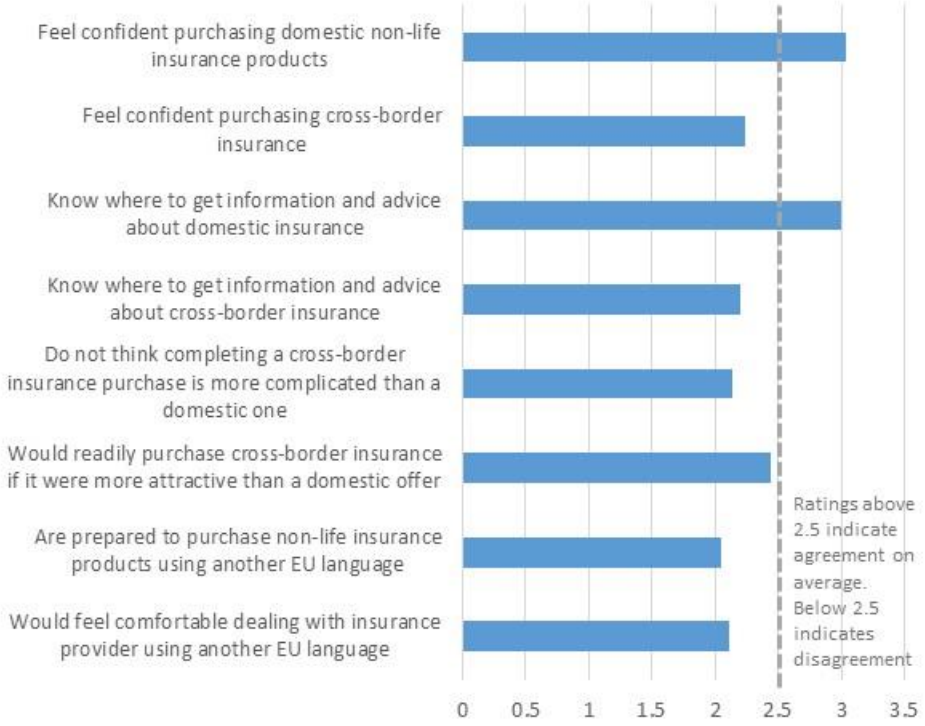
Note that the first and third statements refer to domestic insurance, and are mirrored by the second and fourth statements, which are equivalent statements referring to cross-border insurance. This allows a comparison to be made between consumer confidence in the domestic non-life insurance market and that in the cross-border market.

The mean ratings for each statement are presented in Figure 31 and by country in Table 78. Higher ratings signify higher levels of agreement and thus higher confidence. Ratings above 2.5 imply that on average respondents agreed with the statements (ratings below 2.5 imply that respondents disagreed on average).

[560] The respondent's home country was inserted in these statements where relevant in each survey country.

It is clear from Figure 31 that, on average, consumers disagree with every statement relating to cross-border insurance, indicating an overall lack of confidence and feeling of uncertainty among consumers' with respect to the cross-border market.

Figure 31: Confidence and readiness to purchase insurance cross-border and domestically, average across countries (mean ratings on a four point scale)



Note: N=5604. Answers were: 1. Strongly disagree, 2. Tend to disagree, 3. Tend to agree, 4. Strongly agree.
Source: London Economics analysis of online and laboratory survey/experiment data.

With ratings of 2.05 and 2.11 on average across countries (see the final two rows of the 'Total' column of Table 78), the statements with the lowest overall levels of agreement are those concerning consumers' preparedness to and comfort with making cross-border purchases and dealing with cross-border insurers **using another language**. This suggests that measures to alleviate language difficulties, such as providing customer service and documentation in consumers' own languages, would help to increase cross-border demand for non-life insurance.

In addition, consumers believe that completing a cross-border insurance purchase would be **more complicated than a domestic purchase** (most *disagree* that this *would not* be the case, with an average rating of 2.13, as shown by the fifth line of Table 78). The survey did not elaborate on *why* individuals feel it would be more complicated to purchase insurance cross-border. However, the focus group discussions showed that some consumers have concerns about whether foreign providers will fulfil the legal requirements for insurance provision in their home country, while others generally feel that it is complicated to deal with insurance matters and that adding the cross-border dimension could only add further to this complexity.

Moreover, overall consumers do not feel confident about making cross-border insurance purchases and do not know where to get information and advice about cross-border insurance, with average ratings of 2.24 and 2.20 for these statements respectively.

In contrast, consumer confidence in the domestic market is noticeably higher. The first and third statements in Table 78, which relate to domestic insurance, have the highest ratings, implying the highest levels of confidence. These two are the only statements that respondents agreed with, rather than disagreed with, on average (since the average ratings are above 2.5). This clearly shows a 'consumer confidence deficit' in the cross-border non-life market relative to the domestic market.

The combined consequence of this general 'confidence deficit' seems to be that many consumers (just over half) would not buy cross-border insurance *even if it were a more attractive offer* than a domestic offer. The average rating for the relevant statement is 2.44, implying slight disagreement overall (see the sixth line of Table 78). Hence, the concerns revealed by these questions are in line with the finding (reported above) that only 28% of consumes on average across countries would *even consider* purchasing insurance cross-border.

Table 78: Confidence and readiness to purchase insurance cross-border and domestically, by country (mean ratings on a four point scale)

Statement	DE	IT	RO	SK	SE	UK	Total
Feel confident purchasing domestic non-life insurance products	3.25	2.75	2.87	2.9	3.09	3.09	3.03
Feel confident purchasing cross-border insurance	2.16	2.43	2.58	2.27	2.06	2.08	2.24
Know where to get information and advice about domestic insurance	3.19	2.73	2.93	2.97	2.92	3.01	2.99
Know where to get information and advice about cross-border insurance	2.16	2.4	2.47	2.44	2.09	1.98	2.20
Do not think completing a cross-border insurance purchase is more complicated than a domestic one	1.97	2.32	2.35	2.27	1.99	2.09	2.13
Would readily purchase cross-border insurance if it were more attractive than a domestic offer	2.28	2.67	2.67	2.36	2.37	2.36	2.44
Are prepared to purchase non-life insurance products using another EU language	2.01	2.31	2.39	1.93	2.17	1.76	2.05
Would feel comfortable dealing with insurance provider using another EU language	1.90	2.27	2.48	2.29	2.25	2.06	2.11
Number of respondents	952	1050	850	952	850	950	5604

Note: Possible answers were: 1. Strongly disagree, 2. Tend to disagree, 3. Tend to agree, 4. Strongly agree.
Source: London Economics analysis of online and laboratory survey/experiment data.

Table 78 also shows stark differences between countries, with strong pro-domestic/anti-cross-border attitudes in some Member States, including Germany (in particular) and the UK, contrasting with *relatively* pro-cross-border/anti-domestic attitudes in other Member States, such as Italy and Romania.

For example, Italy and Romania have the lowest and second lowest ratings among the six countries for feeling confident about purchasing insurance domestically, at 2.75 and 2.87 respectively, and the joint highest rating for being ready to purchase cross-border insurance if it were more attractive than a domestic offer, at 2.67. In contrast, the results for Germany are the reverse, with the highest rating among the countries for feeling confident about domestic insurance purchasing, at 3.25, and the lowest rating for being prepared to purchase a more attractive product cross-border, at 2.28.

The cross-country differences suggest that the most appropriate policy remedies may be slightly different across countries, with more demand-side oriented remedies in countries such as Germany, and more supply-side oriented remedies in countries such as Italy and Romania.

Factors limiting consumers' interest in cross-border insurance purchases in absence of cultural, language and/or distance barriers

Table 79 shows the factors limiting cross-border insurance purchases among respondents who are categorised as facing/not facing language, cultural and distance barriers (these results mirror those reported for the full sample in Table 77 above). This is interesting to examine since cultural differences are a limiting factor only for a minority of respondents (see Figure 30, above). Respondents are categorised based on their personal characteristics and their responses to the survey questions:

- Absence of language barriers is proxied by an indicator of 'confidence in dealing with insurance matters in a foreign language', based on respondents' agreement/ disagreement with the relevant statements in Table 78.
- Absence of cultural barriers is proxied by having lived abroad since the age of 18, or envisaging living abroad in the future.
- Absence of distance barriers is proxied by living within 50km of the next border, and all laboratory participants are counted as not facing this barrier since they were specifically recruited from border regions in Slovakia and Italy.

Figure 32 below presents the same information, except that it shows the *differences* in the shares of consumers affected by each limiting factor, between those who face and do not face each barrier.

The table and figure show that consumers who do not face language or cultural barriers are generally less likely to have been prevented from purchasing, or trying to purchase, insurance cross-border by these limiting factors. The shares for these respondents are consistently below those for consumers who do not face these barriers. Conversely, absence of distance barriers does not seem to be strongly associated with consumers being prevented from purchasing insurance cross-border, due to the various limiting factors investigated.

In line with the results presented above (in Figure 31), the absence of language barriers, in particular, seems to be associated with more positive attitudes towards cross-border purchasing of insurance. The differences shown in Figure 32 are largest for this barrier for all limiting factors, except for perceptions that the cross-border insurer would be located too far away and that the quality of insurance would be better in the consumer's home country.

However, regardless of the differences in rates at which consumers are affected by these various limiting factors depending on whether they face language, cultural or distance barriers, the most important barriers remain the same. Specifically, a perception that it may be more difficult to solve problems if insurance is bought cross-border and being unaware of the possibility to purchase insurance cross-border are the main limiting factors (affecting the highest share of consumers), irrespective of whether these barriers apply.

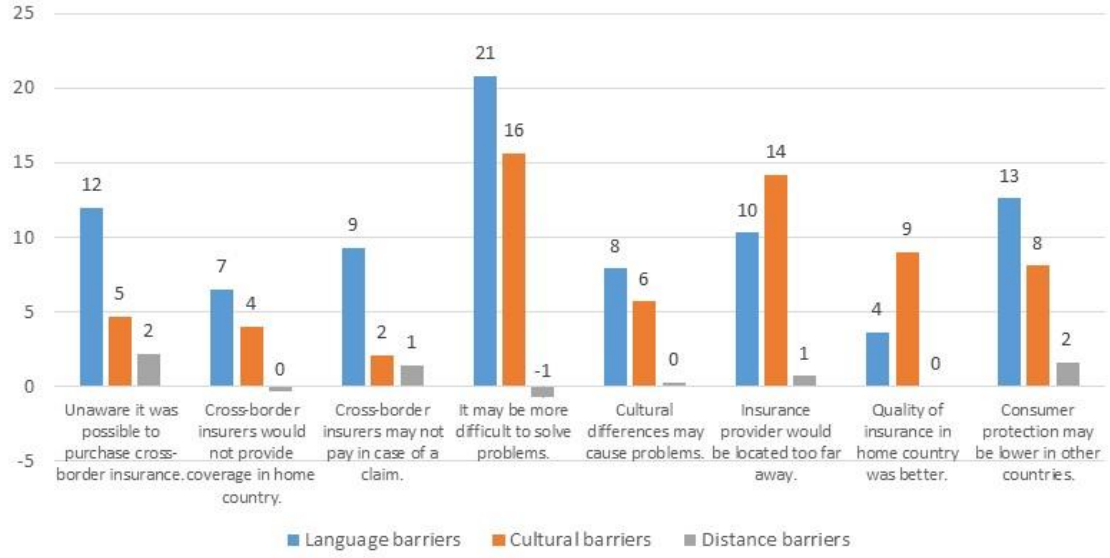
Table 79: Main reasons for never having purchased, or tried to purchase, insurance cross-border, depending on absence (or not) of language, cultural and distance barriers (%)

	Language barriers[1]		Cultural barriers[2]		Distance barriers[3]	
	Absent	Present	Absent	Present	Absent	Present
Did not know that it was possible to purchase cross-border insurance	31.9	43.9	31.6	36.3	34.0	36.2
Thought cross-border insurers would not provide coverage in home country	24.4	30.9	22.6	26.6	26.8	26.5
Thought the cross-border insurer may not pay in case of a claim	11.5	20.8	13.4	15.5	13.4	14.8
Concerned it may be more difficult to solve any problems	33.3	54.1	31.0	46.6	40.8	40.1
Feel that there were cultural	10.3	18.2	9.8	15.5	12.7	13.0

differences that may cause problems						
Feel that the insurance provider would be located too far away	22.1	32.4	16.7	30.9	24.9	25.6
Feel that the quality of insurance in home country was better	14.7	18.3	11.5	20.5	15.9	15.9
Feel the level of consumer protection in other countries may be lower	16.8	29.4	16.8	24.9	19.6	21.2
Number of respondents	3,999	1,605	1,841	2,490	1,134	4,470

Note: Respondents indicated the main limiting factors to cross-border purchases in a follow-up question only if they had never purchased or tried to purchase cross-border insurance. Responses by survey participants who have previously engaged in cross-border insurance purchases are counted as if these limiting factors do not apply. 1) Absence of language barriers is proxied by an indicator of 'confidence in dealing with insurance matters in a foreign language'. Groups with low vs. medium/high language confidence are compared. 2) Absence of cultural barriers is proxied by having lived abroad since age 18, or envisaging living abroad in the future. 3) Absence of distance barriers is proxied by living within 50km of the nearest border, and all laboratory participants are counted as not facing this barrier since they were recruited from border regions.
Source: London Economics analysis of online and laboratory survey/experiment data.

Figure 32: Differences in shares prevented from purchasing/trying to purchase insurance cross-border due to certain factors between those facing and not facing barriers



Note: Percentage point differences. The values shown are the shares prevented from purchasing/trying to purchase insurance cross-border due to these limiting factors among those facing language, cultural and distance barriers, minus the corresponding shares among those not facing these barriers. 1) Absence of language barriers is proxied by an indicator of 'confidence in dealing with insurance matters in a foreign language'. Groups with low vs. medium/high language confidence are compared. 2) Absence of cultural barriers is proxied by having lived abroad since age 18, or envisaging living abroad in the future. 3) Absence of distance barriers is proxied by living within 50km of the nearest border, and all laboratory participants are counted as not facing this barrier since they were recruited from border regions.
Source: London Economics analysis of online and laboratory survey/experiment data.

Box 46 : Evidence from the focus groups

A key observation from the focus groups is that most **consumers are not aware** that it is possible to purchase insurance cross-border.

> *"I just feel that it is less common. I haven't really heard about it. I have the feeling that the insurance company should be in the country where you live or where the product insured is"* (Woman, 29, higher education Stockholm)
>
> *"That sounds like total nonsense to me"* (Woman, 53, lower education, Hamburg)

The only instances of cross-border purchase amongst focus group participants arose in Sweden. Here a few participants had purchased car insurance cross-border.

> *"I have car insurance in another country that I found via compricer. The terms were very good and the price was even better. It was way above other offers in Sweden." (Woman, 38, lower education, Stockholm)*
>
> *"I have insurance for my boat in Åland [FI]. I was not able to get insurance in Sweden at a reasonable price. It is much cheaper in Åland." (Man, 56, higher education, Stockholm)*

Trust and **lack of familiarity** was identified as a barrier by participants (trust was also identified as a barrier by stakeholders as detailed in Box 47). Perceptions of mistrust in the insurance sector generally, and feelings that products are complex, seems to magnify consumers' concerns of trust and complexity in cross-border purchases.

> *"It's difficult enough to understand the ones here!" (Man, 33, higher education, London)*
>
> *"I don't want it because I feel insecure. I am not even sure if German insurance will pay, I mistrust them already. I always think they try to rip me off, particularly with high claims. I would not top that with foreign issues." (Woman, 45, higher education, Hamburg)*
>
> *"You can't understand everything, there could be disappointments of additional costs you weren't aware of." (Woman, 51, higher education, Milan)*

Participants also identified the importance of **familiar brands** in their insurance provider choice, and especially in the home insurance, the importance of **having a relationship with the provider.**

> *"Familiarity as well. In England you go for (brand names) that you know… We're familiar with... I'm sure in Belgium or Czech Republic they've got their own versions of that… We don't know." (Man, 41, lower education, London)*

Differences in insurance rules and regulations was also raised as a barrier. Some participants expressed the view that due to differences in legislation between countries it would be difficult to understand the content of the insurance contract with a cross-border insurance provider. Participants also said they **felt insecure about their rights to make a claim**, or **resolve a legal dispute** in the case of an unsuccessful insurance claim.

Administrative barriers such as differences in regulations, exchange rates and bank charges or costs of long distance phone calls were also identified by participants.

