



EIOPA-IRSG-13-03

29 April 2013

IRSG opinion on Consumer Trends

(Informal consultation of EIOPA-CCPFI-13/023

Questionnaire to gather input for the

EIOPA Consumer Trends Report)

EIOPA is required under its Regulation to collect, analyse and report on consumer trends¹. In early 2012, EIOPA published its first Initial Overview of Key Consumer Trends in the EU². For the next EIOPA Consumer Trends Report, EIOPA would like the IRSG to consider examples for giving an informal oral input to the Consumer Trends report work at the April meeting.

The following report is based on anecdotal comments and individual feedback from various members of the IRSG's Consumer Protection subgroup. It has not been backed up by research but is designed to provide a snapshot view of emerging risks and issues.

¹ Article 9(1)(a), Regulation 1094/2010 establishing EIOPA. The term "consumer trend" is not defined in the EIOPA Regulation. EIOPA therefore devised the following workable definition:

"Evolutions in consumer behaviour in the insurance and pensions markets related to the relationship between consumers and undertakings (including, where relevant, insurance intermediaries) that are significant regarding their impact or their novelty".

² https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/EIOPA-CCPFI-11029_Overview_of_Consumer_Trends_20120201.pdf. The three main trends were identified were:

- (i) Consumer protection issues around Payment Protection Insurance (PPI);
- (ii) Development of unit-linked insurance products; and
- (iii) Increased use of comparison websites by consumers.

General remarks

- The following issues have been observed by individual members and relate to the general outlook across European countries. Specific examples relating to individual countries have also been noted. **The hollowing out of insurance products** when people come to renew policies. Cover may be reduced and the consumer may be unaware of this. Much of this is driven by the focus on price to the detriment of quality and appropriate cover
- **Access and affordability.** Given current economic pressures, the consumer may be tempted not to insure for basic protection areas which can be to their considerable detriment. For example flood insurance with premiums set to rise and access to many denied.
- **Tying, bundling and inappropriate sales incentives.** While many insurance products are grouped together in various formats, and while bundling works in many cases, the consumer often finds he/she is buying products which are inappropriate or which do not deliver when a claim is made. Payment protection Insurance (PPI) was not inherently a bad product and for some consumers was appropriate. But the way it was sold in the UK, with huge incentives to sell, whether it or not it was appropriate, has led to major misselling and huge compensation bills.
- **Comparison websites,** their growing popularity and whether the focus on price can be to the detriment of quality and cover.
- In terms of new products generally, there may be a need for basic protection products which carry some kind of quality assurance, which deliver value for money and in which the consumer can trust. Financial innovation if pursued has to be in the consumer's interest and capable of delivering good consumer outcomes. Because in financial markets innovation in national EU member states is developing faster than the appropriate regulation framework, further legislation and regulatory rules may be required to address emerging insurance risks and issues. Likewise further work could be undertaken to assess the effect of different insurance product characteristics, distribution channels, processes etc. Earlier regulatory intervention to tackle issues before they emerge to cause widespread consumer detriment should be considered. In some EU member states national Regulators have seen their budgets cut which leads to yet unknown and possibly insufficiently regulated financial innovation. This reduction in regulatory resource is a potential I risk for consumer protection and the safety of financial markets. Excessive and inappropriate incentives have a detrimental effect on good consumer outcomes (now in UK/PPI, in Germany in

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Private Health Insurance). Based on proper, appropriate and cost-effective advice, the market should be in a better position to satisfy all needs and demand. In the area of consumer protection information exchange between the insurer and the insured requires close monitoring to ensure effective disclosure, transparency and fair consumer outcomes.

(a) Based on our initial collation of trends in 2012 in the Consumer Protection and Financial Innovation Unit, have you observed whether that besides the recent increased use and reliance on comparison websites, as a research, the internet is also used as an online platform for direct sales (often unadvised), information sharing, communication (website tools for calculating pensions, loans, car insurance, smartphone applications), by social networks for advertising and marketing? If so, what are the effects or outcomes observed of the use of this medium by consumers?

