

Association of British Insurers

Question 1: Do you agree with the general description of what constitutes the practice of cross-selling?

In general, the description appears to reflect the definitions that were adopted under MiFID. The footnote on page 9 is helpful in terms of clarifying that the sale of a structured bond is not a cross-selling practice. As is the clarification that the guidelines should not prevent the offering of products which constitute an “inherent or indivisible package, which cannot by its nature be offered or sold separately because the components are a fully integrated part of the package”, including in particular multi-risk insurance policies. However we suggest that it should be made clearer in the guidelines and not simply referred to in a footnote, that multi-risk policies are completely exempt from the scope of application.

Furthermore an insurance package that sits under the definition of tying (i.e. at least one element cannot be sold separately from another), could also easily sit under the clarification on page 19. Therefore further clarification is necessary as it is difficult to understand which packages would fall under the definition of “tying”, but not the concept of a “multi-risk” policy.

For example, a typical motor insurance policy in the UK could include Motor Legal Expenses Insurance cover (MLEI) as standard, as it provides valuable protection that is not part of the compulsory third party cover. However, many firms offer this as an optional extra, rather than an “inherent” part of the package. Therefore, for firms that offer MLEI as a fully integrated part of the package, this would be a “multi-risk” policy (as indeed most insurance products, by nature, are). However, for firms that offer MLEI as an optional extra, would they need to categorise this same product as either a “bundled” product or a “tied” product (depending on whether there are other elements of cover that are not optional)?

We would urge EIOPA to insert the wording proposed by the Council in IMD 2; “Nothing in the guidelines is intended to prevent the offering of insurance products which provide coverage for various types of risks (multi-risk insurance policies)”. This wording is needed to supplement the guideline; “Nothing in the guidelines is intended to prevent the offering of products which constitute an inherent or indivisible package which cannot by its nature be offered or sold separately because the components are a fully integrated part of the package”.

Question 2: Do you agree with the identified potential benefits of cross-selling practices?

The ABI agrees with the potential benefits of cross-selling practices that have been identified in the consultation paper. Cross-selling practices have many positive beneficial effects for both the consumer and the provider. Multiple risk coverage allows insurers to diversify and pool together risks which may otherwise prove too expensive for consumers, or too risky for insurers, as stand-alone coverage. By combining products, providers can offer a range of products that are suited to their customers’ needs and requirements.

An additional benefit of cross-selling is that it gives customers the opportunity to consider purchasing insurance cover or other services that will provide very useful protection in future, and which they might not have thought of previously. For example;

- Legal expenses cover as mentioned above in question 1.
- Breakdown cover
- Will-writing services with a mortgage. People do not realise the importance of writing a will once they have sizeable assets such as property.
- Contents insurance. Property purchasers in the UK are usually required by the mortgage provider to purchase a buildings insurance policy. Whilst those customers may be aware of their need for a buildings insurance policy, they may not consider the benefits of protecting the internal contents of their home with insurance unless prompted by a buildings & contents insurance package.
- Life insurance and critical illness. Many customers may decide to purchase life insurance when they buy a mortgage, particularly if they have dependents or are jointly purchasing the mortgage with a partner, to ensure their partner will be able to pay off the mortgage if they die. However, customers may not have taken into consideration the fact that their partner/dependants would be in a similar position should they be unable to work for any reason other than death of their partner. In this case, insurance packages that combine life insurance and critical illness insurance or income protection insurance can provide valuable cover that the customer would not have considered previously, and often the additional insurance cover is a fraction of the price it would be if bought separately.

For some of these products especially for niche products, unless they are sold alongside a more significant

purchase that the customer is aware of, the customer may never know of, and therefore benefit from, these additional products.

Question 3: Do you agree with the identified potential detriment associated with cross-selling practices?

In general, we agree with the potential consumer detriment. However some of the potential detriment identified is not specific to cross-selling and are covered under general sales rules. Many of the poor practices identified could occur with any product and are not specific to cross-selling. Requirements for information to be presented in a way that is clear, fair and not misleading applies to packages as well as separate products.

Question 4: Please comment on each of the five examples in paragraph 13, clearly indicating the number of the example to which your comment(s) relate.

Example 1 seems to suggest that firms shouldn't be charging higher for a package of components than they would charge the customer to buy each of the elements separately. This goes without saying and transparency of pricing should prevent this from happening.

Example 2 seems to be referring to teaser rates. Once again, this could be applied across all industries, and is not specifically a cross-selling issue.

Example 3 seems to be suggesting that where insurance is sold as an add-on to another sale, and the primary product is cancelled or returned, the insurance cover should likewise be cancelled and a proportion of the premium equal to the remaining term of the policy (unless a claim has been made) refunded. This is in line with current UK legislation.

Example 4 seems to be suggesting that even where a package is made up of tied products, the customer should have the right to terminate elements of the package post-sale and substitute them with elements from other providers. This example is not representative of the way in which an insurance contract runs and the concept of a package: if elements of the package are not sold separately from the beginning, it is because they are designed to be sold together in the package. For firms to create systems that permit customers to cancel elements of the package mid-contract may be more costly to the firm than the price of the package is worth for them, and they may simply stop offering additional elements, whether they are optional or not. If this were to be the effect industry-wide, it would have a detrimental impact on the pro-choice benefits of cross-selling (as set out in section 4, 1, c of the consultation paper) and have a significant impact on consumer choice.