The main perceived administrative barriers were:

- Laws and regulations which may differ from one country to another;

"Where is the place of jurisdiction? There are different laws in each country." (Woman, 25, lower education, Hamburg)

- Exchange rates and bank charges;

  "I don't want any cost at my bank as a result of this thing… That I would not have had if it came from London. I don't want additional cost for currency exchange." (Man, 56, lower education, London)

- Cost of long-distance phone calls (to conclude contract, to make a claim etc.);

- Among participants in the UK, fear that the UK might exit the EU.

Problems with **communications** or **customer services** were also raised by participants.

- **Language barriers**, which could impact not only direct verbal communication with the insurance provider, but also paperwork. Participants raised questions about whether documents (contracts, as well as receipts and proof of identity or ownership documents) would need to be translated. Participants also worried about the language that would be used to communicate with the insurance provider; in Italy, it was noted that English might be a "universal language", but for technical/insurance terms, it would be necessary to communicate in Italian.

  "What about the proofs, documents, shall we translate it into another language when solving claims?" (Woman, 28, lower education, Bratislava)

- Fear of not being able to get in **contact** with someone from the insurance company in order to ask for information or file a claim;

  "Not being able to access information… or not being able to speak to someone when the need arises, if the need arises." (Woman, 33, higher education, London)

- Potential difficulties insurance companies may have when intervening in another country, due to **lack of knowledge of the local context** (for example, not knowing which repair shop to recommend to someone who has damaged their car), or to a lack of local presence.

  "How can a French insurer know the specificity of having a car in Naples or Aosta?!" (Man, 41, lower education, Milan)

As a result, participants' concern was that any of these aspects could potentially interfere with the efficiency of the claims handling procedure, or that the process would become overcomplicated:

"If you are in a small village in Basilicata, working or on vacation, what happens then? Is there a place you can contact and ask for help? To me it seems really too complicated." (Man, 26, lower education, Milan)

"There will be language barriers, and another question is how will the search of premises look like when I would claim about home insurance?" (Man, 54, higher education, Bratislava)

Box 47 : Evidence from the literature

Consumers' coverage requirements vary between countries, due to differences in regulatory requirements, which were identified in studies carried out across the EU.[561] Therefore, different levels of insurance coverage are mandatory depending on the country, linked to the characteristics of the countries (e.g. climate, theft rate) and the varying consumer preferences. Differences in tax regimes and regulatory requirements particularly increase costs of supplying cross-border as the company must seek third party legal advice to assess the legal requirements the company must adhere to. However, no estimates of these costs were identified in the literature. DG JUST released a report on the legal obstacles to cross-border sales, including the above arguments.[562]

For some insurance products, cross-border sales through FPS are simply not possible in Romania. For motor and household insurance, the seller must have a legal office in the country, according to Law 136/2005 (Art 5, which was modified by Law 172/2004).

A study of the French-Germany ECC on the European insurance market[563] also shows that buying insurance products online, and especially cross-border products, is not always possible. In the study prepared by the ECC, simulations have been carried out to try to subscribe to insurance products online. Buying insurance products was only possible on 47% of the insurance websites, and it was possible in only 9.7% of the cases to subscribe to these contracts when living in a different country.

Box 48 : Evidence from the stakeholder interviews

Language differences were identified by stakeholders interviewed as one of the main obstacles for companies supplying insurance cross-border via freedom to provide services. The need for documents and technical terms to be translated into the national language can lead to consumer confusion and misunderstanding of the product. In addition, language differences can make the claims process difficult for both the insurer and the consumer.

Trust also plays an important role in consumers' choice of insurance provider. Consumers tend to purchase insurance products from providers they know, or have a well-known brand name or are recommended to them and these tend to be located in the consumers' home country (trust and recommendation was also a key point raised by participants in the focus groups when selecting an insurance provider, and as a barrier to cross-border purchase). Consumers are not familiar with the products coverage, claim handling and appeal procedures abroad.

Insurance companies' market analysis prior to providing insurance products cross-border can be costly, according to trade associations interviewed in the UK. However, the stakeholders interviewed across the different Member States could not provide estimates of these costs. **Distribution channels for insurance vary between countries**. An example is the wide spread use of price comparison websites in the UK[564] while in Romania and Slovakia this channel is less developed according to the national stakeholders. The difference in distribution channels between countries means insurance companies need to adapt their marketing and selling strategies for the

[561] Europe Economics, 2009, Retail Insurance Market Study MARKT/2008/18/H. Available at: http://ec.europa.eu/finance/insurance/docs/motor/20100302rim_en.pdf
[562] European Commission, 2014, Final Report of the Commission Expert Group on European Insurance Contract Law. Available at: http://ec.europa.eu/justice/contract/files/expert_groups/insurance/final_report.pdf
[563] Franco-German ECC, 2014, Der europäische Versicherungsbinnenmarkt, Grenzüberschreitende Versicherungsverträge: Abschluss oder Ausschluss? Available at: http://www.evz.de/fileadmin/user_upload/eu-verbraucher/PDF/Berichte/FINAL_Studie_Versicherungsbinnenmarkt.pdf
[564] Financial Conduct Authority, 2014, Price comparison websites in the general insurance sector, UK

specific country.

In border regions, consumers might be slightly more interested in cross border insurance according to some stakeholders, however, as indicated by consumer associations from France and Luxembourg.

The main limitation, according to the French and Luxemburgish ECCs, is actually that there are almost **no cross-border offers**, i.e. insurers do not offer insurance products cross-border via FPS. An interviewee from the Luxemburgish ECC explained that household and motor insurance tend not to be sold cross-border as the insurers simply refuse to cover risks of properties located abroad.

For the French-German ECC, the obstacles encounter by insurers to provide cross-border insurance offer include:

- **Regulatory obstacles**: differences in legislation so products need to be adapted to the other countries' legislation; necessity to know national/regional/local legislation.
- **Different insurance landscapes**: some insurance covers are compulsory (e.g. decennial insurance in France) or public in one country and not in the other, liabilities can be different (the liability of the landlord and tenant are not always the same across the EU), as well as claim handling (which differs from one Member State to another and within the different regions of the same country e.g. in France and Germany).
- **Economic obstacles**: difficult to assess risks in a foreign market, insurers need cost benefit analysis, legal advice, statistics etc.
- **Commercial obstacles**: the insurance market is already saturated in some countries so it is hard for new insurers to enter the market (e.g. in France or the UK) so in order to enter such markets, foreign insurers need to find a specialised niche or to have significant financial resources.
- **Consumers' habits**: consumers are not used or not keen to purchase insurance products from another country' supplier, they might perceive foreign insurers as not familiar with the domestic market or without physical agents where consumers can go to discuss their needs.

The Luxembourgish Association of banks and bankers adds the following additional obstacles to cross-border sales of insurance products:

- Language (translation costs, complexity of insurance terms);
- Additional requirements by national regulators create a lack of level playing fields among EU actors (e.g. liquidity threshold);
- Difficulties of verifying the identity of cross-border customers (at this stage, there is no interoperable national e-ID solution recognised by all EU-Member States);
- Costs of servicing clients across borders (without local infrastructure); and
- Current lack of sufficient cross-border demand[565].

[565] See Eurobarometer 373 survey of 2012: 80% of the citizens questioned do not plan to purchase financial products in another Member State as they believe they can access everything they need in their own country.

6.2. Interventions to increase cross-border demand

This section turns to potential actions and interventions that may increase cross-border demand and supply. It is possible to draw a number of inferences regarding the likely effectiveness of different types of measures from the survey results discussed in the previous section (these are outlined in the summary points below; see Box 43 above for details of the survey results). Further insights are provided by the behavioural experiment (see Box 50) and the literature. Focus group participants tended to reiterate the barriers to cross-border purchases they had identified, indicating that interventions should seek to address these barriers. In summary the key findings are:

- Interventions should be considered to **improve consumers' awareness** that it is possible to purchase insurance cross-border. For example, the Spanish consumer association ADICAE's (adicae.net) response to the Commissions' Green Paper in Retail Financial Services includes the establishment of independent pan-European comparison websites, which include information on cross-border products as a method to raise awareness.
- Comparison websites that include information on cross-border insurance products may also be useful in **building consumer trust and confidence through consumer reviews** and experience with cross-border products.
- **Methods to make consumers more familiar** with insurance providers that offer insurance cross-border, which would build trust and brand recognition for these firms among consumers, could be considered. Another response category included in the Commissions' Green Paper on retail financial services may be relevant here, namely marketing campaigns by financial services providers or their associations. Focus group participants identified that word of mouth and recommendations were often important in their choice of insurance provider and, thus, by making cross-border brands more prominent consumers may increase demand for cross-border products.
- Lower prices from cross-border insurance providers was identified as a key driver for cross-border purchases in the focus groups and by stakeholders interviewed. In line with this, the experiment results show that information regarding potentially cheaper insurance provision by cross-border providers may stimulate consumer demand for cover for low-impact risks, such as car rental and add-on insurance. Providing such information during the purchasing process via an 'information banner' increased the likelihood that respondents chose a cross-border offer for add-on insurance in particular. Thus, **methods that highlight the potential benefits to consumers** of purchasing cross border, such as a larger range of products or lower prices, may increase consumer interest in cross-border insurance purchase.
- Participants in the focus groups pointed out that rules and regulations differ between countries, creating uncertainty about their rights and ability to make a claim under a contract purchased from a cross-border factor provider. Similarly, the survey found that a perception that the level of consumer protection is lower in other countries is a factor limiting cross-border purchases. Thus, **improving consumer knowledge of their rights in their own country if they purchase a cross-border** insurance product may help to mitigate some of these concerns. It may be beneficial to stress to consumers that their domestic legal framework and customer protection mechanisms apply in case of cross-border insurance purchases. A remedy in this area was tested in the experiment, namely an information banner informing consumers that cross-border insurance contracts are covered by EU law as well as that customer service is provided in their home country language with local representation. This remedy was effective at increasing cross-border demand for motor insurance in particular.
- **Informing consumers and making them aware of how and where they can get help if they need assistance** with their cross-border insurance, may also help to reduce uncertainty about their rights to make a claim or resolve legal disputes (e.g. the survey found that concern regarding the difficulty of solving

problems if something goes wrong is an important limiting factor). Effective policy measures would therefore reassure consumers that ombudsmen and redress mechanisms are available to them if they make a cross-border insurance purchases. The ECC-Net could potentially be used as a conduit for this assistance and advice, and sign-posting to alternative dispute resolution options. Promoting the visibility of the ECC-Net, and particularly the network's ability to assist consumers with cross-border disputes in the insurance sector, may be beneficial.

- **Language** is a key barrier, both to the provision of insurance cross-border by companies and to cross-border demand from consumers. Participants in the focus groups emphasised the importance of being able to easily get in touch with someone from the insurance company if the need arises. This suggests that measures to alleviate language difficulties, such as providing customer service and documentation in consumers' own languages, would help to increase cross-border demand. However, as the stakeholder interviews found, the cost of translation for required documents remains a barrier for insurance companies.

The detailed findings of the behavioural experiment, survey focus groups, literature review, and stakeholder interviews are presented in the boxes in the following subsections.

6.2.1. Cross-border information when an upfront offer is displayed

The behavioural experiment tested the effect of providing cross-border information (i.e. on certain features and potential benefits of cross-border insurance products) on consumers' decisions with respect to selecting a cross-border offer. The impacts of this information on respondents' choices when presented with an upfront car rental or add-on insurance offer (i.e. at the 'initial offer stage') are presented in the following box.

Box 49 : Evidence from the behavioural experiment and survey

In the behavioural experiment, some respondents saw offers from both domestic and cross-border insurance providers. The experimental setup was identical to the setup described and analysed in previous chapters. The only difference between domestic and cross-border providers was the address that featured below the provider name throughout the different screens of the insurance choice task. This address was either domestic (i.e. adapted to the Member State in which the experiment was conducted) or cross-border. Specifically, the foreign provider was chosen to be located in Luxemburg.[566]

The behavioural experiment tested the effectiveness of information 'banners', which informed respondents about particular features and potential benefits of cross-border insurance products. These banners were designed to dispel particular fears regarding cross-border insurance purchases, identified from the literature and preliminary findings from the stakeholder interviews and focus groups that were conducted prior to the launch of the experimental fieldwork.

Online experiment respondents were randomly assigned to one of three conditions:

- **No banner**
- **Banner A**: This banner focussed on **price, coverage and payment features** of cross-border insurance. It gave the respondents the following information:

  "*Did you know that …*

  ✓ *Insurance companies from countries other than [**respondent's home country**] can be **cheaper** than [**respondent's home country**] providers, or*

[566] Full details of all the visual presentation of the different screen as well as the provider addresses can be seen in the experiment script in the annexes document.

*offer **additional cover***

✓Same payment methods for domestic and foreign providers apply"

- **Banner B**: This banner was designed to dispel fears relating to the **lifetime of the insurance contract**. It gave the respondents the following information:

"*Did you know that …*

*✓ **All insurance offers** that will be shown to you, including those from providers in other EU countries, will cover you in [**respondent's home country**] according to European law.*

*✓ Foreign insurance companies offer **customer service in** [**language of respondent's home country**]*

*✓You can always make a claim through a **local agent or representative** if you are insured by a foreign provider*"

If a respondent was assigned to the 'Banner A' or 'Banner B' condition, they were shown the relevant banner following the 'profile stage' if they were in the home or motor insurance setting, or the banner was shown to them prior to the 'initial offer stage' if they were in the car rental or add-on insurance setting (see section 2.4.3 for an overview of the construct choice task).

In addition, the effectiveness of a single cross-border information banner was tested in the laboratory experiment. This banner was a combined version of banners A and B.[567] Thus in the laboratory experiment respondents were either assigned to the combined banner condition or the 'no banner' condition. In the laboratory setting all respondents completed the choice task for motor insurance (see section 2.5 for an overview of the design of the laboratory experiment). One-hundred respondents were recruited for the laboratory experiment, specifically from border regions in Italy and Slovakia.

The analysis reported below examines whether the banners were effective at increasing consumers' propensity to purchase cross-border insurance in the choice task.

Effectiveness of the cross-border information banners at the 'initial offer stage'

The first time that respondents could decide to purchase (or not) insurance from a cross-border provider in the online experiment was at the 'initial offer stage' in the car rental and add-on insurance scenarios.

Table 80 shows that Banner A was effective at increasing the likelihood that respondents chose a cross-border provider, when such a provider was shown at this stage of the experiment. On average across the car rental and add-on insurance scenarios, the share of respondents who accepted an offer from a cross-border provider increased from 22% to 34% when Banner A was shown. This effect is large and positive for both insurance products. However, it shows up as statistically significant only for add-on insurance. For car rental insurance, the effect, an 8 percentage point increase, was not large enough to be statistically significant.

Banner B, on the other hand, had no significant effect on choices at the initial offer stage. While the effect is, again, large and positive for add-on insurance, it is marginal and negative for car rental, resulting in insignificance overall.

Table 80: Cross-border information banner: Fraction of respondents choosing a cross-

[567] These specific design choices were made to ensure robustness of the data and sufficient sample size. Motor insurance was chosen over home insurance because according to findings from the focus groups, this type of insurance was seen as more standardised across countries and as more applicable since one may drive with the vehicle in different countries and still be (at least minimally) covered.

border provider at initial offer stage, by treatment

Treatment	All	Car rental	Add-on
Baseline (no banner)	0.22	0.25	0.18
Banner A	0.34	0.33	0.35
Difference to baseline	0.12**	0.08	0.16**
Banner B	0.25	0.21	0.28
Difference to baseline	0.03	-0.04	0.10

Note: N=646. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online experiment data.

Linear and logit regression analyses[568] confirmed the results shown in Table 80. Banner A significantly increased the likelihood of confirming a cross-border insurance offer at the initial offer stage, while Banner B had no effect compared to showing no banner. Furthermore, the effect of Banner A was consistent across different types of respondents (i.e. its effectiveness was neither significantly reduced nor enhanced depending on respondents' individual characteristics).

These findings are in line with those from the focus groups and stakeholder interviews, which both emphasised that lower prices are a key motivating factor for purchasing insurance from cross-border providers. Furthermore, focus group participants also noted that they would like to be reassured that no additional costs would arise from cross-border insurers (e.g. fees for payments or long-distance phone calls). The effectiveness of Banner A, which specifically highlighted price and coverage motivations, thus reinforces that for products that insure against smaller, low impact risks, price is a driver of choices, while considerations relating to claims handling, local representation of the insurer, and legal considerations (Banner B) seem to be of less importance.

