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Insurance Europe's contribution to the EIOPA thematic review on travel insurance

Insurers know that every traveller is different, and that every holiday is different with a different risk-profile. This is why insurers offer all types of travel insurance products, including single-trip, multi-trip and annual policies, and why travel insurance products provide different cover for different possibilities, have different cover limits and different levels of excess.

The diversity of products available allows insurance undertakings to meet any kind of demand, from highly specialised to more basic protection. In certain markets insurers provide travel insurance products to customers with pre-existing medical conditions through medical screening assessments, for example.

Given this diversity in travel insurance products, in response to the wide range of customers' needs, we believe that any regulatory intervention in favour of greater standardisation of products would be counterproductive as it would impede competition and customer choice.

Legal framework

The new Insurance Distribution Directive (IDD) significantly enhances consumer protection and it addresses many of the issues identified by EIOPA in the areas of **product design, sales practices** and **distribution process**.

The IDD applies only since 1 October 2018 and it should therefore be given sufficient time to bed in before assessing its impact and considering any possible further steps. We draw attention to the fact that the findings of this thematic review are based on data collected prior to the application of the IDD.

Scope

First and foremost, it should be emphasised that travel insurance is not exempt from the IDD. The IDD does not apply to products - it concerns the sales rules for all insurance products and it applies to any natural or legal person who distributes insurance products.

One such category of distributor is an ancillary intermediary, ie those selling insurance but not as their primary business (as opposed to an insurance undertaking or insurance intermediary). Ancillary intermediaries may be exempt from the IDD under certain conditions, one of which would be for insurance that covers "damage to, or loss of, baggage and other risks linked to travel booked with that provider" where the amount of the premium paid for the insurance product does not exceed EUR 600 calculated on a pro rata annual basis, or where the duration of the service is equal to, or less than, three months, the amount of the premium paid per person does not exceed EUR 200.

This exemption may effectively mean that a number of ancillary sellers of travel insurance are exempt from the IDD. But all other sellers of travel insurance are not exempt. In addition, travel insurance is subject to all information requirements, regardless of whether the seller is exempt from the IDD. This includes the insurance product information document (IPID), which the manufacturer must ensure is provided to the consumer even if the product is sold by an ancillary seller. Moreover, the rules on product oversight and governance (POG) apply to the manufacture of all products, regardless of who sell them.

Sales practices

The IDD introduces numerous additional provisions to tackle any concerns about potential misleading sales practices and lack of information, which apply even where the seller is exempt from the IDD:

- In order to avoid cases of mis-selling, the sale of insurance products should always be accompanied by a demands-and-needs test on the basis of information obtained from the customer. Any insurance product proposed to the customer should always be consistent with the customer's demands and needs.

- In addition, Article 17(1) of the IDD sets out the principle that when carrying out insurance distribution activities, insurance distributors must always act honestly, fairly and professionally in accordance with the best interests of their customers.
- With regard to information provision, Article 20 provides that the insurance distributor shall provide the customer with the relevant information about the insurance product in a comprehensible form to allow the customer to make an informed decision. For the distribution of all non-life insurance products, including travel insurance, the customer must be provided with a standardised IPID prior to the conclusion of any contract.

  - ***Distribution process***

EIOPA has observed that travel insurance policies are frequently sold by means of cross-selling or with add-ons. However, Article 24 of the IDD specifically addresses the issue of cross-selling and provides that "where an insurance product is ancillary to a good or a service which is not insurance, as part of a package or the same agreement, the insurance distributor shall offer the customer the possibility of buying the good or service separately". There is therefore no requirement for the customer to purchase any ancillary insurance product such as travel insurance. It is entirely for the customer to decide if they wish to take an insurance product alongside the primary product.

- **Innovation**

In recent years there has been an increase in innovation in products and processes in response to consumer demands and evolutions in preferences. Advances in technology have enabled such a development.

For instance, in some markets, insurers have developed travel insurance policies that can be purchased by SMS. Mobile phone applications are also an increasingly common way for consumers to purchase a travel insurance policy. Some innovative products such as 'pay-per-day' have become more common, thanks to app-based distribution models.

Insurers have also recently formed partnerships to develop solutions, such as in the case of online platforms that allow consumers to keep track of their insurance policies and optimise their coverage.

Insurers are also making use of "smart contracts"[1] to automatically process claims. For example, a number of (re)insurers are offering flight delay or cancellation insurance via a smart contract, which allows for compensation to be paid out automatically and immediately to policyholders, without having to go through the process of filing a claim.

In order to further foster innovation, it is important to ensure that regulations are digital- and innovation-friendly so as to not restrict digital channels in any way. For example, it must be ensured that any information disclosures, including the IPID for non-life products, can be equally provided digitally to customers, rather than on paper by default.

- **Fraud**

When examining consumer protection issues in travel insurance, EIOPA should also consider the importance of fraud and the need to combat it. Hundreds of millions of euros are lost each year as a result of fraud, including

[1] Smart contracts are computer programs that can automatically execute the terms of a contract when a predefined condition is met. This could mean a policy where claims are paid automatically as soon as a loss occurs, and certain conditions are met, without the need for a claims assessor.

fraud committed on travel insurance products. Ultimately, fraud results in higher premiums for everyone, which provides a clear case for it to be treated as a consumer protection issue.

In recent years there have been a number of widely reported frauds in travel insurance arising from large loss medical claims, typically occurring as a result of fabricated illnesses and injuries, or excessive/unnecessary treatment and procedures. Investigation may be difficult because many of the suspects or evidence is overseas at the time. Fraud investigations are often hampered as the documents submitted can be altered or forged and difficult to detect due to origin.

The insurance sector is keen to continue to make use of all the means at its disposal, including new technologies, to fight insurance travel fraud.

- **Financial Education**

The insurance industry has proactively initiated consumer education campaigns to enhance policyholder awareness. Campaigns such as Insurance Europe's #InsureWisely have tackled travel insurance and focus on information that would help to inform customers to make an educated choice about what kind of policy or cover they require for their trip. The campaign also provides information on the relevant factors to consider, as well as guidance on filing a claim.