We agree with your observations. The increased use of the internet by consumers in 2012 was evident. The general trend is to research online and to purchase offline. The internet is used also for the conclusion of insurance contracts on online platforms for direct sale, but in most countries it tends to provide only information for the consumer. There is however a tendency that customers use the internet to gather information, to shop around and select products, and the contract is concluded conventionally via insurance intermediaries or by accessing the providers' sites or contact details direct

There are varying degrees of sophistication and usage of comparison sites across Europe. One of the reasons for purchasing offline in the countries where this is the custom is the fact that the insurers' websites are mainly used as a means of commercialization. Insurers sometimes provide quotes via the internet but still few of them use the internet to complete a contract. Most of them in practice finalise the contract on paper. Although this development is welcomed in general, negative impacts can also be seen.

Consumers using price comparison websites tend to focus on price to the exclusion of quality and cover and the endless propensity to shop around is challenging conventional business models. Consumers frequently find that their products are hollowed out when they come to renew, a situation which can cause severe detriment when claims are made. There are also growing concern about the incentives offered when managing claims and using loss adjustors: these incentives may not lead to good consumer outcomes.

Some other examples of insurance products using different IT communication tools is experienced in Latvia and other EU member states by using telecommunication services like sms via phone. Insurance product offered by the telecommunication company in cooperation with the insurance company selling travel insurance over SMS for subscribers telecommunication company when travelling abroad. Service is activated when already abroad. While consumers need to be careful when sending sms because it is approval of the agreement and not always consumers being able to identify risks, choose adequate insurance product via sms.

In Germany, comparison websites exclude insurance products, when insurers are not willing to pay fees to the website owner. Therefore a clear warning must be given, when the whole market is not covered, connected with information, which insurers are included and which are excluded. There is also an proliferation of prizes or awards which actually do not result in benefits for consumers. For consumers it is not possible to verify the result, the process or the expertise of that rating. It is only misleading "non information"!

According to insurance industry sources, Google is planning to launch on 1 July 2013 its own comparison site for insurance policies in Germany.

In the UK, it is reported that technological innovations have changed consumer behaviour and preferences for more direct and (seemingly) comparable interfaces and self-service propositions, as well as to their increased focus on price (see also question 2). In addition to responding to changing consumer preferences, such advances have, in themselves, contributed to these changes.

In Belgium there are indeed various initiatives such as online group purchase for car insurance (www.samensterker.be). A recent Belgian study about insurance and internet (research-target were youngsters) shows that they use the internet as a medium for information and comparison. To conclude an insurance contract, the youngsters still prefer personal advice and a face-to-face environment.

There is research in Spain called "Internet y el Seguro Electrónico. Informe 2012" from ICEA (Investigación cooperativa de entidades aseguradoras y fondos de Pensiones), which includes the contribution of 70 insurance companies representing 64,2% of the market share. It reveals that approximately 95% of the insurance companies' websites are focused on providing information. As regards the sales phase, 77% of insurers' sites allow to collect data in order to finally finish the sale by any other means or channel.

Premiums collected through the internet in 2011 amounted to 409,31 billion €. That represented around 0,68% of the premium collected that year in the Spanish market. As regards the new portfolio, the estimation is that 148,23 billion € were sold through the internet which represented an increase of 25,87% in comparison with the previous

year. The products that are more demanded on line are Motor and Health representing 80,9% and 7,7% respectively on the total business on the internet.

In Spain, as regards comparison websites, in general terms they only provide comparative information on prices and guarantees/covers. The possibility to conclude the contract through them is not prevalent. If a consumer is interested in one product, the comparison website just directs him/her to the insurance company's site.

Linked to the above mentioned issues and with regard to comparison websites, BIPAR suggested a specific wording for the IMD II³.

Insurance companies' developments also include Smartphone applications where it is possible, especially for health insurance, to follow your reimbursements, to contact a doctor or a specific specialist, to localize him, to follow your vaccination calendar etc. Also loss adjustment process within general insurance are more and more frequently run on-line. Insurers also use social networks to publicise their promotional activities and more generally, to advertise.