The focus groups identified that consumers may be deterred from cross-border insurance because such products appear even more complex than domestic insurance. As discussed previously, consumers tend to purchase small-scale insurance, such as for rental cars and furniture, due to 'peace of mind' motivations. Therefore, respondents may have been unresponsive to Banner B because they did not consider further complications during a future claims process.

Similar to considerations that may cause individuals not to claim for relatively small amounts above their contractual excess (see the discussion on 'pseudo-deductibles' in section 4.2.2), it could be that individuals do not actually expect to ever (need to) make a claim for a rental car or piece of furniture. Thus, fears relating to local claims handling and legal requirements may be of less importance for this type of insurance.

Effectiveness of the cross-border information banners at the 'initial offer stage' by country

This section disaggregates the previous analysis of the effectiveness of the information banners by country to detect any significant differences between the Member States. For each country, Table 81 displays respondents' choices under the baseline treatment where no banner was shown and the *differences* in choices (compared to the baseline) when Banners A and B were shown respectively.

Table 81: Cross-border information banner by country: Fraction of respondents choosing a cross-border provider at initial offer stage in the baseline and differences by treatment

[568] This analysis included regressions with controls to examine whether the treatment effects are robust to the inclusion of these controls, and regressions with interaction terms to examine whether the treatment effects are stronger or weaker depending on the consumers personal characteristics.

Country	Treatment	All	Car rental	Add-on
All	Baseline (no banner)	0.22	0.25	0.18
	Banner A	0.34	0.33	0.35
	Banner A difference	0.12**	0.08	0.16**
	Banner B	0.25	0.21	0.28
	Banner B difference	0.03	-0.04	0.10
DE	Baseline (no banner)	0.26	0.26	0.27
	Banner A	0.38	0.31	0.47
	Banner A difference	0.12	0.05	0.20
	Banner B	0.25	0.13	0.3
	Banner B difference	-0.02	-0.13	0.03
IT	Baseline (no banner)	0.19	0.37	0.03
	Banner A	0.19	0.45	0.04
	Banner A difference	0.00	0.08	0.01
	Banner B	0.38	0.32	0.47
	Banner B difference	0.19	-0.05	0.44**
RO	Baseline (no banner)	0.32	0.22	0.54
	Banner A	0.50	0.29	0.61
	Banner A difference	0.17	0.07	0.07
	Banner B	0.36	0.43	0.33
	Banner B difference	0.04	0.21	-0.21
SK	Baseline (no banner)	0.30	0.41	0.16
	Banner A	0.33	0.23	0.45
	Banner A difference	0.03	-0.18	0.29
	Banner B	0.45	0.43	0.48
	Banner B difference	0.16	0.02	0.32**
SE	Baseline (no banner)	0.16	0.29	0.00
	Banner A	0.32	0.42	0.16
	Banner A difference	0.17	0.13	0.16
	Banner B	0.24	0.24	0.25
	Banner B difference	0.08	-0.05	0.25**
UK	Baseline (no banner)	0.18	0.13	0.21
	Banner A	0.39	0.26	0.43
	Banner A difference	0.22*	0.13	0.22
	Banner B	0.14	0.16	0.1
	Banner B difference	-0.04	0.03	-0.11

Note: N=111 (DE), N=110 (IT), N=99 (RO), N=102 (SK), N=99 (SE), N=125 (UK). Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online experiment data.

As can been seen from the table above, on average across both product types (car rental and add-on insurance), under the baseline treatment, willingness to confirm a cross-border insurance at the initial stage varied across countries from 16% in Sweden to 30% in Slovakia and 32% in Romania.

It is difficult to reach country-by-country conclusions regarding the effectiveness of the

information banners. The differences in behaviour due to the banners fluctuate between small negative (statistically insignificant) and large positive effects.

For car rental insurance alone, none of the country level results are statistically significant, although the impact of Banner A on average for car rental and add-on insurance combined is statistically significant for the UK (at 22 percentage points).

For add-on insurance, there are statistically significant results for Banner B for Italy, Slovakia and Sweden (44, 32 and 25 percentage points respectively), suggesting that the aspects of cross-border insurance mentioned in this banner – i.e. coverage in their home country according to European law, customer service in their own language, and being able to claim through a local agent or representative – may appeal more to consumers in these countries.

6.2.2. Cross-border information when consumers are comparing offers

The experiment also examined the effects of providing the same cross-border information on consumers' decision-making when they were comparing offers. The impacts of this information on the choices of respondents at the 'comparison stage' are presented in the box below.

Box 50 : Evidence from the behavioural experiment and survey

Effectiveness of the cross-border information banners at the 'comparison stage'

At the comparison stage of the online experiment, the effectiveness of the banners was tested for both product pairs; home and motor insurance, and car rental and add-on insurance.[569] We examine each pair in turn, starting with home and motor insurance.

Tests of mean comparison, shown in Table 82, reveal that for home and motor insurance Banner B had a significant positive effect on the likelihood that consumers chose a cross-border provider at the comparison stage, while Banner A did not have a statistically significant effect. On average across the home and motor insurance scenarios, Banner B increased the likelihood of selecting a cross-border offer by 6 percentage points. The banner's effect is positive for both products, but is mainly found for the motor insurance setting. The effect for home insurance alone is not statistically significant due to its small magnitude.

This is in line with sentiments expressed in the focus groups that consumers would be more inclined to purchase cross-border insurance for their vehicles if certain limiting factors, such as legal requirements and (absence of) local language customer service and claims handling, were resolved. Banner B precisely addressed these concerns and this translated into purchasing decisions in the experiment.

The lack of a statistically significant effect for the Banner A (no significant effect was found for either insurance product individually, nor for both combined) is also in line with findings from the focus groups in which price considerations alone were stated to be unlikely to convince consumers to purchase cross-border insurance for their homes. Rather, particularly low prices were said to have the potential to provoke scepticism by appearing 'too good to be true'.

Potentially because home and motor insurance relates to larger risks, which are present

[569] The products are 'paired' like this because the structure of the choice task was the same for both products within each pair.

for an extended period of time, it seems that the information in Banner B relating to the lifetime and functionality of the insurance policy was more important than the price information in Banner A.

Table 82: Cross-border information banner: Fraction of respondents choosing a cross-border provider at comparison stage, by treatment (home and motor insurance)

Treatment	All	Home	Motor
Baseline (no banner)	0.23	0.29	0.18
Banner A	0.21	0.23	0.20
Difference	-0.02	-0.06	0.02
Banner B	0.29	0.32	0.27
Difference	0.06*	0.03	0.08**

Note: N=1911. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online experiment data.

Looking at the corresponding treatments effects in the car rental and add-on insurance scenarios (see Table 83), the cross-border information banners had no statistically significant effects on choices at this stage of the experiment for these two products. A possible explanation for this is that in the car rental and add-on insurance settings there was an extra stage in the purchasing process (i.e. the initial offer stage, at which Banner A did have an effect, as explained above) between when the banners were shown and when respondent made their choices at the comparison stage. This may have caused respondents the have the banner information less in mind at the comparison stage, removing any potential effect.

Table 83: Cross-border information banner: Fraction of respondents choosing a cross-border provider at comparison stage, by treatment (car rental and add-on insurance)

Treatment	All	Car rental	Add-on
Baseline (no banner)	0.24	0.22	0.26
Banner A	0.23	0.21	0.25
Difference	-0.01	-0.01	-0.01
Banner B	0.29	0.30	0.29
Difference	0.05	0.08	0.03

Note: N=988. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online experiment data.

Effectiveness of the cross-border information banner at the `comparison stage' by country

Table 84 below presents the impacts of the cross-border information banners by country. The table displays respondents' choices under the no banner baseline treatment and the *differences* (relative to the baseline) when Banners A and B were shown.

In line with the overall analysis across all countries, in the home and motor insurance scenarios Banner A generally remains without an effect at the disaggregated level. Only Slovakia stands out with a positive statistically significant effect for Banner A for motor insurance. The effect of Banner B is statistically significant for Germany and Slovakia for motor insurance. For Romania, the result for Banner B for motor insurance conflicts with that for home insurance, although both of the results are only marginally significant.

In the car rental and add-on insurance scenarios, most country-level results are not statistically significant. The exception is Romania, where both banners significantly

raised cross-border choices from a low baseline rate in the add-on insurance scenario.

Table 84: Cross-border information banner by country: Fraction of respondents choosing a cross-border provider at initial offer stage in the baseline and differences by treatment

Country	Treatment	Home & motor	Home	Motor	Car rental & add-on	Car rental	Add-on
All	Baseline (no banner)	0.23	0.29	0.18	0.24	0.22	0.26
	Banner A	0.21	0.23	0.20	0.23	0.21	0.25
	Banner A difference	-0.02	-0.06	0.02	-0.01	-0.01	-0.01
	Banner B	0.29	0.32	0.27	0.29	0.30	0.29
	Banner B difference	0.06*	0.03	0.08**	0.05	0.08	0.03
DE	Baseline (no banner)	0.18	0.29	0.13	0.20	0.13	0.28
	Banner A	0.18	0.30	0.09	0.20	0.18	0.22
	Banner A difference	0.01	0.01	-0.04	0.00	0.04	-0.06
	Banner B	0.32	0.35	0.28	0.31	0.30	0.32
	Banner B difference	0.15**	0.06	0.16**	0.10	0.16	0.03
IT	Baseline (no banner)	0.25	0.28	0.24	0.29	0.20	0.37
	Banner A	0.23	0.19	0.26	0.27	0.22	0.31
	Banner A difference	-0.03	-0.09	0.03	-0.03	0.02	-0.06
	Banner B	0.30	0.32	0.29	0.35	0.39	0.29
	Banner B difference	0.05	0.04	0.05	0.05	0.19*	-0.07
RO	Baseline (no banner)	0.29	0.39	0.19	0.10	0.15	0.04
	Banner A	0.27	0.24	0.30	0.39	0.33	0.53
	Banner A difference	-0.02	-0.15	0.11	0.29***	0.18	0.48***
	Banner B	0.29	0.18	0.37	0.27	0.32	0.23
	Banner B difference	0.00	-0.21*	0.18*	0.17**	0.17	0.18*
SK	Baseline (no banner)	0.24	0.26	0.18	0.31	0.32	0.29
	Banner A	0.35	0.33	0.39	0.38	0.43	0.29
	Banner A difference	0.12*	0.06	0.21**	0.07	0.11	0.00
	Banner B	0.24	0.33	0.17	0.38	0.48	0.31
	Banner B difference	0.01	0.07	-0.01	0.07	0.16	0.02
SE	Baseline (no banner)	0.20	0.24	0.17	0.27	0.34	0.17
	Banner A	0.23	0.26	0.19	0.40	0.50	0.33
	Banner A difference	0.03	0.02	0.02	0.12	0.16	0.16
	Banner B	0.15	0.14	0.17	0.35	0.54	0.17
	Banner B difference	-0.04	-0.10	0.00	0.08	0.20	0.00
UK	Baseline (no banner)	0.28	0.28	0.28	0.24	0.30	0.18
	Banner A	0.2	0.15	0.23	0.15	0.13	0.17
	Banner A difference	-0.08	-0.12	-0.05	-0.09	-0.18*	-0.01
	Banner B	0.27	0.35	0.22	0.25	0.23	0.28
	Banner B difference	-0.01	0.08	-0.06	0.01	-0.07	0.09

Note: N=489 (DE), N=525 (IT), N=444 (RO), N=451 (SK), N=443 (SE), N=547 (UK). Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of online experiment data.

Effectiveness of the cross-border information banner in the laboratory experiment

In the laboratory experiment, 40% of respondents choose a cross-border provider at the comparison stage when they did not see the cross-border information banner. This share

was as high as 48% when the banner was shown prior to the comparison stage (see Table 85). While the difference is relatively large, it is not statistically significant.

Table 85: Cross-border information banner: Fraction of respondents choosing a cross-border provider at comparison stage, laboratory experiment

Likelihood to choose a cross-border provider at initial stage	Fraction choosing a cross-border provider at comparison stage
Baseline (no banner)	0.40
Combined banner	0.47
Difference	0.08

Note: N=200. Based on two-sided t-tests. */**/*** implies that a result is statistically significant at the 90%/95%/99% confidence level.
Source: London Economics analysis of laboratory experiment data.

6.2.3. Further evidence on interventions to increase cross-border insurance purchases

The focus groups and the literature provide further insights regarding possible measures to increase cross-border insurance demand and purchases. This evidence is presented in the boxes below.

Box 51 : Evidence from the focus groups

As mentioned previously (Box 46), in the few cases that focus group participants had purchased insurance cross-border, it was because the **price** of the insurance was cheaper than in their home country.

Benefits that focus group participants perceived from cross-border insurance options, in addition to lower prices, were more options in terms of insurance providers to choose from, and that increased competition would lead to lower prices and more offers, to the benefit of consumers.

In Italy and Romania, where participants exhibited a high level of distrust towards the retail insurance sector, participants raised the point that well-known trusted insurance companies from other EU countries may be more reliable than local ones. Further, as an indirect benefit, international competition could encourage local companies to evolve towards a more customer-orientated policy.

> *"With a larger, advantageous, simpler and clearer competition even Italian companies would be forced to adapt and improve their customer service."* (Woman, 34, lower education, Milan)

Although the prospect of benefiting from **better prices** was clearly the main advantage, the financial aspect alone was not sufficient to encourage people to purchase insurance from another EU country. A lower price does not remove the more important barriers (communication difficulties, different legislation, etc.); participants in Romania and Germany added that "insurance prices tend to be low anyway". A lower price (combined with better cover/lower excess etc.) is "suspicious" and would raise "scepticism" towards the insurance provider.

> *"If it cost me 50-100 pound cheaper I'd look at it, but I'd still be suspicious that I'm going to lose that in other ways. In my head I don't like it, but I suppose if it's going to happen and we would use it I would be ok."* (Man, 56, lower education, London)

Across all countries, potential access to "**better offers**" (which could involve a lower

excess, higher insured sum, or insurance which is tailored to one's needs) was also seen as an important advantage. Some participants highlighted the possibility to access a wider range of policies, including specialized insurance (for example, for boats or artwork).

> *"…say you'd have particular circumstances, like people in flood areas. If that could be covered from abroad and they can offer you better service and your claim would be honoured, than yeah you might go there for your flood insurance cover; (…) so yes, could be that you might want to think about, if that could be an advantage."* (Woman, 53, higher education, London)

Customer service was also of high importance. Participants emphasized the need to be able to easily get in touch with someone from the insurance company, if the need arises. Communication should be in the customers' native language, and should be free of charge (no long-distance telephone fees). Customer service was considered important in all countries, but particularly in the UK, Italy and Romania, where participants were dissatisfied with companies in their own country from this point of view. Transparent communication, with no hidden costs or conditions, along with an efficient claims handling procedure were some of the key elements which would encourage people to purchase insurance from other EU countries.

The **legal** aspect was also an important factor. Participants expected that if they were to purchase cross-border insurance, the same laws would apply as for insurance bought in their own country. Participants in Romania believed that some type **of proof that the insurance purchased abroad "is recognized by the national authorities"** would be reassuring to consumers.

Being able to purchase insurance from abroad which would be **adapted to the local market** - from a legal perspective, but also in terms of the overall local context, was therefore a key aspect:

> *"There should be an Italian package, drawn up thinking specifically of our cities, our homes, our laws."* (Woman, 47, lower education, Milan)

Participants found that the possibility of purchasing insurance from well-known, trusted companies which exist in several countries was encouraging. On the other hand, they felt less reassured at the idea of buying insurance from small local companies based in another country. **Brands' reputation** was therefore considered highly important.

> *"We could use services of good rated insurers who do not operate on our market. That would be great."* (Man, 46, higher education, Bratislava)

In Germany, some participants mentioned that they would prefer purchasing insurance from a company which had a **branch** or a **partner** in their own country.