Example 5 proposes that firms should not offer bundles to customers which duplicate cover the customer may have through another insurance policy. However, again the whole purpose of a package is to group items together to save costs. Even if there is duplicate cover, the customer may still choose to purchase the bundle because the price is cheaper than buying the elements separately. They may decide that the bundle still represents good value and/or convenience for them, even if they do not need all the elements of the bundle.

Question 5: Please comment on the proposed guidelines 1 and 5 as well as the corresponding examples, stating clearly in your response the guideline paragraph number to which your comment relates.

For Guideline 1, the ABI supports a high level of transparency to allow consumers to effectively compare products. However while we support the obligation to provide the consumer with the price for each of the component products, it should be made clear in the guidelines that the obligation only applies when the components in the package are also offered or sold by the firm separately. Where the package is categorised as a "tied" product, and certain elements are not optional, providing a separate price for the non-optional element of a package is neither helpful to the customer (as they would never be able to purchase that element separately, so a price is meaningless) nor easy for the firm (as the elements may have been designed/purchased at a wholesale level, so cannot easily be priced at an individual level). Putting an estimated individual price on the value of that insurance cover where it was part of the overall package would be possible but it would be meaningless and potentially misleading for the customer.

For Guideline 5, we agree that firms should disclose relevant information on non-price features. However the requirement to provide a clear breakdown and aggregation of all relevant costs associated with the purchase of the package and its component products, is not currently a requirement for the sale of non-life insurance products. Whereas further work is still on-going in regards to the breakdown and aggregation of costs in context of PRIIPs.

Question 6: Please comment on the proposed guidelines 2, 3, 4 and 6 as well as the corresponding examples, stating clearly in your response the guideline paragraph number to which your comment relates.

The ABI supports cost disclosure. In general we support guidelines 2, 3, 4 and 6. We agree that firms should communicate price and cost information in a prominent, accurate manner, and in simplified or jargon-free language and should not present information that could be misleading to the consumer. We support guideline 2 on costs being disclosed but this should not entail a breakdown of detailed information on all costs elements of the package, as explained in our response to question 5. Such detailed information on costs would go further than proposed provisions in IMD 2. This level of detail could overload the consumer when the most relevant information for the consumer is the price they will pay for the package and the price they would pay for individual components in the event that they can be purchased separately.

In illustrative example number 1 under guideline 3, reference is made to using the same 'font' on each component of a package. This is not always possible as firms sell products designed by themselves as well as competitors – for example, a firm may sell their own car insurance but another firm's breakdown insurance. In this situation, the other firm would own the intellectual property of the breakdown product and, thus, the firm selling the bundle may be unable to use the same font. We would propose that this is amended to make reference to a font of equal prominence.

Question 7: Please comment on the proposed guideline 7 as well as the corresponding examples, stating clearly in your response the guideline paragraph number to which your comment relates.

In general we support guideline 7. We agree that internet defaults should require a customer to actively choose a product or element of cover unless this is being provided to the customer for free. This ensures that the consumer is conscious of their purchasing decision.

We do, however, have concerns over part of the wording of guideline 7 which states: "firms should ensure that customers are properly informed whether it is possible to purchase the component products separately". This clearly states "whether" as opposed to "whether or not" which suggests firms do not have to state that products are not available separately if this is the case. However, the supporting example under paragraph 15 states "a firm distributing a tied package should inform or alert customers to the fact that the product is only available as a tied purchase and the component products cannot be purchased separately from that particular firm". Greater clarity is needed on this guideline to outline exactly what the requirement means as this has a large impact on firms (i.e. the need to spend 5-10 seconds on every call explaining that products are not available separately will add significant cost to the price of insurance with little obvious consumer benefit.

Question 8: Please comment on the proposed guideline 8 as well as the corresponding examples, stating clearly in your response the guideline paragraph number to which your comment relates.

Guideline 8 seems reasonable, particularly for advised sales.

Question 9: Please comment on the proposed guidelines 9 and 10 as well as the corresponding examples, stating clearly in your response the guideline paragraph number to which your comment relates.

Guidelines 9 & 10 seem reasonable. In fact they overlap with recently published Product Governance guidelines and IMD2 conflict of interest provisions. We support that a high level of staff training is essential for achieving fair sales practices. We believe IMD 2 will lead to stronger training requirements in insurance

Question 10: Please comment on the proposed guideline 11 as well as the corresponding examples, stating clearly in your response the guideline paragraph number to which your comment relates.

Guideline 11 sets out post-sale cancellation rights within "cooling off" periods and without imposing disproportionate fees. The ABI supports these rights but we are unsure about the requirement to allow the components of a package to be split (paragraph 29). We are unsure about how this could be done in the case of insurance products as this could undermine the beneficial rate at which the customer purchased their product. If however this is a misunderstanding and the paragraph is aiming to ensure that any cancellation rights referred to in paragraph 28 are not subject to disproportionate penalties, then the wording of paragraph 29 should be clarified.

Question 11: Please provide any specific evidence or data that would further inform the analysis of the likely cost and benefit impacts of the guidelines.

In general we agree with the cost-benefit analysis.

However, paragraph 28 refers to "moderate" incremental costs if firms have to modify their existing

practices/systems/training. Whether or not these costs are “moderate” will depend heavily on the following:

- Whether firms are expected to provide prices for elements of a tied package that are not sold separately as optional extras.
- Whether firms are expected to permit customers to cancel elements of a tied packaged post-sale even where those elements were not designed to be sold separately in the first place.
- Whether firms have a requirement to confirm that elements of a package are not available separately on every sale.