(b) Linked to the above, would you say that the focus for consumer choice tends to be mainly just on price or only initial premium, often without due consideration to the benefits and services when compared to previous contracts or what is expected? For example, as a consequence of keeping premiums low, excesses on claims are often high, including additional administration fees and cancellation charges. Quite often, the headline price is not the total cost to the consumer and the scope of cover tends to vary and the consumer may suffer detriment if unable to make a claim, for example.

It should be noted, as various research studies have shown, that consumers do like comparison websites and their popularity and use has grown significantly in recent years. Nevertheless, we believe your question raises valid concerns.

Selection of the insurance products on the internet is mainly led by price and underestimates the guarantees offered by the insurance contract⁴. This is particularly the case with regard to the use of comparison websites. Usually, the results are shown sorted in the order of the price of the products, starting with the lowest price. Products of providers which are not placed among the best 5 or 10 results play

³ According to the BIPAR article 2.3 should future-proofed:

Article 2.3 (2d paragraph - new)

Each of the following activities shall be considered to be insurance mediation for the purposes of this Directive:

the provision of information on one or more contracts of insurance in response to criteria selected by the customer whether via a website or other means;

the provision of a ranking of insurance products or a discount on the price of a contract, when the customer is able to directly conclude an insurance contract at the end of the process;

⁴ It is becoming a critical issue for mutuals

virtually no role in this business. This focus on the price leads to the fact that other product criteria move into the background. The customer expects that the products offered on the comparison websites differ only regarding the price. This is rarely the case and often not seen by the customers. The products differ in details in the small print, which can lead to detriment for the customer if he/she is focused only on the price. This is often to the detriment of quality and cover.

It should be underlined that once the risks of the client are identified and the insurance needs are defined, there are a number of factors determining the recommendation that intermediaries make to their clients when advising them on the choice of a particular insurance or insurer⁵. Moreover, web-comparators do not disclose all their distribution fees to the consumers and the money earned by the website owner coming from the insurer or intermediaries. This is important information and has to be given not when concluding the contract, but at the point of showing the client the quotes/rankings; e.g. with a "pop up window". Consumers may make suboptimal decisions if they lack information arising from incomplete information about the role of the website owner, insurer or intermediary, product and price of the product's substitutes. Website operators often make true and meaningful price comparisons difficult.

Offers or products are only comparable by price, when they are similar. Otherwise product ranking by rating terms and conditions of the product should be given.

Consumers tend not to ask for a detailed advice and needs analysis, but accept the rather schematic online comparisons with price as the main differentiator. Consumers often do not differentiate between aggregator/comparison websites, multi agents or brokers.

To compare prices, consumers should ideally understand the price format. They have to learn that prices for financial services differ significantly from prices for material goods purchased online. According to the efforts of the providers of insurance products they charge different forms of prices (for example commissions, fees, charges) and often introduce different brands according to whether they are

⁵ Apart from the price, these factors include, inter alia:

- the breadth of coverage available (capacity),
- the insurer's flexibility in agreeing coverage,
- the insurer's image and reputation, especially in respect of claims service (speed, fairness of settlements, additional benefits to claimants),
- the insurer's financial security,
- the quality and clarity of documentation provided,
- the insurer's speed in issuing documentation or in quoting terms,
- timeliness in inviting renewal,
- the technical competence of the insurer's staff,
- the quality and availability of advice provided to policyholders,
- the quality of the other services provided by the insurer, his locational proximity.

promoting, for instance, a value brand on the online site or a more traditional and possibly more comprehensive brand offline,

There are many national initiatives regarding online platforms. It is reported in the UK (FCA Risk Outlook 2013) that technological innovations lead to an increased focus on price and that price comparison sites and self-service online models have also been a fundamental driver of consumers' increased focus on headline price and brand, which potentially distracts them from other crucial product features, such as policy coverage and terms.

In Belgium, it is also reported that the focus of new online initiatives is mainly price. The benefits and especially services (like claims handling) are often not fully integrated in the initiatives.

Confirmation from Sweden as well that the discussions in media are mainly focusing on price.

In Spanish market products are not specially designed to be distributed on the internet. They have the same documentation, settlement, management, etc than those sold by the "traditional" channels. Actually there are not specific claims on insurance products being sold through this channel.