Last but not least, **word of mouth, recommendations from trusted sources** (including friends and family), **customer reviews** and **advertising** were considered to be key factors when it comes to building consumers' awareness and trust towards insurance companies based abroad. Despite their strong tendency to select brands in their own country, which they are familiar with, participants would be more open to the idea of purchasing insurance from other EU countries if it was more common (if more people had done it already, creating a "precedent", and if it had positive reviews:

> *"If, let's say, I knew loads of other people that had also bought their policies from abroad, then I would have no reason to kind of doubt it. But if it's a new thing you'd be quite scared."* (Woman, 37, higher education, London)

> *"Just the unknown aspect of it… I'm a massive creature of habit like that so… It would take a lot for me to... I mean I'm not saying I wouldn't be open to it, I would, if I saw some really good information on it."* (Woman, 33, higher education,

London)

While some participants would be willing to buy any type of insurance from companies based in another EU country (if the above-mentioned conditions were met), others preferred purchasing their home insurance from companies based in their own countries, and were only open to buying motor insurance or travel insurance cross-border. On the one hand, they felt more "safe" knowing that their home insurance company was easily accessible. On the other hand, they felt that motor insurance was more standardised in the EU:

> *"I would be open for buying car insurance in another EU country since the law states that traffic insurance should be the same all over EU. It feels more standardized than other insurance. But it also depends on what country it is. If I buy a BMW I could imagine buying car insurance from Germany." (Man, 25, higher education, Stockholm)*

Box 52 : Evidence from the literature

A key reason consumers purchase insurance cross-border is **lower prices** according to a study carried out by the Commission Expert Group on European Insurance Contract Law[570]. This is particularly relevant where the currency is the same in the consumers' home country and the cross-border country as this helps consumers to compare costs. Further, having the same currency removes any exchange rate risk for the consumer which was identified as one of the administrative barriers by participants in the focus groups (Box 46). The Final Report of the Commission Expert Group on European Insurance Contract Law (2014) identified that consumers' concerns about where the insurance contract is issued or where the insurer is domiciled may be outweighed if they can secure a cheaper premium.[571]

The Spanish consumer association ADICAE's consultation responses to the Commissions' Green Paper on Retail Financial Services include the following options on **how to raise consumer awareness** about different retail financial services and insurance products available throughout the EU[572]:

- "Independent pan-European comparison websites which include information on cross-border products
- Marketing campaigns by financial services providers or their associations
- Information campaigns by regulators
- Information campaigns by consumer organisations
- Financial intermediaries empowered to offer cross-border financial products"

Respondents to the consultation most often report that independent pan-European comparison websites would improve consumer awareness.

The *Summary of contributions to the Green Paper on Retail Financial Services* (European Commission 2016)[573] reports that the majority of respondents across all stakeholder

[570] Final Report of the Commission Expert Group on European Insurance Contract Law (2014). Available at http://ec.europa.eu/justice/contract/files/expert_groups/insurance/final_report.pdf
[571] Final Report of the Commission Expert Group on European Insurance Contract Law (2014). Available at http://ec.europa.eu/justice/contract/files/expert_groups/insurance/final_report.pdf
[572] Published responses to the Green Paper are available at https://ec.europa.eu/eusurvey/publication/retail-financial-services-2015# . The relevant question is Question 9.
[573] Summary of contributions to the Green Paper on retail financial services: Better products, more choice and greater opportunities for consumers and businesses COM(2015) 630

categories were in favour of independent pan-European websites to raise consumer awareness about different products.

Most consumer associations agreed that comparison websites would help consumer awareness but some raised the issue that there may be risks that comparison websites may not be objective, fair and transparent. While most companies referred to the difficulty of organising a pan-EU system and the risk that they could ignore the complexities and features of products.

A review of the raw data from the consultation shows the following:

- Consumer protection organisations, who provided a response to this question, and selected the response 'independent pan-European website' were located in the United Kingdom, France, Austria, Denmark, Norway, Belgium, Greece, Netherlands, Portugal and Spain.
- Industry Associations, who provided a response and selected 'independent pan-European website' were located in the United Kingdom, France, Denmark, Norway, Belgium, Germany, Austria, Bulgaria, Slovakia, Spain, Romania, Luxembourg and Poland.
- Companies, who provided a response to this question, and selected the response 'independent pan-European website' were located in the United Kingdom, Finland, France, Germany, Spain, the Netherlands, Italy, Luxembourg, Switzerland and internationally.

In its response to the Green Paper on Retail Financial Services consultation, the French national supervisory authority (ACPR)[574] also proposed to follow the same rules as for the fourth Motor Directive (2000/26/CE). Following this directive insurers designate representatives in charge of claim and complaint handling in the Member States where they are involved with FPS. Similarly, a French trade association calls for a better use of the Points of Single Contact under Article 23 of the EU Services Directive (2006/123/EC) to provide information to consumers about the services requirements, consumer protection and redress procedures in other Member States.

Overall, however, the desk-based research allowed the identification of few interventions for increasing cross-border demand, except in France and Germany.

- The French-German European Consumer Centre (ECC) has established comparisons of best practices with a special focus on France and Germany, which are published on the ECC website and made available to national supervisory authorities. For example, one of the best practices concerns natural disaster insurance, which exists in France for most households but only in 1/3 of the German households since household insurance is not compulsory in Germany. Motor insurance was also considered in this best practices assessment since in France many vehicles are driven without insurance[575], while in Germany a vehicle cannot be registered without an insurance. The proof of motor insurance is included in an electronic database since 2008, to which the registration company can have access. Via this system, registration companies are also informed if a driver terminates their motor insurance without taking a new one and may impose the immobilisation of the vehicle as long as the driver does not subscribe

finalfile:///L:/London%20Economics/Projects/CHAFEA/Insurance%202016/Green%20paper%20consultation%20responses/summary-of-responses_en.pdf

[574] Insight from ACPR answer to the consultation on the Green Paper on retail financial services: better products, more choice, and greater opportunities for consumers and businesses. Available at: http://ec.europa.eu/finance/consultations/2015/retail-financial-services/index_en.htm

[575] According to the ECC and the Fonds de garantie des assurances obligatoires de dommages (FGAO), in France between 370,000 et 740,000 vehicles are driven without insurance http://www.cec-zev.eu/fileadmin/user_upload/cec-zev/PDF/documentation/etudes/Allemagne_preuve_assurance_immatriculation.pdf

to a new insurance. Therefore, consumers and authorities have access to German and French best practices in the insurance sector, which can encourage consumers to engage more with insurance companies in these countries. However, the impact of this action has not been assessed.

Box 53 : Evidence from the stakeholder interviews

Overall, however, the stakeholder interviews identified few interventions for increasing cross-border demand, except in France and Germany (outlined in the box above).

7. Potential savings consumers could make

This chapter aims to assess the range of potential savings for consumers that better choices may allow in respect of the insurance products covered in the study. The chapter draws on evidence from the experiment, desk-based review of literature, stakeholder interviews, and focus groups. Sections 7.1 to 7.3 below present the findings from each of these approaches in detail. The key findings are summarised here at the start of the chapter.

A number of common themes arose from the literature review, stakeholder interviews and the focus groups when considering how consumers could potentially make savings on their insurance premiums. These are complimented by calculations of the overpayments made by respondents in the experiment as a result of particular decision-making errors. Overall, the key findings are the following:

- **Searching, switching and avoiding auto-renewal of the insurance contract** was found to lead to savings in premiums from both the literature review and the stakeholder consultation. This applied to **car insurance** in which research from the UK estimated that savings could range between £113 per year (Money Supermarket, 2015) to £137 per year (The Telegraph, 2014). The Italian consumer association Altroconsumo reported that based on their own price comparison database it would be possible for consumers to save between €100 and €250 per year by search and switching provider. The experiment results that are most analogous to these findings from the literature are the overpayment estimates due to selecting an overpriced insurer (see section 7.1.1). The average overpayment due to this decision-making error in the motor insurance scenario *among those who made the mistake* was €189 on average across countries. This is clearly in line with these estimates from the literature. This experiment result is equivalent to around €36 per respondent across all respondents (including both those who did and did not make the error in question).
- Regarding **buildings and contents insurance, motor insurance, medical insurance and travel and pet insurance**, the UK Financial Conduct Authority estimated that across these products, overall savings of between £85.3 million and £137.9 million per year could be made in the UK from switching insurance provider (FCA, 2015a). The focus group participants also raised this as a potential way to save on insurance, and reported that using online comparison tools and comparing offers could lead to savings across insurance products. The sum over the home and motor insurance scenarios in the experiment of the estimated overpayments due to selecting an overpriced insurer *among those who made this mistake* was €280 (equal to €91 for home plus €189 for motor insurance).
- **Electing to pay the insurance premium in one annual lump sum as opposed to monthly payments** can lead to savings. For car insurance, the Bavarian consumer association in Germany (Expresse.de, 2014) reported an estimate of savings of €100 per year on car insurance premiums. While the Money Advice Service (2016) in the UK reported savings of 6% were feasible on buildings and contents insurance.
- **Ensuring the insurance product covers the correct risks** was also identified as a way to make potential savings. For example,
    - **Motor insurance:** ensuring that the insurance product properly matches the characteristics of the driver, and the specific risks they face:
        - Matching the insurance to the number of kilometres driven annually can mean that the consumer avoids paying for unused mileage. For example, savings of up to €1,040 per year were reported in Germany by Tagesspiegel (2016). In France, L'Express (2016) reported that for drivers who drive infrequently savings of up to 40% could be made by taking out a pay-per-use insurance.

        - In the experiment, overpayments (of premiums) due to covering vandalism risk that was not strictly necessary to cover averaged €48 per respondent *among those who made this mistake*, or around €10 among all respondents (see section 7.1.1). However, as discussed in section 7.1.1, it is important to interpret this result with care, since it is based on the particular experiment setup where respondents were informed, or not, about the presence of this specific risk in their situation. Although we interpret a decision to cover this risk when it was not mentioned at the profile stage as an 'error', it could be argued that vandalism risk may still be relevant.
    - **Home contents insurance:** In the experiment, the average overpayment resulting from covering flood risk when this was not explicitly necessary was €100 per respondent *among those who made the error*, or around €23 among all respondents (see section 7.1.1). However, the same caveat regarding this 'error' (noted above in the context of the motor insurance scenario) also applies in the home insurance setting.
    - **Buildings and content insurance** and **add-on insurance**: avoiding duplication in risks covered between insurance products can lead to savings for consumers. No quantitative estimates were found in either the literature review or the stakeholder consultation but this was identified as a potential way to save across a number of countries as consumers are often not aware that their bank account or credit card may already cover them for some risks.
- In the **home insurance** scenario of the experiment, the average premium overpayment due to respondents selecting too low an excess (given their financial means) was €108 per respondent *among those who made this error*, or around €44 among all respondents. The equivalent figures in the **motor insurance** setting were 121 and 48 (to the nearest Euro) (see section 7.1.1).
- In the **car rental** and **add-on insurance** settings of the experiment, the largest overpayments related to taking insurance when this was not optimal (i.e. when none of the offers available was a good deal). The average overpayments due to this decision-making error were €36 (car rental) and €60 (add-on) *among those who made this mistake*, or €19 and €22 among all respondents (to the nearest Euro) (see section 7.1.2).

7.1. Assessment of potential premium savings

Data from the experiments is used to examine the savings that consumers could make by avoiding particular decision-making errors. Since the types of errors that can result in overpayment of premiums differ depending on the type of insurance, these calculations are done by product pair; first home and motor insurance, followed by car rental and add-on insurance. Further details of the calculation approach are provided in section 2.6

7.1.1. Potential savings in the home and motor insurance scenarios

Decision-making errors in the home and motor insurance versions of the experiment that resulted in overpayment of premiums included:

- Selecting an overpriced insurer (Insurer 'A' was clearly overpriced);
- Selecting an excess that was lower than necessary (i.e. lower than the amount the consumer could bear given their financial circumstances); and
- Covering a risk that it was not necessary to cover.

As explained in section 2.6, the third error above was only relevant/a possibility for a participant if they were assigned to the scenario in which they did not need to cover the specific risk (flood in the case of home insurance, vandalism for motor insurance). Hence, the tables below show the shares of respondents making each type of decision-making

error, and the resultant overpayments per respondent, *among those respondents for whom these errors were relevant/a possibility*.[576]

The results for the third error (covering a risk that it is not necessary to cover) should be interpreted with care, since these results are based on the specific experimental set up (in which respondents were informed, or not, at the profile stage about the presence of the specific risk in their situation). Although in the analysis presented below we interpret a decision to cover the specific risk when this risk was not mentioned at the profile stage as an 'error', it is important to acknowledge that it could be argued that flood and vandalism risks may still be relevant for respondents irrespective of the information given at the profile stage. Hence, the third error should be considered separately to the other two, since the external validity of this third error is possibly lower.

Box 54 : Evidence from the behavioural experiment and survey

Shares making each decision-making error

The shares of respondents who made each type of decision-making error in the home and motor insurance scenarios are presented in Table 86 below. In line with the results reported in chapter 5, the most common error made by respondents was to select too low an excess. We know from section 5.3.1 that this largely stems from decision-making at the 'profile stage' of the experiment. Interestingly, consumers tended to make the mistake of selecting the overpriced insurer more often in the home insurance setting. As noted in section 5.3.3, in the home insurance scenario respondents had a preference for maximising the range of risks covered, with a tendency at the comparison stage to mistakenly choose the insurer that covered additional low impact risks for a substantial increase in premium.

Table 86: Shares of respondents making each decision-making error – home and motor insurance

Decision making error	Share of relevant respondents making each decision-making error[1] (%)	
	Home	Motor
Selecting an overpriced insurer	31.2	19.0
Selecting too low an excess (lower than the consumer can bear)	41.2	39.7
Cover specific risk[2] (when unnecessary to do so)	23.4	20.2

Note: N=2702 (N=1349 for home and N=1353 for motor insurance respectively). Shares are equal to the number of respondents who made the relevant error divided by the total number of relevant respondents in the group. 1) For selecting an overpriced insurer and selecting a low excess all respondents are relevant; for covering the specific risk only those for who it is not necessary to cover the specific risk are relevant. 2) The specific risk is flooding for home insurance and vandalism for motor insurance.
Source: London Economics analysis of online behavioural experiment data.

Average overpayments in the home insurance scenario

The average overpayments per respondent due to each decision-making error in the home insurance scenario are presented in Table 87. *Among those who made the error in question*, the average overpayment ranged from €91 for selecting an overpriced insurer to €108 for selecting too low an excess, although this is essentially a result of the experiment design, specifically the premium levels that were set. These premium levels were informed by actual prices in all markets of the study via a targeted web-sweep of actual offers and verification with local researchers, taking purchasing power parity (PPP)

[576] It is possible that respondents could have made more than one error. However, presenting overpayments due to various combinations of errors would give very limited additional insight beyond that provided by this 'per error' approach while greatly increasing the volume of the results.

into account (more information can be seen in the annex on design of offers in the contract choice task).

On average *among all respondents*, the highest overpayment resulted from respondents selecting an excess that was too low, at €44 per respondent, equivalent to 19% of the average premium paid. This was due to a combination of the high cost of this error when it was made, and the relatively high share that made it (see Table 86).

Table 87: Average overpayments per respondent due to specific decision-making errors – home insurance scenario

Decision making error	Average overpayment among relevant respondents[1]		
	Euro per resp. among those who overpaid	Euro per resp. among all respondents	% of premium among all respondents
Selecting an overpriced insurer (Insurer A)	€91.07	€28.43	12.2%
Selecting too low an excess (lower than the consumer can bear)	€108.00	€44.46	19.0%
Cover specific risk[2] (when unnecessary to do so)	€100.00	€23.37	10.0%

Note: Overpayments in Euro per respondent calculated as the total extra premium paid as a result of the relevant error divided by the number of respondents. Overpayments as a percentage of the premium calculated as the average overpayment in Euro divided by the average payment in Euro. Prices in the experiment were inspired by actual prices in all markets of the study, taking PPP and national premiums into account. 1) For selecting an overpriced insurer and selecting a low excess all respondents are relevant; for covering the specific risk only those for whom it is not necessary to cover the specific risk are relevant. 2) The specific risk is flooding for home insurance and vandalism for motor insurance.
Source: London Economics analysis of online behavioural experiment data.

Average overpayments in the motor insurance scenario

Table 88 shows the average overpayments resulting from each decision-making error in the motor insurance setting. The average overpayment *among those who made each error* ranged from €48 for covering the specific risk (when it was not strictly necessary to do so) to €189 for selecting an overpriced insurer. However, due to the higher share making the error (see Table 86), selecting too low an excess was the error causing the highest average overpayment *across all respondents*, at €48 per respondent or around 11% of the average premium paid.

Table 88: Average overpayments per respondent due to specific decision-making errors – motor insurance scenario

Decision making error	Average overpayment among relevant respondents[1]		
	Euro per resp. among those who overpaid	Euro per resp. among all respondents	% of premium among all respondents
Selecting an overpriced insurer (Insurer A)	€189.00	€35.93	8.01%
Selecting too low an excess (lower than the consumer can bear)	€120.65	€47.89	10.7%
Cover specific risk[2] (when unnecessary to do so)	€48.36	€9.77	2.18%

Note: Overpayments in Euro per respondent calculated as the total extra premium paid as a result of the relevant error divided by the number of respondents. Overpayments as a percentage of the premium calculated as the average overpayment in Euro divided by the average payment in Euro. Prices in the experiment were inspired by actual prices in all markets of the study, taking PPP and national premiums into account. 1) For selecting an overpriced insurer and selecting a low excess all respondents are relevant; for covering the specific risk only those for whom it is not necessary to cover the specific risk are relevant. 2) The specific risk is flooding for home insurance and vandalism for motor insurance.

Source: London Economics analysis of online behavioural experiment data.

7.1.2. Potential savings in the car rental and add-on insurance scenarios

In the car rental and add-on insurance versions of the experiment decision-making errors that resulted in overpaying of premiums included:

- Failing to select the cheapest offer when it was optimal to take an insurance; and
- Taking an insurance when it was not optimal to take any insurance on offer.

Which of the above errors was relevant to/a possibility for each respondent depended on the scenario they were assigned to; i.e. the scenario in which they saw at least one fair-priced offer, or the scenario in which they saw only overpriced offers. Hence, the following tables show the shares making each type of error and the resulting overpayments *among those for who these errors were relevant/a possibility*.

Box 55 : Evidence from the behavioural experiment and survey

Shares making each decision-making error

Among respondents who could have chosen a fair priced offer (because one was available in their experimental setting), 11% failed to select the lowest priced offer in the car rental scenario, whereas 13% did so in the add-on insurance setting (see Table 89). Among those who only saw overpriced offers, in the car rental insurance setting just over half (53%) made the mistake of taking insurance when it was not optimal to take any insurance on offer, while just over one-third (36%) made this error in the add-on insurance scenario. We know from the analysis of behaviour reported in chapter 5 that these high shares partly arise due to individuals confirming an overpriced insurance at the 'initial offer stage' (see section 5.3.2).[577]

Table 89: Shares making each decision-making error – car rental and add-on insurance

Decision making error	Share of relevant respondents making each decision-making error (%)	
	Car rental	Add-on
Failed to select the cheapest offer[1]	11.0	12.9
Took insurance when it was not optimal[2]	53.4	36.3

Note: N=656 for car rental and N=695 for add-on insurance. Shares calculated as the number of respondents in the group who made the relevant error divided by the total number of respondents in group. 1) Relevant respondents are those who could have chosen a fair-priced offer; not applicable if the respondent saw only overpriced offers. 2) Relevant respondents are those who only saw overpriced offers; not applicable if the respondent saw at least one fair-priced offer.
Source: London Economics analysis of online behavioural experiment data.

Average overpayments in the car rental insurance scenario

As shown in Table 90, in the car rental insurance scenario *among those who made the errors in question* the average overpayments due to failing to select the lowest priced offer was around €25. The average overpayment due to taking insurance when it was not optimal to do so was around €36 (although this is essentially a result of the premium levels set in the design).[578] However, due to the very different shares of respondents making these errors (see Table 89), the average overpayments *among all respondents*

[577] One factor which may have been driving this choice behaviour is that respondents may have thought that not purchasing an insurance at all was not an available option at this stage. However, as documented above, testing whether the option to 'see alternative offers' was displayed more or less prominently had no effect on decision behaviour. It is thus unlikely that a misinterpretation of the available options uniquely drove decisions to confirm (overpriced) insurance.

[578] As noted previously, the premium levels were informed by actual prices in all markets of the study, taking purchasing power parity (PPP) into account.

vary more considerably, from around €3 for failing to select the cheapest insurer to €19 for taking insurance when it was not optimal to take any insurance offer.

Table 90: Average overpayments per respondent due to specific decision-making errors – car rental insurance scenario

Decision making error	Average overpayment among relevant respondents[1]		
	Euro per resp. among those who overpaid	Euro per resp. among all respondents	% of premium among all respondents
Failed to select the cheapest offer[1]	€25.38	€2.78	33.3%
Took insurance when it was not optimal[2]	€35.54	€18.97	100%[3]

Note: Overpayments in Euro per respondent calculated as the total extra premium paid as a result of the relevant error divided by the number of respondents. Overpayments as a percentage of the premium calculated as the average overpayment in Euro divided by the average payment in Euro. Prices in the experiment were inspired by actual prices in all markets of the study, taking PPP and national premiums into account. 1) Relevant respondents are those who could have chosen a fair-priced offer; not applicable if the respondent saw only overpriced offers. 2) Relevant respondents are those who only saw overpriced offers; not applicable if the respondent saw at least one fair-priced offer. 3) Note that this value must be 100% by definition, since the relevant respondents (for whom the calculation is made) are those who only saw overpriced offers. This implies that all those who purchased an insurance made the error (purchasing insurance was the error), so the average overpayment is equal to the average payment.
Source: London Economics analysis of online behavioural experiment data.

Average overpayments in the add-on insurance scenario

The average overpayments per respondent as a result of each decision-making error in the add-on insurance setting are presented in Table 91. *Among those who made each error*, the average overpayment resulting from not selecting the cheapest offer was €30, compared to €60 as a result of taking insurance when it was not optimal to take any of the available offers. When differences in the shares making each type of decision-making error (from Table 89) are taken into account, on average *across all respondents* the overpayments are around €4 and €22 respectively for choosing an offer that was not the cheapest and deciding to take insurance when this was not optimal.

Table 91: Average over payments per respondent due to specific decision-making errors – add-on insurance scenario

Decision making error	Average overpayment among relevant respondents[1]		
	Euro per resp. among those who overpaid	Euro per resp. among all respondents	% of premium among all respondents
Failed to select the cheapest offer[1]	30.09	3.89	24.0%
Took insurance when it was not optimal[2]	59.84	21.69	100%[3]

Note: Overpayments in Euro per respondent calculated as the total extra premium paid as a result of the relevant error divided by the number of respondents. Overpayments as a percentage of the premium calculated as the average overpayment in Euro divided by the average payment in Euro. Prices in the experiment were inspired by actual prices in all markets of the study, taking PPP and national premiums into account. 1) Relevant respondents are those who could have chosen a fair-priced offer; not applicable if the respondent saw only overpriced offers. 2) Relevant respondents are those who only saw overpriced offers; not applicable if the respondent saw at least one fair-priced offer. Note that this value must be 100% by definition, since the relevant respondents (for whom the calculation is made) are those who only saw overpriced offers. This implies that all those who purchased an insurance made the error (purchasing insurance was the error), so the average overpayment is equal to the average payment.
Source: London Economics analysis of online behavioural experiment data.

7.1.3. Exemplar cases of savings consumers could realise

In the box below we provide descriptive representative examples of the types of mistakes consumers could make when purchasing non-life insurance products and the associated savings they could realise through better choices. The consumer and insurance scenarios below are based on the scenarios provided in the experiment choice task.

Box 56 : Exemplar cases of savings consumers could realise

Home insurance

Francesco from Italy is financially well-off. He could easily afford to pay for an unexpected bill of €500. He recently moved into his home and does not have insurance for his home contents yet. His apartment is located close to a river. He estimates that the value of his contents is €25,000. Moreover he owns a bicycle worth around €300 which he keeps locked in front of his home.

Francesco purchased home contents insurance from a provider that offered him a policy covering his belongings from natural hazards with an excess of €0 for an annual premium of €479.

Francesco could have made substantial savings by selecting a different insurance policy. He made two types of mistake in his purchase:

1. **He selected too low an excess**: Given Francesco's financial situation, he should have chosen a policy with a higher excess, e.g. €500. This could have saved him €100 per year compared to his actual choice of an insurance with a €0 excess.

2. **He purchased from an overpriced provider**: Instead he could have chosen to purchase from a more advantageous provider that offered an effectively equivalent insurance policy for €89 less.

Overall, Francesco overpaid by €189 (almost 40%) per year compared to the premium he would have paid had he chosen optimally.

Motor insurance

Hannah from Germany faces a tight financial situation. She would need to borrow money in order to pay an unexpected bill of €500. She recently started leasing her car. She already has the mandatory insurance cover for third party liability, but no comprehensive cover. Hannah uses her car for commuting and always parks it in a covered space off the street, both at work and at home. Furthermore, the car she drives opens and functions through modern electronic car keys.

Hannah purchased comprehensive cover from a provider which offered her a policy that includes vandalism cover with an excess of €0 for an annual premium of €879.

With this choice, Hannah made three mistakes which led her to overpay compared to the optimal choice she could have made:

1. **She selected too low an excess**: Despite her tight financial situation, Hannah should have selected a small excess of €100. Due to moral hazard, consumers should generally purchase policies with an excess since it lowers the likelihood of a claim and avoids administrative costs of very small claims. By choosing an equivalent policy with a €100 excess, she would have saved €70 per year.

2. **She purchased from an overpriced provider**: Instead, she could have chosen to purchase from a more advantageous provider that offered an effectively

equivalent insurance policy for €189 less.

3. **She chose to cover an unnecessary risk**: Hannah chose to purchase vandalism cover for her vehicle even though she parks her car in a protected space at home and at work. While one may never fully eliminate the risk of vandalism, based on her usage pattern of the vehicle one could argue that it was not necessary for Hannah to purchase cover for the vandalism. She could have saved €50 with a policy without vandalism cover.

Overall, Hannah could have realised savings of €309 per year, saving over 35% of the premium she actually paid.

Car rental insurance

Julia from Sweden rented a car for 7 days with unlimited mileage included. She was told that the rental agreement included third party liability but that an excess of 5000kr (approx. €500) would apply to at-fault damages.

Julia is in a comfortable financial situation since she could easily cover an unexpected expense of 5000kr (€50).

Julia chose to purchase car rental insurance from an overpriced provider at the rental agency who charges 250kr (€25) per day.

At the particular point of sale where Julia rented the car, there were no fairly priced insurance policies on offer for her rental car. Yet, instead of purchasing the overpriced provider, she should have selected not to purchase insurance but instead to accept the maximum liability of up to 5000kr (€50) in case of an at-fault damage.

Julia would have saved 250kr (€25) per day in this case, i.e. 1750kr (€175) over the 7 day rental period.

Add-on insurance

Horváth from Slovakia is in a tight financial situation. He would have to cut essential expenses in order to cover an unexpected bill of €350.[579]

Horváth has just purchased a new bed with a slatted frame and upholstered headboard featuring a 2-year legal guarantee against manufacturing faults, worth €350. Horváth chose to purchase insurance for €52.50 from the retailer.

This was a mistake since he could have chosen to purchase insurance from the more advantageous provider present in the market who offered more extensive cover for a lower price of €17.50.

Horváth could thus have saved €35, or 66% of the premium he actually paid by selecting the optimal provider.

7.1.4. Impact of the experiment treatments in terms of premium savings

In this section we examine the impacts of the treatments on the average overpayments of premiums due to specific decision-making errors in the experiment, through the following calculation:[580]

[579] Prices in Slovakia are adjusted using purchasing power parities to reflect actual price levels in this Member State.

Potential saving = *Average overpayment per respondent under Treatment X – Average overpayment per respondent under Treatment Y*

This equation has been calculated for each individual treatment variant relative to the baseline group. In this section we report the results for the treatments/decision-making errors for which *statistically significant* differences in the average overpayment are found.

Home and motor insurance

Table 92 shows that *not showing information* on included/excluded risks at the comparison stage of the experiment was in fact associated with lower average overpayments – i.e. *savings* – due to various decision-making errors. Among the results shown in Table 92, the most substantial savings relate to the error of selecting an overpriced insurer. For example, in the home insurance setting the average overpayment due to selecting the overpriced insurer was €19.92 lower when information on included/excluded risks was not shown at the comparison stage. The equivalent result for the home insurance scenario is €13.68.

While removing information might be expected to negatively affect consumer outcomes, this result shows that in this scenario reducing the amount of information shown improved outcomes overall. The explanation for this is that when the information on included/ excluded risks was removed this caused respondents to focus on the price, which in the context of this specific error (selecting an overpriced insurer) was a beneficial behaviour.

The results for the errors of selecting too low an excess and covering the specific risk when this was not strictly necessary are more difficult to interpret. These results are likely driven by respondents choosing not to purchase insurance at all (and thus not covering the risk), or by choosing the strictly cheapest provider who never covered the specific risk. These savings were however substantially smaller in size (from €3.97 to €9.70), and in the case of selecting too low an excess the saving is only marginally statistically significant.

Table 92: Savings (differences in average overpayment) due to not showing information on included/excluded risks at the comparison stage (€ per respondent)

Decision making error	Savings due to not showing information on included/ excluded risks at the comparison stage (€ per respondent)	
	Home insurance	Motor insurance
Selecting an overpriced insurer (Insurer A)	€19.92 ***	€13.68 **
Selecting a low excess (lower than bearable)	-	€9.70 *
Cover specific risk when unnecessary	€6.94 **	€3.97 **

Note: Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

Highlighting of information on included/excluded risks at the comparison stage had a statistically significant effect on the average overpayment due to one error, selecting a low excess, in the motor insurance scenario (see Table 93). Specifically, highlighting this information was linked with a €9.93 reduction in the average overpayment due to this

[580] Note that this calculation includes those who made the correct decision. It is important to include these respondents in the analysis, since more respondents making a correct decision due to a treatment is an import dynamic (which would reduce average overpayments). If those who made the correct decision were excluded, this dynamic would be lost from the data (hence they should be included).

error for this type of insurance. However, this result is only marginally statistically significant.

Table 93: Savings (differences in average overpayment) due to highlighting of information on included/excluded risks at the comparison stage (€ per respondent)

Decision making error	Savings due to highlighting information on included/excluded risks at the comparison stage (€ per respondent)	
	Home insurance	Motor insurance
Selecting an overpriced insurer (Insurer A)	-	-
Selecting a low excess (lower than bearable)	-	€9.93 *
Cover specific risk when unnecessary	-	-

Note: Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

Providing information explaining technical terms and the interaction of specific contract features via the 'glossary' reduced the overpayments made by respondents due to covering the specific risk when this was not strictly necessary, in both the home and motor insurance scenarios (see Table 94). The overpayments due to this error were €7.84 and €3.18 lower in the home and motor insurance scenarios, respectively, when this information was provided via the glossary (relative to when the information was not provided at all).

Table 94: Savings (differences in average overpayment) due to provision of information via the 'glossary' (€ per respondent)

Decision making error	Savings due to provision of information via the 'glossary' (€ per respondent)	
	Home insurance	Motor insurance
Selecting an overpriced insurer (Insurer A)	-	-
Selecting a low excess (lower than bearable)	-	-
Cover specific risk when unnecessary	€7.84 **	€3.18 *

Note: The information provided via the glossary explained technical terms and the interaction of specific contract features. Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

When the same information was provided via the 'short guide' (i.e. the '?'-icons), this was also associated with reduced overpayments (see Table 95). The average overpayments due to selecting an overpriced insurer in the home insurance scenario and due to covering the specific risk when this was not strictly necessary in the motor insurance scenario were reduced by €6.67 and €3.12, respectively, when this information was provided via the 'short guide' (compared to when the information was not provided at all).

Table 95: Savings (differences in average overpayment) due to provision of information via the 'short guide' (€ per respondent)

Decision making error	Savings due to provision of information via the 'short guide' (€ per respondent)	
	Home insurance	Motor insurance
Selecting an overpriced insurer (Insurer A)	€6.67 *	-
Selecting a low excess (lower than bearable)	-	-
Cover specific risk when unnecessary	-	€3.12 **

Note: Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

Car rental and add-on insurance

As already discussed in section 5.2.4, the pressure treatment had a counterintuitive overall net effect on final choices. This can also be seen in the realised savings. Contrary to what would be expected, respondents *realised overall savings* when put under time pressure at the 'initial stage' of the experiment (i.e. they realised negative savings – overpayments – when pressure was removed).

These savings amount to €4.81 and €8.96 respectively for car rental and add-on insurance respondents who avoided taking insurance when it was not optimal, as can been seen from Table 96. These savings in this treatment were driven by large numbers of respondents choosing to not purchase insurance after having been exposed to time pressure at the initial stage. Further details of this pattern of behaviour are presented in section 5.2.4.