Insurance price in Spain is one of the most important facts when underwriting insurance contracts, especially when they are compulsory and there are not big differences among the covers offered as is the case with Motor insurance.

As regards motor insurance products in Spanish market it has been noticed lately that some insurance companies operating in the country by means of the Freedom of Services (FOS) offer very low priced insurance. They are attracting an important market share. This situation, while is positive for the consumer, the competition and the market, is producing some disadvantages to the victims of road traffic accidents where these insurance companies are involved. They have serious problems to claim to them or even for having a rapid claim settlement.

- (c) 'Multiple' insurance/cover where consumers have two or more non-life insurance policies covering the same risk but can only receive the benefits once (credit card packages, travel insurance, car rental, manufacturers guarantees on domestic appliances, mobile phones, homeowners insurance, store cover of extension of manufacturers' warranty). Could this be a consequence of misleading selling practices?**

Multiple insurance/cover is mainly due to add-ons and tying/bundling. It can occur in practice that consumers have multiple insurance cover for the same risk. However, we cannot be assumed that this is solely a consequence of misleading selling practice.

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Often the consumer himself is not aware of the fact that he has already insurance cover for certain risks, e.g. if he has insurance cover through his credit card. Even if the sales person has asked the consumers properly for existing insurance policies, he can't avoid the multiple insurance cover if the consumers negate the question.

Multiple insurance are often due to the fact that covers are included in another package: one important aspect of mandatory covers within a package is that it allows for a much cheaper individual premium than if it was taken individually: there is a question of financing and broad multiplication that shouldn't be neglected as looking at the overall assessment of multiple covers. As an example, the cost of a trip cancellation for a trip of €2,000 is around €120 if purchased from a travel agent. A premium card like Visa Premier/GOLD has a cost around €100 and offers a cover for all trips paid with the card among other benefits and offering payment functionality.

In many cases, the cover is not exactly the same and the cover purchased for a specific purpose is in general more adapted to the need of the customer (for instance, some homeowner policies may cover mobile phone but only with a low limit of €150 whereas the insurance purchased in a store at the same time of the mobile phone will be adapted to the actual value of the phone).

Some multiple insurance are additive: several personal accident covers would lead to a higher paid amount.

When being priced, the insurance company takes into account a potential underuse of the cover: as an example, the frequency used for cancellation included in credit card is lower than on annual policies. So, the individual may be insured several times but the sum of the premiums paid to the insurers is not significantly higher than what a customer would pay in case he would be insured only through one policy and no other solution would exist.

In terms of trend, we clearly see a raise of awareness among customers across Europe: guarantees included in premium credit card tends to be more and more used as there is a lot of communication around these benefits which results on higher awareness and higher frequencies.

There are two emerging scenarios. On the one hand we have products, where the consumer does not get the product without the insurance (Golden Credit Cards or certain payments by credit cards). In most cases consumer does not receive any information about this fact. On the other hand we have providers supplying goods or providing a service, who are selling complementary insurances. Here we have growing sales volume and various cases of misleading selling practices (e.g. travel agencies selling travel health insurance without asking about existing coverage).

It could be concluded then, that every person at the point of sale has to fulfil minimal requirement of qualification, has to disclose the status including his/her responsibility or liability and has to treat the client honestly, fairly and professionally in accordance with the best interests of that client. No insurance product should be advised to the customers without a prior analysis of their needs. This means actively inquiring about these needs and the resultant suitability of the product

In France, the Comité Consultatif du Secteur Financier (CCSF) is currently working on recommendations about multiple guarantees. The aim is to warn the consumers about the insurance policies that cover the same risks but that allow the consumers to receive the benefits only once. The final recommendation should draw the attention of consumers to the fact that it is more risky not to be covered at all. In case the event occurs, it is better to be insured twice than none.

In the UK the FSA is conducting a study into general insurance products sold as add-ons, which will look into whether there are common features of the add-on markets that weaken competition and drive poor consumer outcomes.