Table 96: Savings (differences in average overpayment) due to removing pressure during the choice of an upfront offer (€ per respondent)

Decision making error	Saving due to no pressure at initial stage (€ per respondent)	
	Car rental insurance	Add-on insurance
Failed to select the cheapest offer	-	-
Took insurance when it was not optimal	-€ 4.81**	-€ 8.96***

Note: Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

Information provision via the 'glossary' caused overpayments for respondents in the car rental scenario, see Table 97. The average overpayment due to failing to select the cheapest provider was €1.77 higher when the glossary was available compared to the baseline where the information was not available.

The same treatment, however, allowed respondents in the add-on insurance scenario to realise savings of €6.87 compared to the baseline, since many respondents avoided overpayments by not purchasing insurance when no advantageous offers were available.

Table 97: Savings (differences in average overpayment) due to provision of information via the 'glossary' (€ per respondent)

Decision making error	Saving due to information treatment provided via 'glossary' (€ per respondent)	
	Car rental insurance	Add-on insurance
Failed to select the cheapest offer	-€ 1.77**	-
Took insurance when it was not optimal	-	€ 6.87*

Note: Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

When the same information was provided via the 'short guide' the effect in car rental insurance scenario was very similar (to the effect for the glossary), see Table 98. There was however no statistically significant effect in the add-on insurance scenario.

Table 98: Savings (differences in average overpayment) due to provision of information via the 'short guide' (€ per respondent)

Decision making error	Saving due to information treatment provided via 'short guide' (€ per respondent)	
	Car rental insurance	Add-on insurance
Failed to select the cheapest offer	-€ 2.18**	-
Took insurance when it was not optimal	-	-

Note: Savings calculated as the difference in the average overpayment between treatment groups. "-" signifies that the result is not statistically significant.
Source: London Economics analysis of online behavioural experiment data.

7.2. Assessment of potentially higher claims pay-outs

A second source of potential 'savings' that consumers may be able to make in the non-life insurance market is in the form of higher claims pay-outs (including in some cases being able to successfully make a claim at all). In the experiment, respondents could have made various decision-making errors that would have restricted their ability to make a claim in the event of an insurable loss.

Box 57 : Evidence from the behavioural experiment and survey

The shares of respondents who made errors that would have restricted their ability to make a claim are presented in Table 99 below. The results in this table are the shares *among those for whom the decision-making error in question was relevant* (e.g., in the case of the error 'Failure to include cover for flooding when this was relevant', the result shown is the share who did not cover the risk among those who explicitly should have done so, rather than among all respondents).

The most common errors made in the experiment that would have restricted consumers' ability to claim were failing to include cover for vandalism (motor insurance) and cover for flooding (home insurance) when it was important to do so, at 58% and 49% respectively. These shares are high due to choices made at various stages of the experiment: on average across the home and motor insurance scenarios around one-fifth of those who should have covered the risk chose not to at the profile stage; and among those who did select to cover the risk at the profile stage, around four in ten either chose the cheap insurer that did not cover the risk at the comparison stage or eventually decided not to purchase insurance.

The share who failed to purchase car rental insurance when it was optimal to do so was also relatively high (at 49%). This was caused by a combination of respondents deciding

to proceed without insurance at the initial stage, or at the comparison stage, or not confirming their purchase of a selected insurance at the confirmation stage.

Although we cannot translate the results in Table 99 into estimated savings, since relevant information is not available, complaints data from Task 1 may be used to put these results into context. The high shares in the table below suggest that consumers being unable to claim may be an issue, and this it supported by the complaints data. As discussed in section 3.1.6, in all countries where ADR bodies are in place, stakeholders indicated that claims were the main topic of complaints, either on the claims handling procedure or the amount received. In countries where statistics are available on the nature of complaints (e.g. the UK and Italy), complaints related to claims represent over half of the non-life complaints. Many complaints on claim compensation relate to the estimation of damage, with issues surrounding the role of experts and the evidence to support claims (e.g. in case of theft when the original receipts for stolen items and evidence of a break-in must be provided by the consumer).

Table 99: Shares of respondents who made decision-making errors that would restrict their ability to claim (%)

Insurance	Decision-making error	Share (%)
Home	Failure to purchase home insurance at all	27.2
	Failure to include cover for flooding when this was relevant	49.3
Motor	Failure to purchase comprehensive motor insurance at all	31.6
	Failure to include cover for vandalism when this was relevant	58.5
Car rental	Failure to purchase car rental insurance when it was optimal to do so	48.9
Add on	Failure to purchase add-on insurance when it was optimal to do so	44.3

Source: London Economics analysis of online behavioural experiment data.

7.3. Further assessment of potential savings

Further evidence regarding potential savings, both qualitative and quantitative, is provided by the review literature, stakeholder interviews, and focus groups. This evidence is presented in the following subsections.

7.3.1. Assessment of potential savings based on the desk-based literature review

Published evidence on the potential savings consumers could make through better decision-making is limited. National literature, EU-wide and international literature was reviewed as part of Task 1. Any evidence that was found was collated by the team researchers and reported. The box below provides the findings from this review.

Box 58 : Evidence from the desk-based literature review

Non-life insurance in general

In an article published by L'Express (2014) in France, a number of actions were identified by which consumers could make savings on their insurance.

- Ensure that the insurer is kept up-to-date with changes in the consumer's situation such as retirement, change in employment or change in personal habits. This can lead to up to 40% in savings.
- Receiving quotes from a number of different insurers and then negotiating with the current insurer can lead to a 20-40% saving.

- Purchasing multiple insurance contracts from the one provider can also save money.
- A study from Slovakia (Doric, 2014) based on a websweep conducted in 2014 found that across a range of non-life insurance products consumers could make savings of between 5 and 20% if they purchased their insurance online.

Car Insurance

- **Search and careful comparison**: Researchers who compared car insurance quotes on an online German not-for-profit consumer portal, "Finanztip.de", found that consumers could make large savings by carefully considering the features of the insurance product they require and their own personal requirements. For example, when searching for comprehensive insurance for a 37 year old driver, the researchers observed that if the driver elects to pay for her car insurance monthly and states that she drives 20,000 kilometres a year, she will pay 1700 EUR per year. However, if she pays her insurance in a once off payment yearly and drives 15,000 Km per year she could save 1040 EUR (Tagesspiegel, 2016).

  In another study conducted in Spain, (Autobild, 2016), searching and ensuring the policy matched the behaviour of the consumer was also identified as a way to save on car insurance. The example provided was a driver who only used their car a few times a year. In this case it is possible to purchase 'pay-per-use' insurance. This type of insurance calculates the premium based on the drivers driving habits such as hours travelled and time when they drive, the type of roads used and the speed of travel. The same example was found in France, in an article by L'Express (2013) which reported that consumers can save up to 40% on their car insurance premiums by selecting a 'pay as you drive' contract for which premiums are calculated on the number for kilometres driven.

  A related example, based on an online websweep in France, found that car insurance providers can offer discounts based on the features of the insured vehicle (Le Particulier, 2013). For example, the websweep (conducted in 2013) found that Credit Agricole offered a 5% discount if the vehicle emits less than 140g of CO2. While Axa offered up to a 30% for a Toyota Prius (hybrid) or a Renault Zoe (electric). Providers also offered discounts on insurance if the car was fitted with a tracking device to monitor driver behaviours and locations. The same has been found in Slovakia for vehicles considered to be more environmentally friendly (Skyba, 2015).

  The uptake of tracking devices or black boxes is also reported as a method to reduce car insurance premiums in Italy. The Italian Institute for the Supervision of Insurance (IVASS) reports that 15.8% of new insurance contracts in the last quarter of 2015 included black boxes (IVASS, 2016). Southern regions, where premiums tend to be traditionally higher, saw an even greater adoption of these devices.

  Another example reported by Le Particular (2013) in France, was that consumers can make savings if the switch to third party insurance as their car ages. For example, a driver of a 5 year old car could save up to 25% if they switched from comprehensive insurance to third party; and, for a car of more than 8 years, the savings would range between 20% and 30%. This is because the value of the car decreases over time meaning the pay-out for damage to a driver's own car declines making comprehensive insurance less cost effective.
- **Search timing**: In the UK research based on a consumer survey reported by price comparison website 'compare the market' found that if consumers searched for their insurance 3 weeks prior to renewal they could make savings of £234 on the annual premium on average compared to if they undertook this search one day before renewal.
- **Switching**: In research from the UK by the price comparison website 'Money Supermarket' (2015), based on a combination of consumer surveys and a websweep, average annual savings of between £113 and £122 on premiums was

possible from switching insurer rather than allowing the policy to auto-renew. However, 23% of consumers allow their policy to auto-renew with older consumers and those without internet access worst affected (Money Supermarket 2015). The UK Telegraph newspaper also reported estimated savings from switching rather than allowing auto-renewal of £137 per year based on a consumer survey (The Telegraph, 2014).

- **Payment frequency**: Related to the example above regarding search and comparison, other research has also found that making annual payments for insurance (across many different types of non-life insurance including motor insurance and buildings and content insurance) can reduce the price considerably. For example, based on research conducted on behalf of the Bavarian consumer association Germany, it was found that on one insurer website "Cosmos Direkt", comprehensive motor insurance paid monthly costs 68 EUR per motor meaning the yearly charge is 817 EUR. If instead the same policy is paid annually the cost is 720 EUR, a saving of almost 100 EUR per year (Express.de, 2014). A study from Slovakia also reported that savings can be made by making one annual payment at the beginning of the insurance period (Skyba, 2015). This was also reported by the UK Money Advice Service (2016) in the case of home insurance.
- **Awareness and understanding of the insurance contract**: Savings can be made by ensuring the consumer is aware of any advantages of the contract. For example, in the case of motor insurance, an example from Germany illustrates that a young driver can save on their insurance if they are able to insure their car under their relative's insurance policy. An article by Finanztip, 2016, reports that a beginner driver can save several hundred euros by insuring as a second car under an existing policy holders' insurance. However, it is worth noting that in some markets there are restrictions on this practice.
- **Sales Channel**: Research reported by Le Particulier (2013), based on a websweep and interviews with insurers and comparison websites, found that consumers could potentially save 35% on average and up to 50% if they purchased their insurance through a comparison website or brokers.
- **New client bonuses**: In Slovakia two studies conducted on 2015 (Doric and Skyba) based on a websweep on an online portal found that insurance providers offer new clients one-off premium discounts for switching which can range between 5 and 10%, and up to approximately 50% for third party car insurance when combined with other characteristics such as a good driving history.

Buildings and content insurance

- **Understanding what risks are covered**: Ensuring that the consumer is aware of the risks covered in the policy to avoid duplication of cover with other policies (EROSKI Consumer, Spain, 2016).
- **Bundling**: Some companies provide discounts on home and buildings insurance when multiple insurance policies are taken out (EROSKI Consumer, Spain, 2016). In Sweden, the consumer information portal 'EKONOMI-PORTALEN' provides an example that consumers can save up to 20% if they take out both household insurance and car insurance with the same company (Ekonomi-Portalen, 2016)
- **Ensuring the policy coverage matches the property characteristics**: For example, in situations where the property has sufficient security such as alarm systems and window locks or security cameras, insurance providers often reduce the price of the policy as the risk is deemed to be lower (EROSKI Consumer, Spain, 2016).
- **Removing additional options**: Savings can be made by removing superfluous options (L'Express, 2014) such as the full replacement of furniture and electrical equipment in the case of theft, water damage and fire. This is because in many cases insurers put in place limits such as compensation ceilings or high excess levels which result in low compensation in case of a claim.
- **Disclosing last year's premium in home insurance renewal**: In a

randomised controlled trial conducted by the UK Financial Conduct Authority (2015), it was found that, on average, at the time of renewal consumers received a 5% increase on their home insurance premium. However, if in the trial the insurer informed the consumer about their previous year's premium at the time of renewal, consumers were 3.2 percentage points more likely to switch insurer or negotiate their premium (to try to obtain a reduction), compared to a situation where the previous year's premium was not reported (although the study does not identify the size of any resulting decrease in the level of premiums paid).

- **Switch and negotiation**: In a consumer survey reported by the consumer group Which? in the UK, it was found that if consumers bargained at the time of renewal they could save £82 on annual premiums on average. Further, if a consumer switched provider they could save £72 on average. In another study by the UK Financial Conduct Authority (2015a) it was estimated that overall between £ 85.3 and £137.9 million per year could be saved from switching insurance provider.581 This estimate was computed by estimating the increase in number of consumers switching from the increase in switching rates (as in FCA, 2015, above) multiplied by average savings from switching (from the FCA's own data).
- **Payment frequency**: As has been confirmed in a number of studies across a range of non-life insurance products (see discussion above under car insurance), if consumers pay their premium annually rather than monthly they can save money. A qualitative study reported by the UK Money Advice Service (2016) found that consumers could save up to 6% on their home insurance premium by paying annually. In Slovakia, the company ČSOB poisťovňa offers a 5% discount when the premium for household insurance is paid for the whole year in one payment[582].

Add-on insurance

- **Avoid purchasing duplicate insurance**: This can often arise with **extended warranties** and **travel insurance** for which the consumer's credit card provides insurance but the consumer is not aware of this and purchases additional insurance (UFC que choisir, 2012). The Italian Institute for the Supervision of Insurance (IVAS, 2014), also reported on this issue, and highlighted that there is a wide lack of consumer awareness in regard to insurance coverage. IVAS did not however provide any estimates of the cost of unnecessary insurance to consumers. The Swedish consumer association also identified this as an issue particularly in regard to extended warranties on furniture and electrical appliances as the same coverage was often included in contents insurance or premium credit cards (Konsumenternas, 2015). This was also reported by Which? (2016) in a qualitative study into how to make savings in travel insurance.
- **Sales channe**l: Research into car rental insurance undertaken by Famille de France (a French consumer association) in 2010 and 2015 found that in a comparison of online and in-store prices that online prices were substantially cheaper than those offered at the car rental agency. In 2015, prices for a week's insurance were almost 18% cheaper online and 23% cheaper for the weekend. In 2010, a week's rental was 35% cheaper if purchased online and a weekend by 35% (Famille de France 2015).
- **Sales process can impact consumer search behaviour**: In a behavioural economics study for the UK Financial Conduct Authority (2014), it was observed in an online experiment that if add-on insurance was offered to the consumer at point of sale for the primary good[583], 70% of participants only viewed one insurance product and did not search for alternative insurance products. This

[581] Across car, home and content, medical, travel and pet insurance.
[582] Doric, A., 2014, Ako ušetriť na poistení nehnuteľnosti, Poistovne.sk. Available at: http://www.poistovne.sk/29426-sk/ako-usetrit-na-poisteni-nehnutelnosti.php
[583] The primary products were travel insurance, rental car insurance, tablet and laptop insurance, and home boiler insurance. The findings were consistent across all products tested.

compared to only 20% of consumers who viewed only one insurance offer if the add-on insurance was shown up-front when the consumer was selecting the primary product. Further, if the add-on insurance offer was delayed to the point of sale, participants paid 15% more on average compared to when the insurance offer was shown up-front. A qualitative study by Which? UK (2016) found that consumers could save money on their travel insurance if they did not buy the product sold alongside the trip. Further, in a desk-based review reported by the UK Telegraph newspaper (2014), it was reported that consumers could save over 90% if they purchased stand-alone insurance.

7.3.2. Assessment of potential savings based on the stakeholder consultations

Stakeholders interviewed for this study were unable or unwilling to provide quantitative estimates of potential savings consumers could make from improved decision-making in regard to non-life insurance purchases. However, a number of areas in which savings could be realised through improved understanding of the insurance products were identified and qualitatively described by the interviewees.

Box 59 : Evidence from the stakeholder consultations

Non-life insurance in general

- Some stakeholders made the point that consumers are **focused on price and do not consider other features of the insurance policy**. For example, the interviewee from the Spanish trade association Unespa, reported that consumers do not always read all terms and conditions. Choice is primarily driven by price and they do not consider the features of the insurance in their decision.
- Consumers could make savings by an **improved understanding of how to make a claim**. This point was raised by the interviewee from the Luxembourg European Consumer Centre who reported that consumers are often not aware of what their insurance covers and when and how to correctly make a claim.
- **Improved comparisons of premiums** for consumers could potentially help consumers to make a better decision regarding the insurance offer they select. This point was raised by the interviewee from the Swedish Insurance Consumer Complain Bureau (Konsumenternas Försäkringsbyrå).
- **Consumers' awareness of what their insurance covers can be poor which leads to a situation of over or under insurance.** In Slovakia the interviewee from the consumer association, SOS Poprad, pointed out that consumers have a low level of awareness of premium levels, excess levels and coverage of the insurance products they hold. Improved consumer knowledge and awareness would lead to savings for consumers through avoiding unnecessary insurance or paying for damages that could have been covered if they had selected an alternative policy.
- **Insurance brokers are sometimes not familiar with the range of products they can offer the consumer and their scope in terms of premium and coverage.** The Slovakian consumer association interviewee (SOS Poprad) suggested that by having stricter rules for insurance brokers, savings for consumer could be made.

Buildings and content insurance

- Consumers often **do not realise that different policies insure them for the same events and therefore they pay twice for the same coverage.** This example was identified by the interviewee from the German national supervisory authority, who gave the example of household insurance and that common features exist between building insurance and contents insurance but consumers do not pay attention to these overlaps.

Car insurance

- **Search can lead to lower average premiums.** This point was made by the interviewee from the Italian consumer association Altroconsumo, that based on the associations own price comparison database, consumers could save on average between €100 and €250 per year through search.
- **Consumers may be unaware of what is covered by their insurance policy and what types of risks are excluded.** For example, the Slovakian national Supervisory Authority (NBS) interviewee raised the example that consumers do not know that car insurance does not necessarily cover belongings in their car.

Add-on insurance

- **Awareness that there is choice in the market:** Often consumers are not aware that there may be other providers of add-on insurance and they do not search the market but rather revert to the insurance product offered alongside the primary product. The interviewee from the French consumer association (CLCV) made the point that if the insurance products could be more easily compared then potential savings could be made by consumers.
- **Avoid purchasing duplicate insurance:** In some instances premium credit cards provide certain insurance. This point was raised by the interviewee from the French consumer association (CLCV), that consumers do not realise that some insurance such as car rental and travel insurance is provided by their credit card and that consumers often purchase add-on insurance thereby duplicating their insurance. The interviewee from the Luxembourg European Consumer Centre also raised this point and that they considered it quite common for travel insurance. The issue of duplicate insurance was also raised by the interviewee from the Swedish Insurance Consumer Complain Bureau (Konsumenternas Försäkringsbyrå) and the Slovakian national supervisory authority (NBS).
- **Knowing how to make a claim under an insurance policy and to whom:** This point was raised by the interviewee from the Luxembourg European Consumer Centre, that consumers often do not know and cannot identify the company that provides the add-on insurance and therefore fail to obtain compensation.

7.3.3. Assessment of potential savings based on the focus groups

During the focus groups, the topic of savings when purchasing insurance products was rarely brought up, as it was not included as a direct research question within the focus groups. Therefore, few respondents made comments on the issue. However, where respondents raised points related to potential savings they are reported in this section.

Box 60 : Evidence from the focus groups

One of the ways of saving money highlighted by the respondents was by **comparing offers**, and using **comparison tools**. The aspect was brought up in the UK, Sweden and Romania.

In the UK, comparison tools are seen as an efficient way of identifying the best deals – even with one's current provider.

"Even when it's your own company, online it's cheaper" (woman, 59, low education, London).

Also, comparison tools offer the possibility to re-negotiate one's current contract (by finding a cheaper offer online, and negotiating with the current provider, who would sometimes propose a competitive offer):

"Sometimes if you found a cheaper offer online, you can phone them up and say look I

found a cheaper offer, can you match it, and sometimes they do match it, or even less. So that's a good thing. But then it means you have to phone them up and… but, yes, it did happen to me before, I did do that. Sometimes they say no, we can't match it and that's it... You have to go back to the comparison website" (woman, 59, low education, London).

Romanian respondents – and particularly those of higher educational level – also considered comparison tools useful, mainly due to the cost and time saving benefit.

The advantage of comparing offers in this context was also brought up in Sweden, where some respondents mentioned keeping up to date with regards to insurance products, and re-evaluating their contracts at regular intervals, to see if they can cut a better deal with a different insurance.

In Sweden, another way of saving and having access to better insurance deals raised by respondents is to select their insurance company through their labour union, or through the company they work for, which can provide a discount. Swedish respondents also mentioned that in some cases it is cheaper to keep all insurance products within one company.

One of the British respondents also mentioned the fact that having someone from the family working for an insurance provider can enable having cheaper deals:

"My mom works for a bank. So everything related to banking is through that because it's nice and simple and it has been that way since I was a kid, and they do nice deals for family members on home insurance and stuff like that" (Woman, 33, high education, London).

Other respondents however prefer to not focus primarily on costs, if it meant that they would be less sure about the quality of the cover, or that they would spend too much time comparing offers:

"I didn't (compare) because my insurance has always been pretty reasonable, I get it through a friend of my sister and… Whether it is competitive or not, whether there is something else out there that's a bit cheaper, I don't know... And it's peace of mind. I'd rather pay 500-600 rather than 300-400 and to know that everything is covered" (man, 41, low education, London).

"It's not worth it to save 50 SEK per month to do the research and read different sites. Feels like it would take the whole day!" (Female, 38, higher education, Stockholm city)

CONCLUSIONS AND RECOMMENDATIONS

8. Conclusions and recommendations

This chapter presents the overall main conclusions of the study (in section 8.1) as well as policy recommendations (section 8.2).

8.1. Conclusions

8.1.1. General conclusions

Below we present the nine main **general conclusions** of the study:

1. **Provision of information**: *Wherever/whenever possible, information should be provided in a concise, salient and user-friendly way (as opposed to an extensive, technical document), since this is likely to encourage consumers to engage with the information.* At multiple stages of the experiment consumers were significantly more likely to engage with information if it was provided in such a way, i.e. prominently in small portions via the '?'-icons, and the focus groups found that any glossary document explaining the terms used in insurance offers should be kept short and use consistent terminology. Regarding how this might be done in practice, testing (for EIOPA) found that when product information documents are used several presentation features help consumers: namely, separating sections using boxes and presenting text in two columns, using icons to indicate the subject of each section, and using traffic light coloured ticks, crosses and exclamation marks as bullets to indicate risks covered, not covered, or subject to restrictions. In the context of car rental and add-on insurance, the *timing* of information is important, specifically that it is provided at the point of sale and that it explains what is covered and not covered and the obligations of the insured.

2. **The purchasing process**: *Consumers make better decisions when they are allowed to pause and reflect in the purchasing process and to modify their choices, such as their chosen insurer/contract and contract features (e.g. excess and risks covered), throughout the purchasing process.* When new information became available at the confirmation stage of the experiment this motivated respondents to revisit their choices at the comparison stage, and consumers rectified the effect of pressure – which is found to have a negative impact on consumer behaviour based on the literature reviewed, focus groups and experiment – at the confirmation stage. Furthermore, allowing consumers to adjust contract features at the comparison stage of the experiment was very effective in improving choices, when consumers made use of this option. The most significant barrier to improving consumers' choices via such a 'manipulation tool' is their relatively low propensity to use it. Hence, the possibility to use such tools should be clearly indicated and consumers need to be encouraged to use them.

3. **Advice and comparison tools**: *Consumers believe that personal advice and comparison tools are effective remedies, but some issues were raised relating to the objectivity of advice and practices of comparison websites.* Participants in the focus groups highlighted that these remedies can help them to select insurance matching their needs and to compare offers and take informed decisions. The desk research found that PCWs are an increasingly important source of information and distribution channel. However, it was also stressed in the focus groups that advice needs to be objective and unbiased, and that tools should be independent and comprehensive, allow for complex comparisons via standardised methods and terminology, and show costs clearly. Similarly, according to stakeholders there is a need for more impartial and independent PCWs.

4. **Pressure selling**: *Regarding car rental and add-on insurance specifically, for these types of insurance decision-making problems may be caused by pressure in the form of consumers having limited time to go through pre-contractual information or pressure from staff*. When put under time pressure consumers

were significantly less likely to choose optimally at the initial offer stage of the experiment (one of the strongest results overall from the experiment). This is also supported by evidence from the focus groups that feeling under pressure during the purchasing process is a problem and that sales staff tend to emphasise possible risks and the benefits of the insurance which, combined with having limited decision time, can lead consumers to purchase insurance that they may not need.

5. **Salience of alternatives**: *Specifically for car rental and add-on insurance, the availability of alternative offers should be more transparent at the point of sale.* Consumers often accepted the (often overpriced) insurance presented up-front at the initial offer stage of the experiment, and previous behavioural studies have found that consumers are unlikely to compare offers unless alternatives are made easily accessible. Similarly, the focus groups discovered that participants were often unaware that they could select add-on or car rental insurance other than that offered at the point of sale or at the car hire company.

6. **Behavioural biases**: *Behavioural biases, including passiveness, inertia and preference for the familiar, as well as the time and effort needed to compare the market, may be preventing consumers from getting the best deals*. The focus groups identified passiveness and inertia as playing a role in consumers' decision-making causing them to stay with their current insurer and not compare the market, and the survey results show that preference for the familiar has a similar effect. The focus groups also found that searching and comparing is very costly in terms of time, which is supported by the stakeholder interviews and desk research, which found that the length and complexity of documents makes reading terms and conditions time-consuming.

7. **Important decision-making patterns**: *Certain decision-making patterns seen in the experiment highlight the lack of awareness among consumers of the benefit of selecting a higher excess, and the risks of under-insurance.* In particular, consumers (often) tended to select too low an excess[584], failed to select coverage for high impact risks (when explicitly important), and chose not to buy insurance leaving them exposed to sizeable consequences. These findings imply that it is important to raise awareness of the interaction between the premium and the excess and the advantage of taking a higher excess (i.e. a lower premium), and to take measures to ensure that consumers are aware of possible under-insurance by not covering important risks and/or not buying insurance.

8. **Low awareness and understanding**: *Awareness and understanding among consumers of their contract terms and conditions (e.g. of obligations and what is covered) is low, and there appears to be a significant share of consumers who do not read documents properly and instead rely on their intuition.* Evidence of this comes from the focus groups, stakeholder interviews, desk research and survey. Low awareness is driven, at least to some extent, by the length and complexity of documents, and the experiment results suggest it may also be linked to the way in which information is disclosed (since whether respondents looked at information in the experiment depended on how it was made available). Consumers relying on their intuition suggests potential overconfidence among consumers in insurance-related matters and/or a lack of engagement with insurance products and contract features.

9. **Availability of data**: *In some countries there is limited availability of information and data relevant to consumers.* National statistics agencies and stakeholders usually do not distinguish between business-to-business and business-to-consumer data which prevents a clear overview of consumer trends and problems

[584] That is, an excess that is lower than what they could relatively easily afford to pay given their financial circumstances.

and hampers the elaboration of consumer-targeted measures to improve decision-making.

8.1.2. Conclusions regarding cross-border insurance purchases

According to the survey there is a non-negligible amount of latent cross-border demand. Almost one-fifth of respondents were interested in purchasing insurance cross-border but had never even tried to do so. However, a number of conclusions can be drawn regarding factors that limit cross border insurance purchases (remedies to increase cross-border purchasing are discussed in section 8.2.2):

1. **Limited awareness**: *Awareness among consumers of the possibility to purchase insurance cross-border is limited, and this is a key factor limiting cross-border demand irrespective of the presence or absence of language, cultural or distance barriers.* This finding is evident from both the focus groups and also the consumer survey. Related to this, there are few cross-border offers (this was reported by some stakeholders, and is supported by the findings of simulations conducted during a previous study[585] which showed that online cross-border purchases of travel, household and motor insurance were only possible in 9.7% of cases), which naturally would result in low awareness among consumers.

2. **Language barriers**: *Language barriers are an important factor limiting cross-border insurance purchases.* The focus groups found that consumers fear that language barriers could lead to communication problems, both written and verbal, creating difficulties in terms of filing claims or accessing customer support, and the survey results show that consumers are not comfortable making cross-border purchases or dealing with insurers using another language. This was also supported by the stakeholders, who also noted that language differences create supply-side barriers as well, for example by increasing companies' costs.

3. **Perceived complexity of completing purchases**: *The perceived complexity of completing a cross-border purchase, combined with language difficulties, seems to create a deficit in consumer confidence in the cross-border market*. Most consumers would favour a less attractive domestic offer over more attractive cross-border insurance. They feel it is complex to complete a cross-border purchase in a different language, without being familiar with the products, claims handling and appeal procedures in the other country. These are some of the key findings of the survey, literature review and stakeholder interviews concerning barriers to cross-border insurance purchasing.

4. **Differences in regulation and legislation**: *Regulatory and legislative differences between countries increase the costs of supplying insurance cross-border, and also create uncertainty and insecurity for consumers.* For example, according to the literature review and stakeholder interviews, these factors can increase the costs to firms owing to the need for legal support to assess national requirements.[586] Legal and regulatory differences were raised in the focus groups, for example with some participants believing that these differences would make it difficult to understand cross-border insurance contracts and create uncertainty in the event of a dispute relating to a claim.

[585] Franco-German ECC, 2014, Der europäische Versicherungsbinnenmarkt, Grenzüberschreitende Versicherungsverträge: Abschluss oder Ausschluss? Available at: http://www.evz.de/fileadmin/user_upload/eu-verbraucher/PDF/Berichte/FINAL_Studie_Versicherungsbinnenmarkt.pdf.

[586] Specific insurance covers are compulsory in some countries (e.g. household building insurance for homeowners in Romania and France, and household contents insurance for tenants in France and Luxembourg). To sell motor or household insurance in Romania, the seller must have a legal office in the country according to Law 136/2005. National laws may also contain different requirements regarding insurance contracts and pre-contractual information.

5. **Difficulty of solving problems**: *Concern about the potential difficulty of solving problems that may occur with the insurance provider is the most important factor preventing cross-border purchases, according to the survey results*. Similarly, the focus groups found that consumers feel insecure about their rights and obligations[587] when making a (cross-border) claim and fear a lack of local presence means that the insurer's practical knowledge will be limited in the event of a claim (e.g. a recommended car repairer). Related to this, another limiting factor is feeling that the level of consumer protection is lower in other countries.

6. **Barriers to supplying cross-border**: *Firms face various important barriers to supplying insurance cross-border.* These include the need to adapt marketing and selling strategies (due to differences in the importance of different sales channels), the difficulty of assessing risks in foreign markets, and that foreign markets are already saturated. Insurers also need to adapt to the consumers' preferences and habits in other countries (e.g. preferences for different sales channels, the preference to be advised in their mother tongue, low switching rates). Evidence for this conclusion originates from the stakeholder interviews and is supported by the economic analysis of the Distance Marketing of Financial Services Directive (DMFSD) conducted for the Commission in 2008[588].

A further finding (from the focus groups) is that trust, familiarity, existing relationships and word of mouth recommendations, which are often lacking for foreign insurers, are important in determining consumers' choices. These aspects (trust, familiarity, etc.) were considered important in the context of purchasing insurance cross-border in general, rather than in the context of specific insurance products (though of course one would assume that these factors are less important for add-on insurance). This implies that an increase in cross-border purchasing as a result of addressing the barriers described above, which would in turn build familiarity with foreign insurers among consumers, would be expected to be self-perpetuating, leading to further increases in cross-border demand.

8.2. Policy recommendations

8.2.1. Policy recommendations to improve consumer decision-making

Policy recommendations to improve consumer decision-making are set out in this section. These recommendations should be seen as generally addressed to the European Commission if not stated otherwise. These recommendations fall into 8 areas:

- Improving information provision
- Ensuring the purchasing process works for consumers
- Measures to address pressure selling
- Harmonisation of definitions and contract formats
- Price comparison websites
- Making the switching process easier
- Behavioural nudges
- Collection of data

These have been developed to address the issues highlighted in the conclusions presented in section 8.1 above.

[587] For example, one of the main issues raised regarding obligations concerned whether a consumer would have to translate proof and documents into another language when making a claim.

[588] See CPEC (2008) *'Analysis of the Economic Impact of Directive 2002/65/EC concerning the distance marketing of consumer financial services on the conclusion of cross-border contracts for financial services between suppliers and consumers within the Internal Market'*, section 4.3.2.