Problems in this market have been brought to the industry's attention in the past; the FSA has previously found widespread poor outcomes for consumers in these markets and highlighted some concerns in the Retail Conduct Risk Outlook (RCRO) 2012, including:

- The consumer is focused on the primary sale not on the cost and value of the add-on insurance; and
- The terms of the add-on insurance sometimes mean that the products are of limited use to consumers.

In Belgium this is confirmed: clients are often not fully aware of their existing insurances/cover themselves as such insurances are distributed by other market players who offer an insurance coverage in addition to a certain service or product.

In Spain this problem has not been acknowledged. In insurance products that are sold together with a good or a service provision, if the premium is paid by the client, he/she is informed about it and therefore is free to take it. It is the case for mobile phones or additional new car warranties. There are some goods of services provisions where an insurance could be embedded but they do not represent any additional cost to the purchaser.

In this respect, BIPAR is calling for the IMD II to have a wide scope, to cover this type of ancillary activities as well and thus increase the consumer protection and fair competition.

(d) Is there a growing demand for professional indemnity insurance cover? If so, what could it be due to?

During the previous years, we note an increase of mandatory professional indemnity insurance cover, however this trend depends on country. The increase in number of professional insurance could be observed for example in Poland and in France. In some of countries there is already a high volume of mandatory professional insurance although in a few countries access to professional indemnity insurance is being denied or effectively priced out of the market.

(e) In motor liability insurance, have you seen an increase in cover related to the installation of devices for the detection of driving behaviours ('black boxes') and the reduction of premiums for those who choose this product, or for ancillary cover such as car theft, road assistance in case of breakdown.

"Telematics" is a promising way to offer risk based solutions to customers. For risks like road assistance, however guarantee concepts will remain, as they are part of the brand development of the manufacturer. A potential long term trend will provide for insurance of personal mobility in contrast to mobility of a defined vehicle.

In the field of motor insurance, an increased use of devices for the detection of driving behaviors ('black boxes') has already taken place. For now we do not consider this European development under aspects of consumer protection as critical.⁶ On the contrary: the installation of devices for the detection of driving behaviors will lead to more a precise assessment of the risk. As a result, the customer has only to pay the premium which corresponds to his individual risk.

Press coverage from Germany reports discussions between insurers and car manufacturers regarding the "eCall system", which must be installed into all new cars registered in the EU from 2015 and equips cars with emergency devices. Extra data can be collected, which may include data on how many kilometres a car has been driven, information about the engine and the state of the vehicle, as well as the driver's general driving patterns. Potentially only the manufacturers would have access to these data collected by the system, which could place them in a better position to offer a much more tailored insurance policy.

Also the German Parliament discussed that issue under the aspect of personal data protection: <http://dip21.bundestag.de/dip21/btd/16/123/1612381.pdf> and <http://dip21.bundestag.de/dip21/btd/16/121/1612173.pdf>.

⁶ However constant monitoring is required.

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In the UK, the FSA reports the wider potential than its application to just young drivers is now being considered by the industry. FSA sees benefits in the system both for consumers and industry. A Good Practice Guide is being developed with the insurers. Reference is made to gender neutrality (Test Achats case).

Research conducted by Broker Association BIBA in 2012 shows that black box "telematics" sales have increased by five fold in the last two years, and are set to snowball to around 500,000 in the next two years. In its research, BIBA is talking about live units at this point in time (so not units sold to date). When they asked providers about discounts drivers could expect to see on their policies, they were advised average savings were 25 to 33% discount with the highest 50% discount, some young drivers had saved over £ 1,000.

In Belgium the system is also being used (example Vivium). They refer to lower premiums and increased safety. Target group is -26 year olds.

Sweden also has discussions going on and it is said to be available in Denmark (lower premiums with black boxes).

In Spanish market black boxes are not a usual practice. There is just one company that use this technique as regards young drivers but it is considered as a tool for improving Road Safety. Therefore, this device is installed by the company freely. Nevertheless GPS presence in vehicles is very often considered as a risk reduction on theft insurances.

In Latvian market black boxes are not used as well. While there are discussions among insurance companies, different associations, mass media (car journalists) etc. Some of the examples that are discussed is T-eye-in-Car driving record system while it is hard to comment from the consumer point of view due to the lack of practical examples.