1. Improve information provision

Steps should be taken to ensure that companies provide carefully considered and (where possible) standardised information, which is concise and presented in a prominent, user-friendly way, using plain language, as required in particular by the EU consumer legislation. As well as aiming to help consumers to understand the insurance contract, this information should also aim to increase consumers' understanding of the interaction between the premium and the excess and the advantages of choosing a higher excess and to encourage them to properly consider these benefits, and to ensure that consumers understand the possibility of under-insuring. Specifically:

- Regularly assessing whether standards for the provision of information in their countries ensure that information is clear, user-friendly and salient would allow national regulators and industry associations to drive improvements in this area.[589] Such monitoring should look both at what information is provided to consumers, as well as how it is provided. The information remedies applied in the experiment (in particular the '?'-icons) may be a possible example, as well as the results of the information document testing conducted for EIOPA.
- Where possible and appropriate, and in line with the main principles already established by EU rules, the terms and format of information should be harmonised (discussed further below under 'harmonisation of definitions and contract formats').
- The introduction of the insurance product information document (IPID) under the Insurance Distribution Directive is a positive step. EIOPA submitted to the Commission on 7 February 2017[590] draft Implementing Technical Standards[591] (ITS) regarding a standardised presentation of the IPID. It will now be for the Commission to adopt these standards.
    - EIOPA's recommendation to allow digital IPIDs to include tools that allow easy access to additional information[592] is supported by the findings of the experiment (regarding the '?'-icons); hence, use of such tools should be encouraged.
    - It will be important to monitor the use and effectiveness of the IPID in the different Member States and to review whether improvements will be necessary (as regards icons, disclaimers etc.).
- The industry offering insurance products to consumers could consider establishing voluntary codes of conduct that promote good information practices.
- In the car rental sector, competent authorities should monitor whether leading car rental firms are implementing their recent commitments on information practices[593], and encourage industry-wide take-up of the improved information provision.

[589] The introduction of the insurance product information document (IPID) under the IDD is a positive step in this regard.
[590] Within the deadline of 23 February 2017 set by Article 20(9) IDD.
[591] See EIOPA's *'Final Report on Consultation Paper no. 16/007 on draft Implementing Technical Standards concerning a standardised presentation format for the Insurance Product Information Document of the Insurance Distribution Directive'*, published 7 February 2017. The draft ITS was submitted to the Commission on 23 February 2017.
[592] Ibid, page 11.
[593] These improved practices will ensure that information on additional insurance is clear. Consumers will be provided with the price and details of optional extras, in particular for insurance waivers that reduce the franchise to be paid in case of damage. What is covered by the waiver in the basic rental price and in any additional insurance must be clearly indicated before the consumer buys such products. See: http://europa.eu/rapid/press-release_IP-17-86_en.htm

2. Ensure the purchasing process facilitates consumers' decision-making

The purchasing process (i.e. the steps from initiation of the process to conclusion of the contract) should be designed to work for the consumer. Firms should be encouraged to review their sales process to ensure that this is the case. More specific recommendations in this area include:

- National regulators and industry associations, possibly with input from EIOPA, could consider measures to ensure that consumers are given the opportunity to reflect on and modify their choices throughout the purchasing process.
    - This might be achieved by introducing guidelines or standards that allow sufficient opportunities for consumers to pause and reconsider their choices.[594]
    - In a digital environment (e.g. when consumers use PCWs), tools that allow consumers to adjust the parameters of their selected insurance and see the interaction between the premium and other features (e.g. the 'manipulation tool' examined in the experiment) would be helpful for this purpose.
- Where possible, consumers should be made aware of the availability of alternative offers during the purchasing process, which could be ensured via the introduction of industry guidelines.
- Where still allowed, Member States could consider banning the practice of pre-selecting optional insurance services ('pre-ticking'),[595] given its negative impact on consumer decisions.
- Remedies in this area to tackle pressure selling can also be envisaged (see below).

A potential mechanism for implementing these recommendations, as well as those relating to information provision (above) and pressure selling (below), could be via a cooperative approach with national authorities and industry, similar to that recently used to improve practices in the car rental sector[596], under the Consumer Protection Cooperation (CPC) Regulation[597].

The CPC Regulation could be applied in these contexts when the legal basis used to tackle alleged illegal practices is, among others, the Unfair Commercial Practices Directive and Unfair Contract Terms Directive. For specific provisions of the insurance-related legislation, the CPC Regulation does not apply as such legislation is not included in the scope of the CPC Regulation (as defined by the annex of the regulation).

Related to this, the Commission proposed[598] in May 2016 to reform the CPC Regulation including to update the list of laws to which it applies "to ensure that all the relevant consumer protection provisions, especially in the transport and retail financial services sectors, are included".

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[594] The 14 day right of withdrawal period provided by Article 6 of the Distance Marketing of Financial Service Directive (DMFSD) for any type of financial product it covers (including insurance) is helpful in this respect. However, this right is only provided if the entire commercial relation is on-line.

[595] France, the United Kingdom and Luxembourg have introduced such a ban on pre-ticked optional insurance services. The EU Consumer Rights Directive, which bans pre-checked boxes for additional options, does not apply to insurance contracts.

[596] This intervention in the car rental sector sought to improve practices in the sector generally, rather than specifically with respect to insurance. See the European Commission press release of 19 January 2017 'Car rental companies improve treatment of consumers, thanks to EU-wide enforcement'.

[597] CPC Regulation: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32004R2006

[598] See: http://ec.europa.eu/consumers/enforcement/cross-border_enforcement_cooperation/index_en.htm. This proposal is based on a 2012 evaluation of the CPC (ICF GHK, 2012, *'External evaluation of the Consumer Protection Cooperation Regulation'*) which suggests adding a number of pieces of legislation to the scope of the CPC Regulation, including the Directive on the taking-up and pursuit of the business of Insurance and Reinsurance ('Solvency II').

This Commission proposal would be a positive step, since it would improve and strengthen the current CPC mechanism for implementing the recommendations set out here relating to information provision, the purchasing process and pressure selling.

3. Price comparison websites

In line with relevant EU legislation[599] national authorities should ensure that PCWs are transparent, comprehensive, show costs clearly, and enable complex comparisons. Specific recommendations to help achieve these aims include:

- The transparency and comprehensiveness of PCWs could be further investigated at EU and national level.
    - At EU level, this could be done e.g. via the study recently launched by the Commission on the transparency of online platforms.[600]
    - Such work could also be done at national level, for example following the lead of the Italian national authority, which conducted an investigation to verify the transparency and fairness of PCWs.
- Based on this work to investigate the transparency and comprehensiveness of PCWs, a scheme to accredit PCWs and/or a quality labelling system could be considered.
    - Potential parameters to include in any future accreditation scheme could include coverage (share of companies represented) and the transparency of ownership/commercial links and fees and commissions (the relevance of the IDD (see below) should be noted here).
- Standards or guidelines might also be introduced by national regulators and industry associations.
    - These standards should include a requirement to indicate commercial links with the insurers advertised and fees and commissions, specify the coverage of the PCW, and enable consumers to compare not only prices but also other features of insurance contracts (e.g. risks covered).
    - In line with the Commission's Platforms Communication[601], PCWs should be transparent regarding the criteria used to determine which offers are shown (in which order), as well as the identities of contracting parties and quality control of reviews and ratings.
- Beyond regulation of PCWs, a further possibility would be the establishment of independent PCWs by consumer associations and national authorities, following the precedent already set in some Member States (e.g. Sweden and Italy).
- The recommendations relating to information provision and the purchasing process set out above should also apply to PCWs.

The IDD applies to PCWs (unlike the preceding Insurance Mediation Directive), and several provisions of the IDD relate to the recommendations set out above. In particular, regarding transparency, the IDD obliges disclosure of overlapping ownership between PCWs and insurers (at a threshold of 10%) and of fees and commissions. Therefore, a further recommendation is that the Commission should monitor closely the implementation of these aspects of the IDD.

4. Measures to address pressure selling

[599] Including the Insurance Distribution Directive (IDD), Unfair Commercial Practices Directive, Consumer Rights Directive and E-commerce Directive. For example, Article 19 of the IDD obliges PCWs to reveal their relationship with any insurance undertaking and the nature of their remuneration.

[600] Request for Specific Services 2016 85 04 for the implementation of the Framework Contract no. Chafea/ 2015/ CP/ 01 for the provision of a "Behavioural Study on the Transparency of Online Platforms".

[601] http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1466514160026&uri=CELEX:52016DC0288

Action should be taken to mitigate the negative effects on consumer decision-making of pressure at the point of sale, especially in the contexts of car rental and add-on insurance purchases. In particular:

- In addition to good enforcement of the applicable consumer protection rules, especially the UCPD, a code of conduct could be established that sets standards regarding how insurance should be offered, including to:
  - provide information on the insurance early enough to allow sufficient time for the consumer to absorb the information;
  - provide a balanced description of the characteristics of the insurance, not overemphasising the risks and benefits of the insurance (these aspects were noted in particular by focus group respondents);
  - not rush the consumer's decision and, if the consumer has limited time, offer them the option to make a final decision later (see below); and
  - in the case of car rental insurance, offer the insurance before collection of the car and allow the consumer to cancel upon collection.
- Designing the purchasing process so that consumers have the opportunity to reflect on and alter their decisions throughout the process – as suggested above – would also help addressing point-of-sale pressure.
  - For example, a potential process might be to give the consumers, at the point of sale/collection of the car, the option to take up the insurance for a limited period only (e.g. the first day of their trip), with the firm committing to contact them again later to allow them to make a final decision regarding whether to take the insurance in full; delaying the final decision would mitigate pressure and the follow-up contact by the firm would help address inertia (i.e. the consumers simply staying with the decision they made originally).
- Ensure that it is made clear to consumers, at the point of sale/collection of the car, that alternative insurance offers are available.

5. Harmonisation of definitions and contract formats

The use of common terms, definitions and contract formats would facilitate consumer understanding of the insurance products on offer and comparison of different products on the market (and as explained in section 8.1.1, of low awareness and understanding of contract terms and conditions, e.g. of obligations and what is covered, was an issue identified in the survey). Consumer understanding may be expected to be enhanced by such a remedy as they become familiar with the standardised terms and find it easier to compare contracts with standardised formats. In addition, this could help to actualise the latent demand for cross-border insurance[602] by increasing consumers' confidence and, on the supply-side, reducing the costs to businesses of selling cross-border.[603] Hence, where possible and practical, given product and market differences, harmonisation in these areas should be encouraged. For example, in this respect inspiration might be taken from the standardised contract format for motor insurance in one Member State (Italy) of the sample.[604]

6. Making the switching process easier

Measures recommended above to improve information to consumers and better design the purchasing process should help consumers overcome inertia (i.e. the tendency not to

[602] According to the consumer survey the share of those who would consider purchasing insurance cross-border is relatively high in all countries, varying from 12.5% to 33.1% (see Table 74).

[603] In the interviews companies selling cross-border mentioned that little FPS activity was carried out due to language barriers, regulatory discrepancies and the high cost of market studies (see section 3.3).

[604] IVASS, 2016, Semplificazione della nota informativa dei rami danni. Available at: http://www.ivass.it/ivass_cms/docs/F19773/isvc0560.pdf

compare and change insurance products, which was identified by the research as an issue in the non-life insurance market).

In addition to these measures, streamlining the transfer of a consumer's coverage from one provider to the next could make it easier for consumers to switch some types of insurance. For example, this could be achieved by following the example of the Hamon Law in France. Under this law, for motor third party liability and household insurance the new insurer is responsible for the procedure of terminating the consumer's previous contract to ensure continuity of protection, and an agreement between the main insurance associations (now merged into FFA) facilitates the necessary formalities. These types of arrangements/requirements can also be seen in other markets such as banking, telephone and energy in other countries (e.g. Ireland).

7. Behavioural nudges

Behavioural nudges could be used to overcome passiveness and inertia, to ensure that consumers consider alternative offers (even those that are less salient), and to guard against potential under-insurance (not covering high impact risks, not taking insurance at all) or over-insurance. However, it would be important to apply nudges with caution, especially with respect to under- and over-insurance by considering whether such nudges might cause some consumers to take insurance they do not really need, or to not take insurance they in fact really do need.

Examples of potential nudges that might be used include social norms (telling consumers that *'each year X thousand consumers switch their policy and save money'*), messages that use loss aversion (e.g. *'you could be losing…'*)[605], or reminding consumers of the likelihood and potential consequences of high impact events. Clearly illustrating to consumers the impact that covering certain risks has on the premium (e.g. via the 'manipulation tool' tested in the experiment) might nudge them away from taking (unnecessary) cover for low impact risks. Potential means of delivering such nudges include comparison sites or periodic communications (letters, emails) sent from firms to consumers. In a digital setting interactive tools (similar to the manipulation tool tested in the experiment) might be used to illustrate the relationship between different contract parameters, such as the premium and excess.

8. Collection of data

Regular monitoring of insurance markets and systematic collection of more detailed data – including on consumers, in particular of B2C premiums, numbers and types of claims, numbers and types of complaints – across the EU would allow the authorities to identify and address problems in the sector in a targeted manner (e.g. associations to promote best practice in detailed data reporting, to ensure reporting of consumer complaints by type of insurance in the EC harmonized complaints database, etc.).

8.2.2. Policy recommendations to increase cross-border purchases

According to the survey there is a non-negligible amount of latent cross-border demand, comprising of almost one-fifth of consumers who are interested in purchasing insurance cross-border but have not (yet) even tried to do so. A number of policy recommendations regarding how to increase cross-border purchasing of insurance can be made based on the results of the study:

- Raise consumers' awareness of the possibility to buy insurance cross-border, and to make consumers more familiar with cross-border insurers.

[605] For example, a study by the Behavioural Insights Team (2016) in the UK examined the effectiveness of different types of message for encouraging consumers to switch energy tariff including messages that use social norms and loss aversion, and found that messages framed using loss aversion were most effective.

- This might be achieved, for instance, by encouraging pan-European comparison sites (as suggested by Spanish consumer association ADICAE in response to the Commission's Green Paper on Retail Financial Services).
- PCWs that include cross-border offers would build consumer familiarity, trust and confidence via consumer reviews, and would address the demand-side barrier identified by the economic analysis of the DMFSD[606] that there is an absence of information on cross-border products.

- Highlight the potential benefits of purchasing cross-border, such as lower prices.
  - Lower prices were identified as a key driver of cross-border demand in the focus groups and interviews, and the experiment found that information on potentially cheaper cross-border insurance may increase demand.
  - Inclusion of cross-border offers/insurers on pan-European comparison sites would help to highlight such benefits to consumers.
- Improve consumers' awareness about their rights and the consumer protection available to them when purchasing insurance cross-border (this is advocated by evidence from the focus groups, survey and experiment).
  - For example, consumers could be informed, in product documentation, about where and how they can get help if they need assistance with their cross-border insurance.
  - Consumers should be reassured that ombudsmen and redress mechanisms are available and informed about where and how they can get help if they need assistance with their cross-border insurance.
  - ECC-Net could be used as a conduit for this assistance, and promoting the visibility of the ECC-Net may be beneficial.
- Industry associations could encourage insurance providers to reduce language barriers, e.g. where practical (and not prohibitively expensive), by providing contract information and customer service in more languages.
  - The legislative framework for this is already in place, since the DMFSD gives Member States the option to require that information is provided in a specific language or languages.
  - This is in line with the findings of the economic analysis of the DMFSD which identified differences in language and culture as a 'very significant barrier'.[607]
  - However, the cost of translation for required documents remains a barrier for insurance companies (according to the stakeholder interviews).
- Standardised claim forms could be promoted by EIOPA at EU-level for different types of insurance products.
  - Standardised claim forms could be expected to improve consumer confidence by mitigating uncertainty and perceived difficulties in this area (this may be especially relevant for motor insurance, a relatively simple product for which cross-border cooperation is already common practice).[608]
  - These forms could also be provided in several languages, in order to alleviate language issues.

[606] See CPEC (2008), page 92.
[607] See CPEC (2008), page 90.
[608] The evidence shows that a number of factors limiting cross-border insurance purchases relate to difficulties and uncertainty around filing claims. For example, see the conclusions above relating to language barriers, regulatory differences, and difficulty solving problems.

- Any standardised claim forms would need to be sufficiently flexible to reflect differences in the insurance products offered across the industry (even for a given type of insurance).

- A further potential remedy is to apply behavioural nudges. For example, a type of nudge that might be applied in this context is the use of 'social norms'. This involves providing timely messages about how others are behaving, and is a technique that has been used effectively to address a range of issues, for example encouraging citizens to pay their taxes. Applying social norms in this context might involve giving messages about how many other European consumers purchase insurance cross-border.[609]
- Finally, it should be noted that some of the policy recommendations in section 8.2.1 above (e.g. standardising information provision) would also be expected to help consumers to buy insurance cross-border.

[609] Such messages would not need to be highly precise (e.g. *"More than X thousand consumers in your country…."*) in order to be effective, and so could be based on survey data.

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